Registration CPL No. 108 January 12 – 18, 2014

# TAXATION

(Weekly Tax Journal)

Editor-in-Chief
Dr. Ikram ul Haq

Editor
Huzaima Bukhari

## Articles

**Begging bowl, inflation and Ishaq Dar! - I**

**Making laws null**

**Of FBR corruption & tax evasion**

**Strengthening Value Added Tax to improve revenue efficiency abstract**

This special email service from Monday to Friday, part of subscription package, is aimed at keeping you informed about tax and fiscal matters. It contains news, legislative changes, case-law, in-depth articles and analyses covering all areas of taxes at domestic and international level. On every Saturday evening, we email weekly compilation of the entire material. Every month, ***Taxation*** in printed form, is sent through post and digital version of ***Tax Review International*** is made available for download at **www.huzaimaikram.com**

For subscription, please visit our **website** or contact offices mentioned below.

This service is available *only* for paid subscribers. If you are a subscriber of *Law and Practice of Income Tax* (LPIT), *Law and Practice of Sales Tax* (LPST), *Taxation* or *Tax Review International* but not receiving this service, please send your email address at sales@aacp.com.pk quoting subscription number.

[ITAT cases reported by permission of Federal Government vide No. F.125-ATP/HQ (Ad)/2006/109]

Published by Huzaima Bukhari, printed at Mairaj Din Printers, Fish Market, Circular Road, Lahore



## Statutes

S.R.O. 17(I)/2014, dated January 07, 2014.

Sales Tax General Order No. 04 of 2014, dated January 10, 2014.

Sales Tax General Order No. 05 of 2014, dated January 10, 2014.

S.R.O. 19(I)/2014, dated January 10, 2014.

Sales Tax General Order No. 06 of 2014, dated January 13, 2014.

## Tax news

Transporters oppose road users tax

Lower FED, ST payments: FBR analysing data of top companies, exporters

Customs Border Force: FBR fails to take major anti-smuggling initiative

LG polls: LHC takes up plea for implementing Articles 62, 63

Notice to ECP, NAB on LG polls eligibility criteria

12 known tax defaulters come back into parliament

Textile lining material: new customs value fixed

New approval awaited: Customs stops clearance of 1,000 imported vehicles

FBR to make public details of 0.85 million filers

Import of milk preparations for infant: massive underinvoicing unearthed

Tax notices irk auto vendors

Inputs used in export goods' making: duty drawback rates not revised

Pral management: legal lacunas deprive employees of their December salary

'We've to be ready for surgical operation,' Dar tells traders

Ishaq Dar assures quick resolution of budget anomalies

Tax amnesty scheme for investment and non filers of tax returns

Bajwa directs recovery of fake refunds

Tax directory

Imported cars stuck at port

Rs 10 billion TFC/Sukuk issue: Wapda seeks tax exemption

Private aviation company found to be evading taxes

Duty, tariff concessions: customs wing restructured

Tax measures add to existing taxpayers' woes

Vision 2025 draft fine-tuned

Fake claimants galore: ST refund cases to be verified with Afghan customs

Dual nationality: FBR directs all BS-19, -20 officers to submit certificate

Consumer items: two percent extra ST could have serious implications for trade

Dar reviews availability of cancer-related medicines

Government urged to make 'Capacity Tax scam' public

Kind regards,

**Huzaima Bukhari**
Editor



**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

# Begging bowl, inflation and Ishaq Dar! - I

by
*Anjum Ibrahim*

The PML-N manifesto promises have clearly taken a back seat to Federal Finance Minister Ishaq Dar's economic policies on two counts: the begging bowl is not only out and strengthened with more pleas to bilateral and multilateral donors with some rather glaring negative repercussions on security related matters but also inflation is rising that naturally targets the poor a lot more than the rich.

The 2013 election manifesto claimed that the party's focus in government would be on sustainable and inclusive economic growth which requires "sound macroeconomic policies to reduce deficits in the budget and the balance of payments, curb inflationary pressures and reduce country's dependence on foreign loans and assistance." It is indeed unfortunate that President Mamnoon Husain decided to defend the indefensible namely the failure of the Finance Minister to adhere to the election manifesto by stating that the dependence on foreign loans can not be reduced yet as the country is compelled to take loans to repay past loans. And in the spirit of the 'good cop bad cop' strategy a day later a politically astute Prime Minister expressed displeasure at the growing perception that the state of the economy was poor and directed Ishaq Dar to brief the cabinet in the presence of the media to dispel the flawed perception.

The critical question today is whether the perceptions are flawed or whether the policies are flawed? Unfortunately negative perceptions can do untold damage to the economy as its prime movers namely the private sector including foreign, local and portfolio investors, are guided by their perceptions. It is perceptions that can convert a buoyant market into a depressed one from which investors would automatically shy away from. Thus no finance minister can dismiss perceptions even if he considers them as not relevant. And Dar too could not dismiss the negative perceptions of the business community, PML-N's single largest support group, and was compelled by politically savvy Prime Minister to reverse his budgetary tax proposals including (i) waiving the condition of submission of CNICs/NTNs and addresses of unregistered retailers, (ii) reducing the penalty for non-filing of returns, (iii) abolishment of mandatory filing of wealth statement and (iv) restraining tax officials from accessing bank accounts of existing taxpayers. The net outcome of these reversals on tax revenue of the government during July 1-December 27 was estimated at 70 billion rupees, however, there was an increase in collection of around 17 percent when compared with the comparable period last year namely 937 billion rupees as against 794 billion rupees last year. The major increase out of the rise of 143 billion rupees was in sales tax collections - from last year's total of 370 billion rupees to 466 billion rupees (a rise of 96 billion rupees) due to raising sales tax from 16 to 17 percent effective almost as soon as Dar took over the Finance portfolio. And its impact on the rate of inflation was considerable raising the rates of nearly all items propelling the rate from around 5 percent in June 2013 to over 10 percent. In this context it is also relevant to note that the sales tax exemptions granted to encourage industry/ price of essentials down are estimated at 242 billion rupees and the Minister of Finance has accepted the IMF's 6.4 billion dollar Extended Fund Facility condition to end all exemptions by end December of last year which has not yet been done. If that condition is complied with then revenue would rise but so would inflation.

But Dar did anticipate this and notes in the August Letter of Intent submitted to the IMF dated August that "inflation reduction will not be a primary focus of the first year of the program so as to mitigate the impact of the envisaged fiscal contraction." However, the LoI added that beginning of this year the monetary policy would focus on reducing inflation and that objective would be severely compromised by Dar's inordinately heavy budgeted reliance on raising the permanent domestic debt from 87 billion rupees in the revised estimates of last year to over 292.5 billion rupees this year. Jeffery Franks, the IMF mission head in Pakistan, expressed concern about the massive rise in government borrowing, including printing currency, and said that inflation is largely a function of macroeconomic policies, responsibility for which is with Dar, rather than due to profiteering blame for which can be laid on the doorstep of the provincial governments.

Dar, in a fashion now typically associated with him, threatened the currency speculators for allowing the rupee to plummet and need one add this was necessary given that the State Bank of Pakistan did not intervene in the market as agreed with the IMF, unlike the PPP-led coalition government.

So while domestic debt is allowed to rise to unprecedented levels would Dar's reliance on foreign debt decrease? Dar has budgeted 576.4 billion rupees from external resources - 332.9 billion rupees higher than the revised estimates of last year. Servicing of foreign loans plus repayment are budgeted at 455.7 billion rupees or 122.8 billion rupees (around 1.1 billion dollars) more is required that would have to be plugged from either a trade surplus (and considering Pakistan has been perpetually in a trade deficit this is unlikely) or remittances. Thus rising imports plus repayments of foreign loans have been putting considerable pressure on the net reserves, pressure that would continue until and unless other sources are tapped. This explains why Dar's begging bowl is constantly out in discussions with multilaterals and bilaterals.

So what are Dar's options? Could he do any better than he is doing? Dar must reduce expenditure and focus on non-development expenditure. He constantly states that the government by ending discretionary funds of the prime minister and federal ministers has reduced expenditure by 42 billion rupees, instead of spending double what was budgeted by Raja Pervez Ashraf during his one year election year premiership. However, Ashraf spent these funds on development projects though they were mainly in his own constituency. Dar instead has budgeted a raise in general public services not defined elsewhere from 6.9 billion rupees in the revised estimates of last year to a whopping 33.7 billion rupees this year and executive, legislative organs, financial and fiscal affairs, external affairs outlay from 1779 trillion rupees to 1966.5 trillion rupees - an increase of 188 billion rupees. His questionable policy of clearing the inter circular debt at one go, with a better option being clearing half of the debt and investing the other half in development projects that would have raised generation, output and employment, needs to be revisited given the fact that the circular debt has resurfaced at the same pace as during the tenure of the PPP government.

Dar's growing number of detractors therefore legitimately argue that his policies are flawed in two respects: they not only violate the PML-N election promises in not breaking the begging bowl and not reducing inflation but also fail to convince the markets that the direction of reforms, however unpopular with the rank and file, are in keeping with the needs of the economy, which led to a revision of budgeted policies with implications on revenue generation, the deficit and the price rise.

Part II to appear next week would focus on the IMF first review report, the first quarter LoI and impact on the economy.

---

## Making laws null

by

*Huzaima Bukhari & Dr. Ikramul Haq*

> "*The law was made for one thing alone, for the exploitation of those who don't understand it, or are prevented by naked misery from obeying it*"—**Bertolt Brecht** (1898–1956) **from Laws and the Law**
>
> "*A strong person makes the law and custom null before his own will*"— Ralph Waldo Emerson

Every society, no matter how primitive, tends to regularize its inhabitants by laying down certain rules and laws. This is done essentially to prevent chaos, to better organize day to day affairs and to check disorderly behavior in an attempt to facilitate people in leading a comfortable life. These laws can be laid down by the elders of a tribe, a monarch, a parliament, a government or any other body that is responsible to manage a society. In societies, where there is mayhem, disregard for law of the land, violation of rules, 'might is right' policy and anarchy, soon crumble down; in many cases are over-empowered and enslaved by a stronger entity. Such has been the history of mankind since ancient times. Social scientists view the disruption of a society from a cultural stand point. In his book, *The Chaotic Society: Product of the*

*Social Morphological Revolution,* Philip M. Hauser has attributed societal disorder to dissonance and discord among the various cultural strata, each of which tends to persist beyond the set of conditions, physical and social, which generated it. A political scientist would have a more fundamental approach regarding progress of and degeneration of societies, placing more emphasis on methods of governance and economic systems that are considered vital components for endurance. No matter what, the underlying cause remains defiance of the rule of law that eventually leads to destruction.

On a small scale or at the lowest stratum of society, such defiance may not have that great an impact compared to non-compliance at the highest level—where law-makers themselves become law-violators. In such circumstances where legislators, governors and enforcers set precedence of rebelling against their own formulated rules, it would be unjust in asking the citizens to observe the same with religious zeal. This means that in order to secure allegiance to law from others it is important for administrators to strictly abide by regulations, setting example for the rest to follow.

As in Pakistan, where they deliberately wriggle out from legalities or bypass rules on account of their authority status—a simple example would be breaking a queue at a public place—observers naturally tend to either find connections (nepotism) or go onto show disrespect by playing havoc with the law and order.

The most burning issue of non-compliance of tax obligations in Pakistan confirms how our lawmakers violate law of the land with impunity. They either do not file tax returns or grossly understate their incomes. Another glaring example is that of the traffic police who shamelessly defy one-ways and other traffic rules when on normal patrol. No doubt that those providing essential services like ambulances, fire engines or traffic-sergeants-in-pursuit are allowed to ignore rules but certainly not under normal conditions wherein they are supposed to show the same standard of care as expected from other commuters. After all, they are the ones whose acts are being closely scrutinized by those who follow in their footsteps to break laws creating life-threatening situations for themselves as well as their fellow travelers. Frankly speaking, the real culprits remain unpunished because of which lawlessness prevails in the streets of our country. The ones in authority conveniently implicate the weaker segments who are unable to exert either money power or a suitable recommendation (*sifarish*) from a higher-up. Amid this confusion, perpetrators go scot free.

Traffic wardens are just executors i.e. they are responsible for enforcing the law made by the legislators sitting in the Parliaments. However, the real problem arises where defiance for the law of the land sprouts from the parliamentarians themselves. The public closely views such blatancy and is right to discern that rules are made for the sole purpose of subjugating the common man while the ruling elite considers itself above all laws. Such high-handedness is termed dictatorship if demonstrated by one man but what name, other than anarchy, can be given in a case where sitting parliaments, the entire bureaucratic structure and every henchman connected to those in power is bent upon infringing regulations for own vested-interest. To make matters worse, the courts are too over-worked to provide prompt justice. The occasional episodes of resurrection appear only when the electronic media creates a hype whereby judges feel obliged to take immediate action to save their faces otherwise there are an infinite number of people who have reached their graves in search of justice and fair play.

Stringent efforts of law enforcers are perished on the precipice of shameless defiance by their chiefs. When they show lack of respect for their subordinates and for rules, the people too do not abstain from the same behavior. Thus if the chief minister of a province publically humiliates a civil servant (only to gain cheap popularity), the man on the road gets the cue to slap a warden; when roads leading to own home and homes of the many in-laws of the head of a province are blocked in utter disregard for inconvenience caused to the neighbours and other commuters, the common man also learns to abuse public space for receptions, making sub-standard speed breakers or even mixing mortar for construction work. All over the world, blocking thoroughfares (unless for emergencies/untoward circumstances) is considered a major blow to the civic sense and commuting rights of the citizen. In Lahore Pakistan, public roads fall within the ambit of "controlled area" under the jurisdiction of Lahore Development Authority (LDA) Act, 1975. Unless prohibited by the government through some notification, no public road or passage can be blocked by anyone.

Unfortunately, despite the existence of this provision, a number of areas suffer from unauthorized blockade forcing citizens to veer around or travel a longer distance to reach their destinations. Strangely, the movement of these so-called public servants is accompanied with much fanfare and high security, yet they need many meters of road blocks to secure their entrances from innocent passers-by. Following in the footsteps of their leaders, even lower ranked ministers and parliamentarians also insist on creating obstructions around their homes causing inexplicable inconvenience to those living in their vicinity—on many occasions their guests are subjected to embarrassment at the hands of quizzical sentries posted at these check posts. Surprisingly, these tactics have failed to protect the lives of so many politicians and officers who fell victims to acts of terrorism. On the one hand, we claim as Muslims to believe that every living being will face death on its appointed time and on the other we do our best to surround ourselves with human shields as if we can keep the angel of death away. In the words of Mirza Ghalib:

*Maut ka aik din moayyan hai*
*Neend kyun raat bhar nahi aati?*

[When death is destined for a particular day, why suffer from insomnia every night?]

The dilemma of Pakistan's society in general is that we keep on grumbling about various issues but fail to appreciate that in reality, we ourselves are responsible for the deteriorating state of affairs. Non-observance of laws has become our national character for which we seem to take immense pride setting bad precedence, both for the public and our younger generation. We derive tremendous pleasure from infringing other people's rights to satisfy our egocentric desires, not realizing that such behavior and attitude can invoke rebellious germs within human beings leading to extremely destructive ends. As conscious citizens of this country our dream is to see a better Pakistan and a more responsible society, catering to the needs of its people, setting good examples for its future generations, securing for its people their rights and enforcing rule of law. Such a scenario might remain an unrealized dream, if the present state of legal rapaciousness continues unabated.

## Of FBR corruption & tax evasion

by
*Huzaima Bukhari & Dr. Ikramul Haq*

The Federal Board of Revenue (FBR), infamous for corruption and inefficiency, is now turned into House of Fraudsters. The recent news of tax frauds and scams—fake refunds, non-collection of tax by withholding agents, flying invoices, under invoicing, excessive payments of export rebate, just to mention a few—confirm that even the present government, despite tall claims, has failed to eliminate mafia-like operations in FBR. While unholy alliance between corrupt tax officials and unscrupulous elements is depriving the nation of billions of rupees, the government through Statutory Regulatory Orders (SROs) is criminally giving benefits to the rich and mighty—shifting the incidence onto the poor through exorbitant indirect taxes.

A report published in an English daily on January 14, 2014, '**No steps taken to recover Rs128bn from fraudsters**' reveals that "the Regional Tax Offices (RTOs), Karachi remain unable to take any action against individuals involved in the tax fraud of Rs. 128 billion". The report quotes an official on request of anonymity that "the amount of Rs. 40 billion relates to 4,000 registered sales tax units with the three RTOs, obtained on fake invoices and Rs. 88 billion where illegal input adjustment was made". The report quotes an official document showing that that the three RTOs blacklisted the sales tax registration of around 4,000 persons under section 21(3) of the Sales Tax Act, 1990 that were involved in tax fraud, "but no measures have been taken by so far to recover the evaded amount awarded to them with the collaboration of some senior tax officials". The report alleges that delinquent officers have been cleared covertly despite the fact bogus purchases were made from blacklisted suppliers. The report further reveals that a comprehensive report was submitted in June 2013 against persons involved in the scam, but "the senior tax officials are deliberately delaying the matter". The official document, according to report, "also criticises the role of the Directorate

General of Intelligence and Investigation for supporting the criminals by just issuing 'Red Alerts' instead of lodging FIRs against them knowing these have no legal force".

After the World Bank-funded six-year-long Tax Administration Reforms Programme (TARP), FBR has been making tall claims about its automation efforts. All the chairmen of FBR, who headed the apex revenue authority for the last 10 years, have been assuring the public from time to time that after introduction of automated procedures in all the departments, the possibilities of tax fraud had been effectively countered. But the facts and figures show that since 2005 when computerized processes were introduced, the incidences of tax frauds increased substantially as compared to the days when manual procedures were in vogue. This means that before going for automation, neither system analyses were properly conducted nor quality and training of human resource employed was ensured.

The number of tax scams surfaced since 2005 and huge quantum involved testify to the fact that there is a complete failure on the part of FBR to implement preemptive measures against tax frauds despite having a number of support organisation like Directorate General of Intelligence and Investigation, Directorate General of Customs Valuation, the Directorate General of Post Clearance Audit, the Directorate General of Internal Audit, the Directorate of Input-Output Coefficient Organisation, Project Director WeBOC and the Directorate General of Training and Research. It is an undeniable fact that the officers and staff involved in tax frauds are seldom, rather rarely, punished— for frauds committed between 2005 to 2012 see '***Sordid story of tax frauds***', *Business Recorder,* February 1-3, 2013. The present Chairman of FBR must read it and take appropriate action. He should also consider the recommendations of one-member commission submitted to Supreme Court of Pakistan in October 2013 for curbing tax evasion and corruption rampant in FBR.

The present government has made a commitment to the International Monetary Fund (IMF) that it would amend the Anti-Money Laundering Act, 2010 to include tax crimes in the Schedule of Offences to enable the use of anti-money laundering tools to combat tax frauds, by end-June 2014. According to the Letter of Intent dated December 5, 2013 available on the IMF website, the government of Pakistan undertakes "…to broaden the tax net through elimination of most tax exemptions and loopholes granted through SROs". Strangely, since the start of the programme, the government has issued SROs granting blanket amnesty from probe into source of investment in new industries. Additionally, section 111(4) of the Income Tax Ordinance, 2001—a permanent amnesty scheme—is still in operation. It debars any probe into source of remittances received through normal banking channels. This despicable provision of law provides evaders complete protection in respect of un-taxed money. No question can be asked by the tax authorities if untaxed money is remitted from outside (*modus operandi* of tax evaders and criminals is to first send money abroad through *hundi*/*hawala* and then get it back as foreign remittance)—many money exchange dealers extend this service for a small premium of 1 to 2 percent. We have been highlighting the disastrous ill-effects of this law since its introduction, but people who matter in the land have never paid any heed.

Prime Minister of Pakistan, Finance Minister and IMF people must be aware of the fact that even today, FBR through its Letter No.F.4(34)/ITP/2002 dated 29-02-2002 reaffirms that **"the Department would adhere to its policy of not probing the foreign remittance" brought into Pakistan by any "person"**. Terrorists, tax evaders, smugglers, corrupt officials, extortionists, drug barons and criminals do not need any special amnesty scheme as it is available permanently in the shape of section 111(4) of the Income Tax Ordinance, 2001. This provision is a slap on the face of honest taxpayers. An extortionist can decriminalize his ill gotten money through this provision but any honest businessman who pays that extortionist due to shameless failure or connivance of law enforcement apparatus cannot even claim it as an expense in his tax return! In the face of this reality, the recent move to establish a committee for gradual withdrawal of SROs [**'Committee notified: governments acts to deal with concessionary SROs**', *Business Recorder*, January 4, 2014] is nothing but eyewash. There is no intention to scrap section 111(4) of the Income Tax Ordinance, 2001.

Pakistan, faced by huge budgetary and current account deficits, is in dire need of resource mobilisation. Instead of raising taxes for already depressed economy, giving free perks and plots and extending concessions through SROs, the government must devise a well-thought-of anti-money laundering-cum-asset-seizure legislation to draw upon the huge reservoir of untaxed money and utilise it for growth. If swift action is not taken to seize money and property arising out of corruption, tax evasion and narco-arm-trade, we are bound to face collapse.

---

# Strengthening Value Added Tax to improve revenue efficiency abstract

by

*Bilal Hassan*[*]

*In Pakistan, general sale tax is necessarily a value added tax (VAT) and is an important source of revenue for the government for financing the budgets. Despite significant increase in VAT revenue over the years, practically it is not an efficient tax. In this*

---

* Bilal Hassan is a Deputy Director of Inland Revenue Service (IRS) at the Federal Board of Revenue of Pakistan and a Joint Japan World Bank Scholar. He currently pursues a Master Degree in Tax Policy and Management at Keio University, Japan. The opinions expressed in this article are the author's and do not represent the opinion or position of the Federal Board of Revenue of Pakistan or the Keio University.

*article, the author discusses the discusses the revenue performance of VAT with a focus on collection efficiency, VAT efficiency, gross compliance ratio, etc. An attempt is also made to compare VAT efficiency indicators with those of similar economies. Important issues hindering VAT performance have also been discussed.*

## I. Introduction

1. Since its full-fledged implementation in 1998 to cover manufacturers, importers, distributers, wholesalers and retailers, the VAT has been the backbone of the tax revenue system in Pakistan.[1] However, during the recent years the revenue performance of this tax has significantly been decreased. For this reason, the government proposed to reform existing VAT system with a broad-based tax on sales and purchases on goods in all areas of Pakistan.[2] This paper evaluates the past and current performance of the VAT in Pakistan. It examines the underlying factors behind that performance and the VAT's current weaknesses. This paper argues for the improving VAT design and strengthening the VAT administration and provides specific measures that could be implemented for that purpose.

Table-1: Revenue Sources as Percent of Total Federal Tax Revenue (2003-2011)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Income Tax | 31.6 | 30.2 | 29.4 | 29.4 | 37.2 | 36.5 | 36.4 | 37.4 | 36.4 |
| Other Direct Taxes* | 1.4 | 1.5 | 1.6 | 2.1 | 2.2 | 2.0 | 1.8 | 2.2 | 2.0 |
| Customs | 14.9 | 17.5 | 19.5 | 19.4 | 15.6 | 14.9 | 12.8 | 12.1 | 11.9 |
| Excise | 9.7 | 8.7 | 9.0 | 7.7 | 8.5 | 9.1 | 10.1 | 9.4 | 8.8 |
| VAT | 42.4 | 42.1 | 40.4 | 41.3 | 36.5 | 37.4 | 38.9 | 38.9 | 40.7 |

*: Capital Value Tax, Wealth Tax, Corporate Asset Tax and Workers Welfare Fund

Source: Federal Board of Revenue Year Book 2010-11, MOF

2. Indeed, the VAT is in trouble in Pakistan, with declining collection efficiency during the period under reviewed. This problem stems from VAT base erosion because of ever-expanding exemptions, special regimes, multiplicity of rates and several other deviations from international best concepts and practices. Second reason may be the comprehensive administrative reforms initiated under the Tax Administration Reform Project (TARP) in the Federal Board of Revenue, Pakistan in 2004 and completed in 2011 with creation of Inland Revenue Service (IRS) for administration of inland taxes -income tax, sales tax[3] and excise duty.[1]

---

[1] Although a General Sales Tax (GST) was first introduced in 1991 through enactment of General Sales Tax Act, 1990 it was only in 1996 when GST was converted into "modern" type of VAT. Its coverage was extended to importers in 1996 and to wholesalers and retailers in 1998.

[2] The government prepared General Sales Tax Bill 2010 but could not succeed to get it passed from the parliament due to stiff resistance from the key stakeholders.

[3] The terms sales tax and VAT have been used interchangeably in this paper implying the same meaning

Previously, sales tax and excise were administered by the Customs & Excise group, which was re-classified as Pakistan Customs Service. Change in VAT administration during the period 2003 to 2011 might created problems of tax compliance.

3. Improving performance of the VAT is an urgent concern for Pakistan, especially in the wake of persisted large fiscal deficits due to considerable shortfall in achievement of tax revenue targets. Lowering the marginal tax burden in the country is important, but it needs to be accompanied by a broadening the tax base, better compliance and better overall administrative capacity.

4. The paper is organized as: Section II evaluates the VAT trends and performance for the period 2003 to 2011. It provides an analysis of collection efficiency using various benchmarks and examines the changes in VAT collection composition (i.e., VAT on imports vis-a-vis VAT on domestic consumption). Section III aims at examining the selected issues regarding VAT design, focusing particularly on exemptions, concessions, rates etc. The last section gives concluding remarks.

## II. The Revenue Performance of VAT (2003-2011)

**5. VAT and Revenue.** The quick spread of VAT around the world is due to the reason that it is likely to be a good revenue-raiser. Sometimes, the VAT has even been called as a "money machine".[2] However, its revenue performance is different in countries that have introduced a VAT. For instance, in Ukraine, VAT revenue relative to GDP and VAT's collection efficiency declined significantly from 1998 to 2004.[3] The reasons for VAT success and VAT failure lie in the VAT design and its administration. The initial VAT legislation in most of the developing countries is close to standard international VAT models but over time, however, the VAT structures become complex and tax expenditures increase significantly due to exemptions, exonerations, reduced rates, etc. The potential taxpayers find many ways to escape the taxation system by keeping themselves or their tax base abroad or remaining in the country but hiding in the shadow economy[4]. Or they exert pressure to make changes in tax law or its interpretation. Even they may seek forgiveness through amnesty laws or specific grants of relief if they found themselves trapped within the taxation system. Many or all of these processes play their role in erosion of the VAT base. In the literature, three related measures of VAT productivity include the VAT efficiency ratio, the C-efficiency ratio and the VAT gross compliance ratio[5].

**6. Low and Declining VAT-GDP Ratio.** As shown in Figure 1A, the revenue yield of VAT as a share of GDP declined more or less steadily since

---

1 See notification of the Establishment Division O.M.No.6/2/2009-C.P.II dated 12.09.2009.

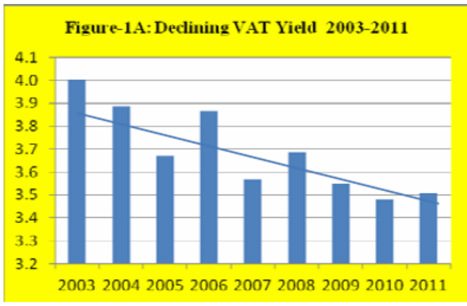
2 President's Advisory Panel (2006, 192)

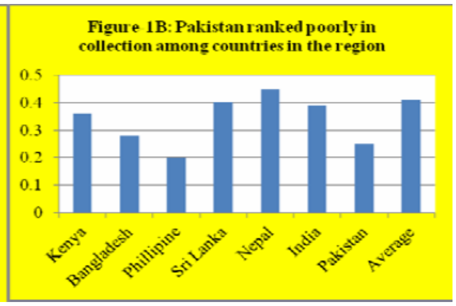
3 Bird, R.M. 2007. The VAT in Developing and Transitional Countries. P.58

4 ibid, 6. p.67

5 For example, see Martinez-Vazquez, J., & Bird, R. M. (2010). Value-Added Tax: Onward and Upward?. International Studies Program. Working Paper 10-26.

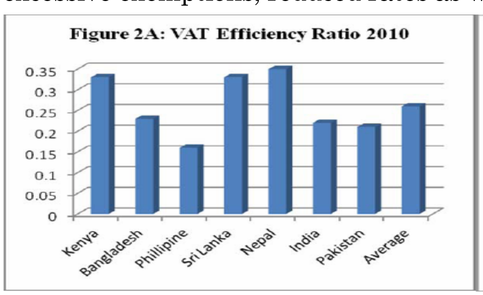
2003. Such a prolonged decline in VAT yields is both unusual and disturbing. In general, VAT yields rise with both GDP growth and import growth. In Pakistan, however, although average GDP at market prices grew by 17 percent in the 2003-2011 period, VAT as a share of GDP actually fell by 12.5 percent. Collection Efficiency or C-Efficiency[1] is a better measure of VAT performance as it is closer to the theoretical VAT base. Using this measure, Pakistan ranked poorly in the international context as of 2010 (Figure-1B).

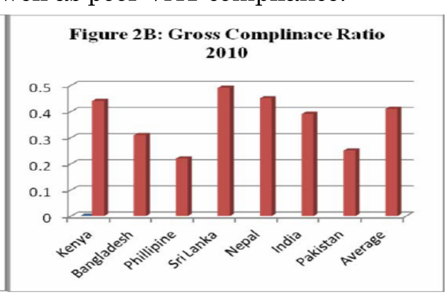



Source: Own calculations; data from FBR Year Book 2010-2011, MOF of selected countries, WDI and GDF 2010 (http://search.worldbank.org/data?).

**7. VAT Efficiency and Gross Compliance Ratios.** In principle, a VAT without exemptions, with a single rate, and full compliance must result in efficiency ratios of close to 100 percent (IMF 2010). But most of the VATs are not close to this goal. The VAT gross compliance measure should be closer than C-efficiency ratio and definitely closer than the VAT efficiency ratio. In addition use of single standard VAT rate to compute potential revenues ignore the existence of multiple rates, some lower than the standard rate and some higher. It also ignores exemptions and zero-rating provisions. These ratios, thus, depends upon how broad the VAT base is and then how the actual revenue is realized through effective tax compliance and tax administration. Pakistan in terms of the Gross Compliance and VAT efficiency ratios ranks poorly among the selected countries (Figure 2A and 2B), which is indicative of the fact that both VAT base is eroded because of excessive exemptions, reduced rates as well as poor VAT compliance.

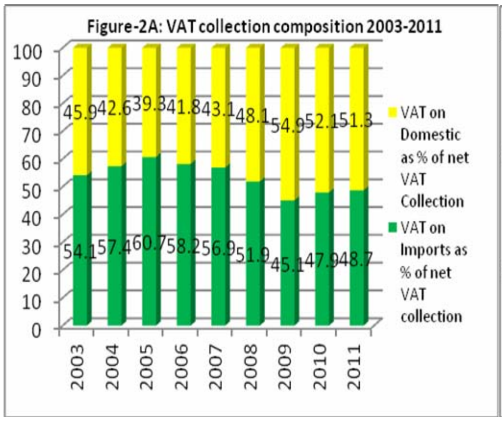


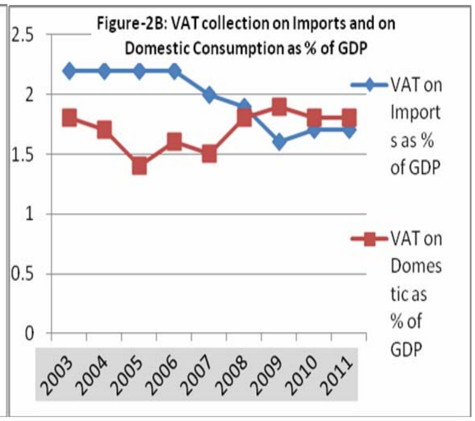




Source: Own calculations; data from FBR Year Book 2010-2011, MOF of selected countries, WDI and GDF 2010 (http://search.worldbank.org/data?).

[1] VAT Collection Efficiency or C-Efficiency is the actual VAT collection as a ratio of final household consumption, divided by the standard rate of VAT in the country.

**8. VAT Collection Composition.** In 2003, the collection of net domestic VAT was 46 percent of total VAT collection, while VAT on imports was 54 percent. By 2011, the relationship improves with net domestic VAT collection increased to 51 percent and VAT on imports as percent of total VAT collection dropped to 49 percent. Net VAT collection on domestic consumption as percent of GDP was extremely low, on an average 1.7 percent in the period 2003-2011. It was 1.8 percent in 2003 and fell to 1.5 percent in 2007 and on an average, remained stagnant to only 1.7 percent in the period 2008-2011.




**9. Changes in the Economic Structure barely explain the declining trends in VAT collection.** VAT does not tax either exports or investment. A rise in GDP attributable to either an export-driven expansion or an investment boom may therefore result in an initial decline rather than an increase in VAT revenue because an input credits (for exports and investment) may build up more quickly than output taxes. From 2003 to 2011, exports as percent of GDP have declined steadily (Table 2). The export-GDP ratio was highest (16.7%) in 2003 and was minimum (11.9%) in 2011. Similarly, though investment as percent of GDP increased from 16.9% in 2003 to 22.5% in 2007 but after that decreased and reached minimum level of 13.1%. Thus explanation for VAT's poor revenue performance cannot lie neither in exports nor in investment changes during the period under review.

**Table-2: Exports & Investment as % of GDP**

| Year | Exports as % of GDP | Total Investment as % of GDP | VAT as % of GDP |
|---|---|---|---|
| 2003 | 16.7 | 16.9 | 4.0 |
| 2004 | 15.7 | 16.6 | 3.9 |
| 2005 | 15.7 | 19.1 | 3.7 |
| 2006 | 15.2 | 22.1 | 3.9 |
| 2007 | 14.2 | 22.5 | 3.6 |
| 2008 | 12.8 | 22.1 | 3.7 |

| | | | |
|---|---|---|---|
| 2009 | 12.9 | 18.2 | 3.6 |
| 2010 | 13.6 | 15.4 | 3.5 |
| 2011 | 11.9 | 13.1 | 3.5 |

Source: *WDI and WDF 2010 extracted on 9 August 2012 from search. worldbank.org/data

** Economic Survey of Pakistan 2008-09 and 2010-11

This conclusion is especially strong because declining trends in issuance of refunds (Table 3). In particular, minimum refunds were issued during 2009 and 2010 about 0.21% and 0.19% of GDP, respectively. Whereas revenue as percent of GDP was lowest during these two years. On the whole, Pakistan's VAT performance cannot be explained by changes in economic structure.

**Table-3: Refunds Issued**

| Year | Refunds (Rs. Millions) | Refunds as % of net VAT | Refunds as % of GDP |
|---|---|---|---|
| 2003 | 43934 | 22.5 | 0.90 |
| 2004 | 52222 | 23.8 | 0.93 |
| 2005 | 54909 | 23.0 | 0.84 |
| 2006 | 32439 | 11.0 | 0.43 |
| 2007 | 37029 | 11.9 | 0.43 |
| 2008 | 28175 | 7.5 | 0.28 |
| 2009 | 26996 | 6.0 | 0.21 |
| 2010 | 28776 | 5.6 | 0.19 |
| 2011 | 50835 | 8.0 | 0.28 |

Source: FBR Year Book 2010-11

**10. Changes in the VAT Structure partly explain the declining trends in VAT collection.** Some of the decline in the VAT-GDP ratio during the period 2003 to 2011 may perhaps reflect base erosion in the form of increased exemptions, reduced rates, zero-rated etc. There is a long list of goods on which exemption of sales tax is available under section 13 of the Sales Tax Act, 1990, the Sixth Schedule of the Sales Tax Act, 1990. Other exemptions are available in various notifications called Statutory Regulatory Orders (SROs) issued by the government under section 13 from time to time. Zero-rating on goods other than exports causes base erosion. Zero rating has been practiced much more extensively in Pakistan over the years[1]. A number of goods besides exports are made zero-rated in Pakistan as mentioned in section 4 and the Fifth Schedule of the Sales Tax Act, 1990. Another reasons the reduced rates for some sectors of economy, which were inserted in the VAT system from time to time. For instance, VAT rates were reduced

[1] See Statutory Regulatory Orders such as 1125(I)/2011 available at www.fbr.gov.pk

from 16% to 8% for sugar sector and from 21% to 19.5% for telecom sector during 2009-10.[1]

Base erosion due to excessive exemptions explaining the continued marked decline from 2008 onward is given in table 4. Changes in tax structure can, therefore, explain Pakistan's VAT performance trends.

Table-4: Estimated Revenue Loss due to exemptions

| **Major Sales Tax Exemptions** | **2008** | **2009** | **2010** | **2011** |
|---|---|---|---|---|
| Fertilizers | 9.2 | 8.2 | 8.797 | 9.138 |
| Tractors | 5.6 | 5.7 | 6.246 | 6.489 |
| Pharmaceutical Products | 2.3 | 3.1 | 3.754 | 5.505 |
| Others** | 0.5 | 0.5 | 8.612 | 12.63 |
| **Total** | **17.6** | **17.5** | **27.409** | **33.762** |
| As % of GDP | 0.17 | 0.14 | 0.18 | 0.19 |

Source: Economic Survey of Pakistan 2007-08 to 2010-11

**11. Changes in the VAT administration partly explain for the poor performance of the VAT collection.** The other explanation of the decline of the VAT in Pakistan lies in tax administration. No developing country starts with a good VAT administration; all have to grow one (Bird 2005). There may have been a significant deterioration in the efficiency of VAT administration because of administrative changes underwent during this period. Under the Tax Administration Reform Project (TARP) commenced in the Federal Board of Revenue in 2004, Inland Revenue Service (IRS) has been created to administer inland taxes -Income Tax, Sales Tax and Excise Duty.[2] The former Customs & Excise group, which was administering Customs Duty, Excise Duty and Sales Tax was re-classified as Pakistan Customs Service. The separate administration of sales tax from customs is internationally practiced. The growing private sector might has exploited the weaknesses of VAT administration during the reform period. VAT evasion, the size of the underground economy, and corruption are closely linked. With VAT, there are two ways to evade: by under reporting sales or by over reporting taxable purchases. A major form of VAT evasion: a firm creates a shell company and then shells inputs to itself at a false price that then serves as the basis for an input tax credit or refund claim. In Pakistan, a number of fictitious firms may have operated such frauds during the period under review, particularly during 2009 and 2010.

**12. The July-March 2012 Period.** VAT collection on imports registered substantial growth of 47.6 percent during the period as compared to same period of last fiscal year. The percent growth in VAT collection on domestic consumption stood at 18.9% during the same period. The overall VAT collection increased by 33.3 percent during the period as compared

---

1 See FBR Quarterly Review April-June 2010.

2 See notification of the Establishment Division O.M.No.6/2/2009-C.P.II dated 12.09.2009.

to the same period of last fiscal year. This increase in VAT collection is backed by the measures adopted by the organization administration against non-filers, short filers, filers of wrong input-output adjustment; increased sharing of information among different wings; and enhanced facilitation of taxpayers in the form of extensions in date of payment and filing of returns, keeping bank branches opened late hours, and guidance in e-filing.

### III. The Underlying Problems of VAT System

**13. The excessive exemptions have become hallmark.** Exemptions of VAT are available under section 13 of the Sales Tax Act, 1990, the Sixth Schedule of the Sales Tax Act, 1990. Other exemptions are available in various notifications called Statutory Regulatory Orders (SROs) issued from time to time by the government under section 13 of the act. The exemptions have been extensively practiced in Pakistan over the last decade or so.

**14. The increasing level of concessions proves to be deviation from true VAT base.** The VAT regime contains a range of special concessions, which have been provided to simplify compliance obligations mainly in respect of input credits either due to difficulties taxpayers may face in obtaining invoices for purchases in an economy which has a large informal sector or the risk of fraudulent claims for input credits.

**15. Zero-rating has been much practiced in Pakistan.** Besides all exports except those made by land route to Afghanistan are zero-rated[1], other zero-rated supplies are mentioned in section 4 and the Fifth Schedule to the Sales Tax Act, 1990, which include supplies to diplomats, privileged persons and privileged organizations, supplies of raw materials to Export Processing Zones and supplies made against international tenders. Importantly, the facility of zero-rating has also been provided to every manufacturer, exporter, importer, and wholesaler but not retailer who is engaged in the five sectors -textile (including jute), carpets, leather, sports and surgical goods sectors.[2]

### IV. Concluding Remarks

Presently, the country is facing wide budget deficits resulting in higher debt-to-GDP. It is, therefore, imperative to enhance revenues, particularly tax revenues since non-tax revenues could not be enhanced due to scarcity of natural resources in the country. Among tax revenues, VAT is a potential revenue source. It has been underutilized so far due to policy and enforcement issues. As a result, effective VAT rate is only 3.7 per cent as compared to standard VAT rate of 16% last year. Moreover,

---

[1] Zero rated goods are those goods on which the impact of tax paid is offset by subsequently allowing refund or input adjustment equivalent to the tax already paid. Zero rating is different from exemption in the sense that no tax is to be paid on the exempt goods whereas in case of zero rated goods not only that no sales tax is payable on supply but refund or input tax adjustment of tax already paid is allowed.

[2] See Statutory Regulatory Order . 1125(I)/2011 available at www.fbr.gov.pk

VAT is a business friendly tax and could be easily enhanced by standardizing its design, which aims at no or minimum exemptions, only exports are to be zero-rated, no special schemes, uniform tax rate, etc.

### Transporters oppose road users tax

Transporters have taken exception to the recommendation that road users tax be collected through additional levies on CNG, diesel and petroleum goods. President, Karachi Transport Action Committee, Mohammad Ashraf Banglori in a statement on Sunday said people including vehicle owners and transporters were already paying wide range of taxes including road users and toll taxes.

He said efficiency must be improved of the concerned departments and the process of roads users' tax must be streamlined so as to avert reported loss caused by non tax payers. – *Courtesy Business Recorder*

### Lower FED, ST payments: FBR analysing data of top companies, exporters

The Federal Board of Revenue is analysing data of top companies, including exporters in all leading sectors, to check their sales tax and FED payment trend in the second quarter (October-December) of 2013-14 for investigating reasons of low collection in each sector.

Sources told here on Sunday that the FBR has started the exercise on the basis of sales tax/FED payments figures available with the FBR's internal database, monthly tax profiles and data reported by the Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) to the Board. The purpose of the exercise is to pinpoint big taxpayers, who are showing negative trend in revenue collection during 2013-14.

It would be specifically checked that why certain units having positive track record, have suddenly shown negative trend in sales tax/FED collection. In this regard, statements of comparison of sales tax and FED paid by leading sectors would be checked during 2013-14 compared to the same period of 2012. In the first phase of the exercise, the FBR will pick the units showing low sales tax/FED collection during the said period. This would be done on the basis of data analysis of the companies on the basis of their past tax payments.

Under the second-phase, the FBR will direct the LTUs/RTOs to give reasons for low revenue collection by specific companies. The FBR will also provide opportunity to explain reason for low sales tax collection during 2013-14. If the unit is closed or has stopped business for any reason, it would be analysed and action would not be taken in genuine cases.

In the last phase, the FBR will take enforcement action against the units involved in tax evasion, concealment of income or paying low tax by evading the authorities, sources maintained. Sources added that the FBR's special team of expert officials has been deputed to analyse revenue trends in each sector for necessary action against the non-compliant taxpayers.

It is worth mentioning that last month the Board had directed the Chief Commissioners of Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) to identify reasons for decline in sales tax/FED paid by oil & gas exploration companies, sugar, cement, auto parts and beverage manufacturers - to ascertain reasons for declining sales tax/federal excise duty collection from these sectors in 2013-14. The FBR has also hinted at strong possibility of tax evasion by manufacturers of sugar, cement, auto parts and beverages. The field formations would investigate FBR report for confirmation of data and tax evasion in the sectors. The FBR has further directed to take corrective measures to improve low tax collection from these sectors in 2013-14.

According to the FBR, statements of comparison of sales tax and FED paid by certain sectors shows a substantial decline in revenue collection during July-October 2013 has been witnessed as compared to the same period of 2012. These sectors are oil & gas exploration companies, sugar manufacturers, cement, auto parts and beverage manufacturers. The FBR has made the analysis of each sector for further investigation by the Chief Commissioners of LTUs and RTOs. – *Courtesy Business Recorder*

### Customs Border Force: FBR fails to take major anti-smuggling initiative

The Federal Board of Revenue (FBR) has failed to implement a major anti-smuggling measure: creation of a dedicated Customs Border Force (CBF) to counter smuggling through borders with Afghanistan and Iran. Sources told here on Saturday that the creation of CBF was part of the anti-smuggling strategy of the FBR for the last few years.

The proposal was also stressed by senior economist Dr Hafeez A. Pasha during FBR's recent workshop on "Study to design the revamped/reformed FBR strategy". The commission constituted by the Supreme Court of Pakistan on ‘smuggling of arms and ammunition’ also recommended that the Federal Government will appoint a Committee of officers of Pakistan Customs to conduct need assessment and recommend ways and means to raise Customs Force fully trained and equipped with all wherewithal including speed-boats, surveillance crafts, communication network and Arms and Ammunition.

Former FBR Chairman Ali Arshad Hakeem had also shared the proposal of creating a new Border Force during the visit of the then Prime Minister, Yousuf Raza Gilani, to the FBR House. He also proposed new initiatives, besides calling for the establishment of border surveillance infrastructure and creation of 10,000-strong Border Force to effectively curb cross-border smuggling.

During the recommendations made in the international workshop on “Accelerating Tax Reforms” with the assistance of the World Bank on February 23, 2013, former FBR Member Customs and Director General Intelligence and Investigation Customs Muhammad Riaz made recommendations on behalf of Group-4 Benchmarking Customs and Border Management. Muhammad Riaz recommended the establishment of a customs border office to comprehensively cover borders, and create new customs areas at Torkhum and Chaman. Customs also recommended significant increase in customs coverage on Pak-Iran border in Balochistan with marine presence and coastal surveillance in Balochistan and Sindh. It has further been recommended to significantly increase customs coverage on Pak-Afghan border (FATA Region) and Northern Areas.

Sources said that despite seriousness of the issue, customs authorities have yet not taken any initiative to ensure implementation of this key measure under reforms to check smuggling. The issue has been repeatedly raised at different forums to discuss customs reforms initiatives. However, no progress has been witnessed in this regard.

Under the anti-smuggling strategy, a well-trained CBF would ensure effective law enforcement in the border areas of Balochistan as well as Khyber Pakhtunkhwa coupled with a coastal belt of Sindh. Once CBF is in place, Customs Border Patrolling Posts (CBPP) could be established. Till creation of CBF, the FBR has proposed to set up joint checkposts of customs department and law enforcement agencies for a co-ordinated approach to conduct anti-smuggling activities on borders.

No recruitment in different cadres of Customs, including operations, has taken place for the past 15 years, which resulted into a thinner and ageing force. The FBR would also approach the federal government to have fresh recruitment against a re-valuated human resource requirement in addition to provision of equipment, training and resources. Sources said the Directorate General Intelligence and Investigation-FBR (I&I), has been designated, by the FBR, as a lead agency to formulate a co-ordinated anti-smuggling strategy for providing an effective direction and execution for the campaign against smuggled and non-duty paid vehicles. The Directorate General has been, assigned/ nominated to co-ordinate with the Collectorates as well as other Law Enforcement Agencies (LEAs).

Overall monitoring of campaign against the smuggled vehicles and contraband goods will be carried out by the Directorate General I&I-FBR. The agency will associate the Collectorates whenever required in view of meager human and logistic resources of regional/range offices of the DG I&I FBR.

Muhammad Ramzan Bhatti in his report 'smuggling of arms and ammunition' strongly recommended that the federal government should appoint a Committee of officers of Pakistan Customs to conduct a need assessment and recommend the ways and means to raise a Customs Force fully trained and equipped with all wherewithal including speed-boats, surveillance crafts, communication network and arms and ammunition. The importance of raising such a Customs Force can be gauged from the fact that most of the smuggling of narcotics, liquor, gold and other goods including small quantities of Arms and Ammunition takes place through the sea. This illegal trade is estimated to be worth billions of dollars. The seizures of these goods presently reported by the Customs Department, Pakistan Coast Guards and Maritime Security Agency are not worth mentioning. It is, therefore, imperative to raise a Custom Force to protect the sea frontiers from this illicit trade which accounts for a major chunk of the parallel/black economy of Pakistan.

Till a fully trained and equipped Custom Force is raised, PCGs and MSA may be entrusted with the powers of anti-smuggling only on the high seas under the provisions of Section 6 of the Customs Act, 1969. These agencies "shall" also be assigned the targets for seizure of narcotics, gold, liquor, arms and ammunition, etc on yearly basis, the commission added. – *Courtesy Business Recorder*

## LG polls: LHC takes up plea for implementing Articles 62, 63

Justice Aminuddin Khan of the Lahore High Court (LHC) on Monday issued notice to the Election Commission of Pakistan, Federal Board of Revenue, National Accountability Bureau, Federal Investigation Agency and inspector general of Punjab Police on a petition seeking implementation of constitutional provisions 62 and 63 on candidates for local government (LG) polls like in general elections.

The judge sought replies from the respondents in the last week of January. A lawyer, Munir Ahmad, had moved the petition.

The petitioner's counsel, Muhammad Azhar Siddique, submitted that the constitution laid down criteria of qualification/disqualification for the election of public representatives in articles 62 and 63. He said that the newly promulgated Punjab Local Government Act 2013 contained no such criteria for the candidates; thus allowing the convicted, bank defaulters, dual nationals and fake degree holders to contest LG polls.

He said that "highly sensible, educated and qualified persons" were required to be elected.

"A union councillor also has to act as an arbitrator in family matters while dealing with divorce related disputes and if an uneducated and unqualified person is elected, how could he be able to dispense justice?"

He submitted that in the interest of justice and fair play it was necessary to implement articles 62 and 63.

He said that even otherwise there was need for specifying instructions, rules and regulations for laying down the mode and manner for determination of qualification or disqualification criteria of LG candidates.

He requested the court to summon details of qualified and disqualified candidates for LG elections such as details of their income tax, sales tax, agricultural tax, professional tax and degree record.

He said that the Election Commission and government of Punjab have failed to fulfil these requirements and, therefore, the court should summon IGP, FIA DG, NAB chairman and FBR to ensure that no tax defaulter, fake degree holder or a criminal could take part in LG elections.

He also requested that the federal government should be asked to explain what instructions, if any, had been relayed to returning officers for determining a candidate's viability. In particular, he said, it should say whether fake degree holders, loan defaulters, tax evaders and dual nationals would be barred from contesting elections. – *Courtesy Pak Tribune*

## Notice to ECP, NAB on LG polls eligibility criteria

The Lahore High Court on Monday issued notice to the Election Commission, the Federal Board of Revenue, the National Accountability Bureau, the IG Police and the Federal Investigation Agency for last week of February, on a petition questioning the eligibility criteria for candidates in local bodies (LB) elections.

The petitioner-lawyer had requested the court to summon the details of qualified and disqualified candidates for local bodies (LB) elections with details of income tax, sales tax, agricultural tax, customs duties, professional tax, fake degree holders, criminals and convicts as returning officers had failed to obtain these details and papers of candidates deserved to be disqualified stood qualified.

He said the election commission and the Punjab government had failed to fulfill these requirements, therefore, the court should summon the IGP, the DG FIA, the NAB chairman and the FBR in this regard to ensure that no tax defaulter, fake degree holder or someone having criminal record could take part in these elections.

The petitioner also asked the court to direct the Election Commission of Pakistan to make sure that Article 62, which outlines the qualifications of a candidate standing for election to the Parliament must have and Article 63 which outlines possible reasons for disqualifying a candidate, are applied to local election (LB) candidates.

The petitioner also asked the court to direct the federal government to explain what instructions, if any, had been relayed to returning officers for determining a candidate's viability. In particular, he said, it should say whether fake degrees holders, loan defaulters, tax evaders and dual nationals would be barred from running.

Ahmed said that Article 62 required a candidate to be one who is not commonly known to violate Islamic injunctions; who has knowledge of Islamic teaching and practices; abstains from major sins; and is sagacious, righteous, non-profligate, honest and Ameen. – *Courtesy International The News*

**12 known tax defaulters come back into parliament**

At least 12 such lawmakers have returned to the National Assembly who turned out to be consistent tax defaulters as neither had they filed tax returns in 2011 nor in 2012 and seven of them belong to PML-N, FBR record reveals.

The former State Minister for Law, Justice and Parliamentary Affairs, Barrister Raza Hayat Harraj, is prominent among them. The Lahore High Court had ordered Federal Board of Revenue (FBR) to upload the list of all tax defaulters who contested elections; an order issued in April 2013 but was never implemented.

A guideline sent to district returning officers by the FBR at the time of filing nomination papers declared that whoever found to have not filed tax return is a tax defaulter. There are around 100 MNAs who have returned to the assembly. As many as 235 tax defaulters were spotted in last national assembly (2008-13), according an earlier report “Taxation without Representation” on the 2011 taxes of lawmakers. Some of them later started filing tax returns after this expose; however, 12 of them who also managed to return to the assembly have persisted in this malpractice of non-compliance of tax laws even in 2012.

These defaulters include seven names of PML-N MNAs: Raza Hayat Harraj, Akram Ansari, Junaid Anwaar Chaudhry, Shahnaz Saleem Malik, Tahira Aurangzeb, Nighat Parveen and Dr Ramesh Kumar Vankwani. Two consistent tax defaulters belong to MQM: Abdul Waseem and Iqbal Qadri.

Two returning MNAs from Fata fall in this category: Bilal Rehman and Sajid Hussain Turi. One such MNA is affiliated with Awami Jamhuri Ittehad, Pakistan: Usman Khan Tarakai. There are another four returning MNAs who filed tax returns in 2011 but turned out to be defaulter in 2012, and all of them belong to the PML-N. Included among them are: National Assembly Speaker Sardar Ayaz Sadiq, State Minister for Water and Power Abid Sher Ali, State Minister for Information Technology Anusha Rehman and Waseem Akhtar Sheikh.

Four lawmakers who returned to the National Assembly were non-filer in 2011 but complied with tax laws in 2012 by filing tax returns. Two of them belong to PML-N: Mehmood Bashir Virk and Shakir Bashir Awan. Third MNA bracketed with them contested last election from PML-N platform but elected this time from PTI ticket: Makhdoom Javed Hashmi. PML leader, Ch Pervaiz Elahi is also included in the list. He had earlier issued clarification claiming he filed tax returns in 2011 but FBR record contradicts this claim.

As many as six MNAs have been identified as tax defaulter for year 2010. Four of them are from the PPPP including Dr Azra Fazal Pechuho, Faryal Talpur, Dr Fehmida Mirza and Munawar Talpur. Former Federal Minister for Overseas Pakistanis Dr Farooq Sattar and incumbent Pir Sadarud Din Shah also did not file tax returns in 2010.

Our study had found 461 (47%) lawmakers in national and provincial assemblies who, according to the FBR guideline, fall in the category of tax defaulters as they didn't file tax returns in 2012. There are another 84 lawmakers who claimed paying income tax, but the FBR record out-rightly rejected it, meaning thereby they did not file tax returns as well. Including them would swell figure of tax defaulters to 545 (54%) lawmakers. Record of 54 members was not available for examination that could raise the number further.

Over 23,900 candidates submitted nomination papers and majority of them were tax defaulters; however, the FBR lost a golden opportunity to name and shame them quoting the LHC order. It showed reluctance to enforce the tax regime.

The Lahore High Court had ordered the FBR to add two columns of information sent to the ECP in order to include the candidates who are tax defaulters and nature of their default. It reads: "On our query, the Intelligence director, Federal Board of Revenue, states that it would be possible to create another column …indicating if there is default in case of a particular candidate and the nature of such default."

The judgment goes on: "The aforesaid exercise will be completed within a period of 3 weeks…Such information shall be made available on the websites of the FBR as well as of ECP." Neither the directed information was passed on to the ECP, nor displayed on the website. – *Courtesy International The News*

**Textile lining material: new customs value fixed**

Directorate General of Customs Valuation Karachi has fixed $3 per kg as new customs value on import of textille lining material from China It is learnt here on Monday that the directorate has issued a new valuation, which has superseded Valuation Ruling No 483/2012. According to the ruling, the customs value of textile lining material was earlier determined vide Valuation Ruling No 483/2012, dated 25-10-2012.

Various representations were received, including representations made by KCC&I regarding revision of Customs value of the said goods to reflect the current price trend of these goods in the international market. This prompted an exercise to re-determine Customs value of Textile Lining Material under Section 25A of the Customs Act, 1969.

The valuation methods given in Section 25 of the Customs Act, 1969 were followed. Transaction value method provided in Sub-Section (1) of Section 25 was found inapplicable because requisite information as per law was not available. Identical / similar goods value methods provided in Sub-Sections (5) & (6) of Section 25 of the Act ibid were examined for applicability to the valuation issue in the instant case. These methods furnished unreliable values and were not found applicable. Deductive Value Method under Sub-Section (7) of Section 25 was, therefore, adopted to determine customs values for Textile Lining Material in this case read with Sub-Section (9) ibid. Meetings were held with the stakeholders and attended by representatives of FPCC&I and KCC&I who provided feedback regarding the valuation of subject goods.

In cases where declared/transaction values are higher than the Customs value determined in the Ruling, 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 value determined in the ruling.

The value determined vide this Ruling shall be the applicable Customs value for assessment of subject imported goods until and unless it is rescinded or revised by the competent authority in terms of Sub-Section (1) or (3) of Section 25-A of the Customs Act, 1969. The Collectors of Customs may kindly ensure that the value given in the Ruling be applied by the concerned staff without fail, it added. – *Courtesy Business Recorder*

### New approval awaited: Customs stops clearance of 1,000 imported vehicles

Some 1,000 of imported vehicles are stuck at port as Pakistan Customs has stopped clearance of model 2009 vehicles since November 2013. Sources told on Monday that these vehicles have been imported under the scheme of personal baggage, gift and transfer of residence and government can collect a revenue of about Rs 3 billion by releasing these vehicles.

In February last year, the ministry of commerce through an office order allowed the release of such vehicles that were few months older than the prescribed age limit of 3 years. "Considering the hardship faced by the importers of vehicles under the schemes of personal baggage, gift and transfer of residence, where the imported vehicle is only a few months older than prescribed age limit of 3-year, it has been decided to allow release of such vehicles against a surcharge levied by the Customs in whose jurisdiction the vehicles was imported on Cost and Freight (C&F) basis," said an office memorandum issued on February 25, 2013 by the ministry of commerce.

The delay in shipment of vehicles older than 3 year and 8 months shall be condoned if not in excess of 30 days against a surcharge at 5 percent per fortnight of C&F value, it added. The memorandum also said that the EGM and cargo vessel leaving the port of export may be considered with reference to cut-off date.

Following this memorandum, the customs authorities were releasing the above age limit imported vehicles at minimum surcharge of 5 percent and maximum 13 percent during February to October 2013 and few thousands cars were cleared during the period. However, in November 2013, the customs suddenly stopped clearance of imported vehicles of 2009 model declaring the import of above 3-year vehicles illegal. According to customs authorities, the memorandum was for a specific time period and only for those vehicles shipment of which was delayed after the government's decision to reduce the age limit. The federal government had reduced the age limit of imported cars from 5 to 3 year in December 2012 aimed to support the domestic automobile industry.

Customs officials claimed that interpretation of that memorandum was incorrect that created a crisis like situation and now vehicles of 2009 model will be released after a new approval from ministry of commerce. Presently, the customs has completely stopped the clearance of imported vehicles of 2009 model and seeking a clarification from the ministry for release of these vehicles, source said.

"We are not sure about the actual units but around 1,000 imported vehicles are stuck at port as customs has refused to clear these vehicles without any new directives from the ministry or Federal Board of Revenue (FBR)", they added. Sources said that some Rs 4-5 billion investment of overseas Pakistanis has been blocked due to non-clearance of these vehicles, while the government is also suffering billions of rupees loss on account of revenue.

The cost of these vehicles is also increasing as now the importers will be required to pay millions of rupees demurrages, imposed by the port authorities. These vehicles are lying at ports from last three to four months and importers have to pay approximately Rs 100 million on account of demurrages to the port authorities. Sources said that import of used cars is generating billion of rupees revenue for government as there is some 100 percent duty on import of vehicles. The federal government has collected about Rs 35 billion revenue during FY12, when age limit was up to 5-year. While some Rs 12 billion were received on account of import duty during FY13, as in December 2012 government had reduced the age limit of imported cars up to 3-year. – *Courtesy Business Recorder*

**FBR to make public details of 0.85 million filers**

The Federal Board of Revenue (FBR) has decided to make public tax details (annual income and tax paid) of all 0.85 million taxpayers in a tax directory to be published till March 31, 2014. Sources told here on Monday that Pakistan would become the fourth country in the world to publish tax particulars of all its registered taxpayers.

The information would cover all categories of taxpayers including leading taxpayers, businessmen, service providers, prominent players, artists, public/private sector employees and all other income tax return filers. The private and confidential information of taxpayers, who are regular income tax return filers, would be made public by the FBR. So far, the FBR has decided to disclose declared income and tax payments of the registered persons excluding assets. The Board has yet not decided to disclose details of the moveable and immovable assets declared in the income tax returns and wealth statements. However, tax payments would be made public in line with the directions of the Ministry of Finance.

It would not be appropriate to disclose the details of the assets of the registered taxpayers. Therefore, assets details like properties, vehicles, cash, bonds/stocks and information of other assets would not be made public. Referring to sub-section 5 and 6 of the section 216 of the Income Tax Ordinance 2001, official said that FBR is legally empowered to publish tax directory containing information of tax payments of the taxpayers. According to sub-section 5 of the section 216 of the Income Tax Ordinance 2001, 'nothing contained in sub-section (1) shall prevent the Board from publishing, with the prior approval of the Federal Government, any such particulars as are referred to in that sub-section.

As per sub-section 6 of the section 216 of the Income Tax Ordinance 2001, 'nothing contained in sub-section (1) shall prevent the Federal Government from publishing particulars and the amount of tax paid by a holder of a public office as defined in the National Accountability Bureau Ordinance, 1999'.

Finance Minister Ishaq Dar has reportedly informed Senate that FBR has been directed to ensure issuance of National Tax Numbers (NTNs) to parliamentarians by January 31. Last date to file tax returns was December 16, 2013 and now after issuance of NTN the tax details of all MPs would be made public by February 15, 2014. In the first phase, tax details of parliamentarians would be made public and in the next phase tax details of all taxpayers would be published within two months, Ishaq Dar added. – *Courtesy Business Recorder*

## Import of milk preparations for infant: massive underinvoicing unearthed

The Federal Board of Revenue has unearthed underinvoicing on the import of milk preparations for infant from European and Far Eastern countries, causing revenue loss to the exchequer. Sources told here on Monday that the Directorate General of Customs Valuation Karachi has revised customs values on the import of milk preparations for infant under Section 25A of the Customs Act, 1969.

It was brought to the notice of Directorate General of Customs Valuation by field formations that Milk Preparations for Infant Use are being imported at under-invoiced values, causing loss of revenue to Government exchequer. This prompted an exercise to determine the fair Customs values for imported Milk Preparations for Infant Use.

The Valuation methods given in Section 25 of the Customs Act, 1969 were followed. The transaction value method under Sub-Section (1) of Section 25 ibid was found inapplicable because of non-availability of sufficient information. Identical/similar goods valuation methods provided in Sub-Sections (5) & (6) of Section 25 ibid furnished unreliable values. Deductive Value Method under Sub- Section (7) read with Sub-Section (9) of Section 25 of the Customs Act, 1969, was applied to arrive at the customs values. Meetings were held with the stakeholders including representatives of FPCCI & KCCI to obtain stakeholders views on valuation of milk preparations for infant.

In cases where declared/transaction values are higher than the customs value determined in this ruling, 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 value determined vide this ruling shall be the applicable customs value for assessment of subject imported goods until and unless it is rescinded or revised by the competent authority in terms of Sub-Section (1) or (3) of Section 25-A of the Customs Act, 1969. – *Courtesy Business Recorder*

## Tax notices irk auto vendors

The Federal Board of Revenue (FBR) has started serving notices to the auto vendors to deposit two per cent additional tax under SRO 896(I)/2013 on their supplies to retail market and to the assemblers.

Vendors said that the notices being issued by regional tax offices violate the agreement between the tax authority and the stakeholders of auto industry. It was agreed that the industry would pay additional tax on retail supply and not on delivery to the auto assemblers, they said.

According to them, the SRO is not worded correctly and not in line with what was agreed with the auto parts vendors association. It is creating confusion in the organised OEMs auto chain.

They said that despite repeated requests the industry is still awaiting amendments to the said SRO wherein it was agreed that auto parts industry would be removed from Third Schedule of the Sales Tax Act 1990 to pay extra 2pc tax for sales of auto parts at retail stage only.

Usman Aslam Malik, the chairman of Pakistan Association of Auto Parts and Accessories Manufacturers (PAAPAM), said: "One of the cardinal principles of taxation is that it should be levied on the basis of 'capacity to pay' whereas auto industry is already heavily taxed resulting in increase in price of vehicles."

He said small suppliers do not have the capacity to manage this cumbersome paper work related to deduction of tax on purchases from smaller suppliers.

Criticising amendment in the Third Schedule of Sales tax Act, he said the change in law had created many hardships for the local manufacturers, rendering the industry totally uncompetitive against imported parts, which already command 90pc of the market due to under invoicing, non-declaration and smuggling, no sales tax on retail prices. – *Courtesy Dawn.com*

### Inputs used in export goods' making: duty drawback rates not revised

The Federal Board of Revenue (FBR) has not revised the duty drawback rates on the import of raw materials/inputs used in the manufacture of export goods under standard duty drawback notifications after budget (2013-14). Sources told here on Wednesday that duty drawback standard SROs are required to be revised in case there is 15 percent increase/decrease in rate of the customs duty on the import of raw materials etc to be used in the export goods.

This has been specified in the relevant rules dealing with the duty drawback rates. However, there is no major change in the rates of the customs duty on the import of inputs consumed in the manufacture of export goods under Pakistan Customs Tariff (PCT). Therefore, the FBR has not amended the standard duty drawback notifications during 2013-14.

Every year, it is general practice that the FBR revises the duty drawback rates in view of the prevailing exchange rate of dollar against the rupee and tariff reductions made in the federal budget. As there is no major revision in duty structure on the import of materials in 2013-14, the annual revision of duty drawback rates has not been done incorporating the new exchange rates.

At present, standard duty drawback notifications ie SRO.209, SRO.2010, SRO.2011 and others are dealing with the duty drawback regime. For the calculation of duty drawback rates, important factors like new rate of customs duty, exchange rate; revised customs tariff; Cost and Freight (C&F) value ie import value of inputs goods and Freight on Board (FOB) value of exported goods have to be taken into account.

However, the revised calculation of duty drawback rates has been carried out in case when there is a requirement to revise the rates. The payment of duty drawback has been done on the basis of FOB value of the export goods or weight calculated in kilograms, depending on the type of product specified in the standard duty drawback notifications. Thus, there is no need for annual revision of duty drawback rates during current fiscal year following tariff rationalisation in 2013-14 budget. – *Courtesy Business Recorder*

### Pral management: legal lacunas deprive employees of their December salary

The employees of the Pakistan Revenue Automaton Limited (Pral), a subsidiary of the Federal Board of Revenue (FBR), are not able to get their monthly salary for December 2013 up till now due to procedural and legal lacunas in the management of Pral.

It has been reliably learnt here on Wednesday that panic-like situation was witnessed among the Pral employees due to non-payment of monthly salary, casing great concerns among all working in the said department. The non-payment of pay is due to delay in forwarding of Pral salary file to the Accountant General of Pakistan (AGP). Till January 15, the employees are waiting for release of their salaries from the competent authorities.

Recently, the FBR has revised job description of FBR Member Information Technology. Member IT has been empowered to oversee cleansing of existing data; supervise Pral's overall management, including administrative, financial and technical activities; monitor and evaluate overall performance of CEO, Pral; serve as an essential interchange for all communications between Pral and FBR(HQ)/ its field offices; spearhead the process of developing the audit methodology to assure audit quality; deal with all legal, administrative and financial matters relating Pral, including agreement/contract and verification of invoices raised by Pral.

FBR Member IT has been further empowered to monitor and control software development and implementation by Pral/external vendors and grant mandatory prior approval for initiating new or modifying/enhancing/shelving existing software application; undertake periodic System Audits for Quality Assurance, especially security of the Operational Software, under development or developed and deployed, and resource Management for such System Audits; constitute user groups for various ICT activities; liaise with other Wings of FBR for Business Need Analysis and co-ordinate with Directorates General (T&R) for ICT Training of end-users. Practically, the management and administration has been brought under the control of FBR IT Wing. So far, the FBR IT Wing has not completed the necessary formalities for timely payment of monthly pay to the Pral employees, sources added. – *Courtesy Business Recorder*

## 'We've to be ready for surgical operation,' Dar tells traders

By the end of current fiscal year the existing revenue collection will be doubled, Federal Finance, Revenue, Economic Affairs, Statistic and Privatisation, Senator Muhammad Ishaq Dar made these remarks during a meeting of Karachi Chamber of Commerce and Industry (KCCI) on Wednesday. He said that efforts have been made to bring budget deficit to 4 percent and hinted at imposition of more taxes in future, but did not elaborate.

He said "We have to be ready for surgical operation. We contested election on a manifesto and we are ready to follow it however difficult the way may be." He quoted the quarterly report of statistical department and said GDP ratio has increased from 2.9 percent to 5 percent.

The Finance Minister said the government is undertaking reforms which are sometimes painful. It is also working on a policy to tap hydro carbon resources as there are reports of proven reserves. According to him, the government will soon announce hydro carbon exploration and development policy.

He said he has directed chairman Federal Board of Revenue to issue NTN numbers to all parliamentarians by January 31 and a directory of parliamentarians carrying their NTN numbers, tax paid by them and their names will be published by February 14,

2014. He said all Parliamentarians are paying taxes. He, however, did not agree with a suggestion of publishing a tax directory of tax evaders whose details have already been acquired by the FBR from banks and National Database Registration Authority (NADRA).

He said that the projected fiscal deficit of last year was reduced from 8.8 percent to 8.2 percent with prudent fiscal management by the present government, which was further brought down to 8 percent by provincial surpluses. He said another challenge for the government was the clearance of circular debt which was cleared as it was legally, commercially and ethically binding on the government since it was a contractual obligation. That it added 1700MW to the national grid and helped increase generation up to 14500MW which in turn helped achieve 5 percent growth in the first quarter. He said due to wrong policies and decisions of the previous governments, the government had to take loans from the IMF. He mentioned that India had came out of the IMF programme and hoped that Pakistan's economic situation would also improve.

The IMF diligence helped the present government in re-engaging with international institutions. There is no harm to borrow and create assets but certainly bad if it is used for current expenditures, he added. He also disclosed that the remittances have shown an increase of 9 percent which reached 7.78 billion dollars while exports have increased to 12.64 billion dollars showing an increase of 5 percent . The commercial banks had increased credit to the private sector to Rs 250 billion against Rs 73 billion which reflected a increase in economic activity, similarly the revenue collection has also shown a growth of 17 percent in the first 5 months as compared same period last year.

He said he was confident that Pakistan's foreign exchange reserves would reach 16 billion dollars by the end of December 2014. The finance Minster said government has decided to revive Karachi Circular Railway project and approached Japan International Co-operation Agency (JICA) which has committed to funding the project.

He said JICA would provide up to two billion dollars for the project on soft terms and soon talks on this project with the Japanese agency would be initiated. "The government has prepared a plan to achieving medium term targets under which Gross Domestic Product (GDP) growth to gradually rise to around 6-7 percent, investment to GDP ratio to rise from 12.6 percent to 20 percent, Tax to GDP ratio to rise from 8.5 percent to 13 percent, fiscal deficit to be brought down from 8.8 percent to 4 percent of the GDP, foreign exchange reserves to be increased to around 20 billion dollars , public debt to be reduced to below 60 percent of the GDP as per statutory requirement," Dar said.

He said the discretionary funds of the Prime Minister and all ministers had also been abolished, which will save Rs 40 billion annually. Dar said an additional amount of Rs 2 billion will be saved, as there will be a bar on secretaries not to become part of any board.

The Finance Minister said the government had banned the import of duty free vehicles to improve national economy. The Finance Minister said through GSP Plus status, exports of the country were expected to increase by 1.5 to 2 billion dollars.

He added that agreements with four IPPs for conversion from furnace oil to coal -based with 24 months would lead to savings and lower cost of electricity generation in the country. About the financial gains of the clearance of the circular debt, the Minister said that by paying the debt government has saved Rs 67.2 billion of the national exchequer while annual net gains in savings would be Rs 54.4 billion. He advised KCCI to form a committee to interact with the minister on issues Ishaq Dar said the government would not compromise on the operation being carried out against terrorists in Karachi. He said the Karachi operation would continue. – *Courtesy Business Recorder*

### Ishaq Dar assures quick resolution of budget anomalies

Federal Minister for Finance and Economic Affairs, Senator Muhammad Ishaq Dar on Wednesday advised Karachi Chamber's leadership to constitute a committee for resolution of tax and customs issues/anomalies relating to Federal annual budget FY 14, with the Government.

"You come with a committee and sit with Federal Board of Revenue authorities for settlement of the budget anomalies, you have identified," the Minister addressed the members of Karachi Chamber of Commerce and Industry (KCCI) here at an interactive meeting with them.

He assured that the anomalies requiring structural changes would be done away with immediately. Whereas, other anomalies would be worked out within shortest possible time.

The Government holds private sector as the major player in the national economy and development and wanted to provide a level field to it, he said.

The Minister responded to the reservations on the last budget shown by KCCI leadership including its President Aamir Abdullah Zaki, Siraj Kassem Teli and Chairman, Pakistan Apparel Forum Muhammad Jawed Bilwani and their complaints that the concerned government functionaries normally take long time for the settlement of the budget anomalies and then next annual budget is announced.

He also assured to M. Jawed Bilwani that the issue of levying sales tax on value-adding export sectors and then refunding the same to the exporters would also be revisited to make it practical and supportive for increasing the exports of the country.

He underlined the need for due exploration of large natural resources of the country including big deposits gas for making the country an economic power and a developed state.

The Federal Finance Minister assured the business community that their recommendations/suggestions would well taken and discussed in detail with their representatives before finalizing the next annual federal budget.

“Last year, we had a little time to announce the budget,” he explained.

Senator Muhammad Ishaq Dar called for value-addition and diversification of our products especially textile products for capturing more share and find new regional and international markets.

He sought cooperation from KCCI and other trade bodies to bringing more tax-payers into tax net as without increasing tax-GDP ratio , the country cannot prosper.

“Of total more than 180 million population, we have only 8.5 million tax-payers,” he regretted.

To a question on levying tax on agriculture, the Federal Finance Minister replied that it is now provincial subject. However, when he was the Finance Minister during last PML-N government, he had introduced the agricultural tax in all the four provinces.

He said the Government has planned to publish a directory of the businessmen of the country who pay due taxes. This would help identify /isolate a big population of non-taxpayers in the country.

When the KCCI leadership argued that the directory would made public the details of the businesses and the financial status of the business community members , it would create security risk for them especially in the persisting environment of Karachi.

"Extortionists would find very easy to target the business people by assessing their financial position with the help of this directory," Siraj Kassem Teli remarked.

The Minister showing his soft corner said, " Ok, this would be done after due consultation with you people."

"However, the Government sees it as a practical step to identify non-taxpayers. This directory would be in the national interest," he asserted adding that only name of business person, and of the company/business and NTN number would be published through this directory which would create no problem for the business community.

He also announced that the Government would also made public a directory about the Parliamentarians of the country on 15th of February 2014. This would show their wealth, income and the taxes paid by them.

"The Government would never compromise and would publish this directory on fixed date," he remarked. – *Courtesy Business Recorder*

**Mr. Tariq Bajwa,** **January 11, 2014**
Chairman,
Federal Board of Revenue,
FBR Hosue,
Islamabad

Dear Sir,

**Tax amnesty scheme for investment and non filers of tax returns**

A meeting of the office bearers and members of the Karachi Tax Bar Association (KTBA), was held today at Bar Chambers, Regional Tax Office, Karachi, to discuss the issues arising from the SRO 1065(I)/2013 issued on 20.12.2013.

The following issues have come to light through the deliberations on the aforesaid SRO, which either require clarification or confirmation of our understanding:

**1. <u>INVESTMETN IN GREENFILED PROJECTS</u>**

Clause (86) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance) introduced through the aforesaid SRO provides amnesty from any action under section 111 of the Ordinance to investments made in a Greenfield Industrial undertaking. It is our understanding that there is no requirement for investment in any particular area in Pakistan and as such industrial investment anywhere in Pakistan will be eligible for the benefit of the amnesty.

As per our understand **"Investment in Greenfield Industrial Undertaking"** means a new investment locally or through Foreign Direct Investment in all type of industrial undertaking whether newly setup or existing unit anywhere in Pakistan.

Clause (86) also provides that the amnesty would also apply to Investments made in-

(I) Construction Industry in corporate sector

(II) Low cost housing construction in the corporate sector

(III) Livestock development projects in the corporate sector

(IV) New captive power plants

(V) Mining and quarrying in Thar Coal, Balochistana and Khyber Pakhtunkhwa

It seems that Investments in sectors covered from (i) to (iii) will only be eligible if it is done through a Company registered under the Companies Ordinance, 1984 (Corporate Sector), whereas investments in the last two sectors mentioned above can be made through an individual or AOP. In our view investment in the last two sectors are most likely to occur through a corporate sector; whereas investment in Livestock, construction and low cost housing construction is likely to come through non corporate sector. We would suggest that Investments in all the above sectors should also be made open to all types of legal set up i.e. corporate or AOP or Individual.

**2. <u>ELIGIBILITY OF PERSONS HAVING INCOME COVERED UNDER FTR & SALARY INCOME TO AVAIL BENEFIT OF CLAUSE (87) & (88) OF PART IV OF THE SECOND SCHEDULE</u>**

The form of tax return for tax years 2008 to 2012 as per the SRO suggests that no tax credit is available to persons who avail this amnesty. However, there will be cases where a person may have derived income partly falling under NTR and partly under FTR or persons who only derived income that is covered under FTR on which tax has already been withheld/collected; but have not filed tax returns. Similarly salaries persons; who were liable to file tax returns in past years; but could not file return of income, although their due tax was withheld at source by the employer.

In the absence of facility to take tax credit; these persons will not be able to avail the benefit of above facility. **The Bar believes that the prime objective to grant amnesty to non-filers is to broaden the tax net and not just to collect tax. Therefore, it is strongly recommended that such persons may also be permitted to claim tax credit and file tax returns and avail the amnesty this will help in bringing such people in the tax net and increase the number of tax return filers.**

**3. IMMUNITY TO A MINIMUM BENCHMARK OF BUSINESS CAPITAL FROM APPLICABILITY OF SECTION 111**

In our view, the above scheme focus is primarily to broaden the tax net for persons having insignificant capital with the intention to provide another opportunity to those persons, who are inclined to conduct business in accordance with law. Payment of this meager amount of tax would not generate any significant capital. Following is the example:–

| Tax Year | Declared Income | Personal Expenditure | Gross Saving | Tax Payable | Net Saving |
|---|---|---|---|---|---|
| 2008 | 300,000 | 300,000 | NIL | 22,500 | [22,500] |
| 2009 | 325,000 | 300,000 | 25,000 | 24,375 | 625 |
| 2010 | 350,000 | 300,000 | 50,000 | 26,250 | 23,750 |
| 2011 | 375,000 | 330,000 | 45,000 | 28,125 | 16,875 |
| 2012 | 420,000 | 360,000 | 60,000 | 21,000 | 39,000 |
| TOTAL | 1,770,000 | 1,590,000 | 180,000 | 122,250 | 79,625 |

However, we feel that ground reality may require revisit of above schemes. For example if a prospective person is conducting medium size business requiring minimum capital of Rs. 10 to 20 Million. If he files his return under this scheme for the last five years, generating equivalent amount of Capital would require such persons to pay tax at least 2.5 to 5.0 Million. Whereas in the present schemes, if someone who files return for the last five years, would not be able to generate any significant capital. In this regard it is noted that you have slashed the first tax slab for tax year 2012 from 7.5% to 5%, ***however it is suggested that a reasonable amount of progressive tax rebate may be announced for all the years against each tax slab for those tax payers who pay the tax more than Rs. 20,000/- or Rs. 25,000/-, whichever the category they fall.***

**4. <u>IMMUNITY FROM AUDIT/AMENDED ASSESSMENT PROCEEDINGS</u>**

The scheme currently grants immunity from tax audit U/s. 177 and U/s. 214C only whereas under the Ordinance, the Commissioner ahs the authority to amend the assessment without a detailed audit by using his powers U/s. 122(5A) of the Income Tax Ordinance, 2001. These powers are widely being used by the Tax Authorities. We therefore suggest that immunity from section 122(5A) of the Ordinance may also be extended under this scheme.

In the absence of immunity from all sorts of assessment/ amendments under the income tax, sales tax and federal excise acts, the scheme is unlikely to attract the large number of traders and small and medium size taxpayers. We, therefore, suggest that immunity may be granted across the board under all the fiscal laws to make this scheme workable.

**4. <u>Amnesty from action Under Sales Tax/FED laws.</u>**

In case a person desire to declare turnover exceeding 5 million for any past year, he will become liable to charge Sales tax on his turnover. Absence of amnesty from action under the Sales tax laws in past years will keep such persons away from availing this amnesty and regularizing their business. It is therefore suggested that to encourage such persons having turnover above 5 million, amnesty should be given against any action under sales tax and FED laws as well.

We trust that you will consider the above submission and issue necessary clarifications and where required make suitable additions/amendments to the scheme to achieve our common objective to increase the tax base.

Yours faithfully

Haider Ali Patel
President

**Bajwa directs recovery of fake refunds**

Chairman Federal Board of Revenue (FBR) Tariq Bajwa has directed officers of Inland Revenue Services (IRS) to ensure the recovery of refunds released against bogus/fake invoices, official sources told The News on Thursday.

The directives have been issued at a meeting of chief commissioners of tax offices, which was chaired by the chairman at Large Taxpayers Unit (LTU) Karachi.

The recovery of refunds released on fake invoices was stuck for the last two years as billions of rupees were given to the companies, which obtained sales tax registrations only for taking refunds.

The sources said that the three regional tax offices (RTOs) in Karachi had either blacklisted or de-registered those companies that were involved in such illegal practices but the tax offices had done nothing to recover the issued amount.

In June 2013, the RTO-II submitted a report about the tax fraud to the tune of Rs128 billion – both sales tax and income tax- to the FBR. Since then, the senior tax officers were not taking any measure to recover the amount. Recently, the RTO-II unearthed another scam of nine billion rupees. However, no measure has been taken so far to recover the amount. The companies involved in the scam were only de-registered or blacklisted and the individuals responsible were not traceable.

The sources said the chairman at the meeting fretted over the slow progress of the recovery and directed the officials to ensure the recovery at any cost.

The sources said the chairman instructed the chief commissioners to deal the taxpayers with fairness to build their trust on FBR.

A day ago, Saeed Shafiq, former president of Karachi Chamber of Commerce and Industry at a meeting with the federal finance minister Ishaq Dar, complained that the chief commissioner RTO-II had not treated him with fairness while the lower staff was demanding bribe money for clearing refund claim process, which was stuck for last 30 months.

The finance minister referred the case to the FBR chairman. The sources said that the issue was resolved with the directives that any of the officials found in illegal practices would face disciplinary action. The sources said the tax officers have been directed to complete audit exercise on priority basis and ensure current and arrear demand.

Notably, the FBR was much behind the revenue collection target of Rs2,475 billion for the fiscal 2013/14 as it collected only Rs1,031 billion in July–December 2013.

The sources said the FBR chairman also issued directives for the disposal of the genuine refunds that were stuck for months and due to which business community was facing liquidity issues. – *Courtesy International The News*

## Tax directory

On the directives of the government, the Federal Board of Revenue (FBR) will publish a tax directory of about all 0.7 million taxpayers on March 31, 2014.

In a country where ransom cases are on the rise, one fails to understand how the government can take such a foolish decision to make public the assets of the taxpayers, which if they land into the wrong hands will be a weapon to kidnap taxpayers of good financial standing. – *Courtesy International The News*

## Imported cars stuck at port

Thousands of imported used cars of 2009 model are stuck on Karachi port and waiting for the green signal from the government after the sudden withdrawal of a notification by the Federal Board of Revenue (FBR), said an auto expert.

The government allowed import of only 3-year old car, but in the beginning of 2013 through a notification it permitted the import of 2009-model car as well on heavy penalty. Consequently, overseas Pakistanis started sending such model cars to Pakistan, which were getting cleared after the payment of penalties to the customs.

However, by end of 2013, customs withdrew that notification, causing massive loss to Pakistani importers and making thousands of cars stuck on the port, said Javed Khan Niazi.

Chairman Pak-Japan Auto Association said though the FBR is a very professional organisation, yet it practiced really unprofessionally.

He said it is common all over the world that the government must inform stakeholders before releasing or withdrawing of any notification.

He added it happens only in Pakistan that a notification is issued and withdrawn on the spur of the moment.

Niazi condemns this act and demands the government to order the FBR to clear the cars, which were on the port at the time of the withdrawal of the notification.

He said a number of 2010 vehicles is also arriving Karachi. For which the bills of landing were made after December 2013. He added they could be cleared smoothly. – *Courtesy International The News*

**Rs 10 billion TFC/Sukuk issue: Wapda seeks tax exemption**

The Federal Board of Revenue has received a request from Water and Power Development Authority (Wapda) to amend the Exemption Schedule of the Income Tax Ordinance 2001 for tax exemption on issuance of Rs 10 billion TFC/Sukuk certificates for construction of Wapda hydropower projects. Sources told here on Thursday that Wapda has repeatedly asked the FBR for implementation of the decision of the Economic Coordination Committee of the Cabinet.

The authority has again taken up the matter with the FBR seeking exemption under Part-I of the Second Schedule of the Income Tax Ordinance 2001. According to a communication of Wapda to the FBR, it is again requested to expedite the issue and necessary amendment may be made in the Income Tax Ordinance 2001 by replacing sub clause (xxvii) of clause (66) of Part-I of the second schedule as "WAPDA Third Sukuk Company Limited" and addition of new sub-clause may also be added as follows:

"WAPDA on issuance of ten (10) billion rupees TFC/SUKUK certificates for construction of WAPDA Hydropower projects," proposed amendment added. It is reiterated that till the issuance of above mentioned SRO, the compliance with the ECC's revised decision in case No ECC-48/05/2013 dated 26.02.2013 is pending on the part of Federal Board of Revenue.

Therefore, it is requested that the tax authorities should look into the matter personally and issue requisite amendment/SRO at earliest, as in compliance with the ECC's revised decision dated February 26, 2013, WAPDA Third Sukuk Company (for financing of Rs 10.00 billion to Neelum Jhelum Hydropower Project) has been registered on July 19, 2013 with Securities & Exchange Commission of Pakistan (SECP), Wapda added.

Through SRO.119, the Board had amended Second Schedule of the Income Tax Ordinance to grant tax exemption on issuance of TFC/Sukuk certificates for construction of Diamer-Bhasha Dam Projects. In the aforesaid Schedule, in Part I in clause (66), after sub-clause (xxvi), the following new sub-clause has been added, namely:- "(xxvii) WAPDA on issuance of twenty billion rupees TFCs/Sukuk certificates for construction of Diamer-Bhasha Dam Projects," the notification added. – *Courtesy Business Recorder*

**Private aviation company found to be evading taxes**

Federal Board of Revenue (FBR) has been dilatory in taking a firm action against one of the private aviation companies, which has committed tax evasion amounting to Rs 76.54 million; it was learnt here on Thursday. According to sources, this private jets company was involved in the evasion of Federal Excise Duty (FED), Sales Tax (ST) and Income Tax (IT) for tax years 2007, 2008, 2009 and 2010.

They said that proceedings against the aforesaid company had been initiated by Anti-Evasion Cell (AEC) of Large Taxpayers Unit (LTU) Karachi on the complaint of private investigator Moin Mirza. They said that AEC-LTU had made a contravention case and issued a show cause notice to the taxpayer for evasion of FED, ST and IT that resulted in determination of tax liability of Rs 76.54 million.

"Although an order had been passed against the taxpayer on October, 2012, no recovery had been made so far. Instead of expediting the process of recovery, the authority has been dilatory in taking a firm action against the said private jets company," sources claimed. They said that the case had now been transferred from LTU, Karachi to Regional Tax Office (RTO), Karachi. This development has created problems in finding the complete relevant records of the company.

"Now the assessing officer is requesting the concerned RTO and registered person to provide the requisite record, but no such record has been received so far and the proceedings are still pending," sources said. Replying to a question, sources said that Federal Tax Ombudsman (FTO) had also issued orders for the recovery of evaded taxes but no efforts were visible in this regard, due to influential registered person/company. – *Courtesy Business Recorder*

## Duty, tariff concessions: customs wing restructured

The Federal Board of Revenue has created a new position of Chief (Preferential Trade, Projects, Reforms & Automation) to exclusively deal with the issues such as concessionary rate of duties and tariff concessions under the Preferential Trade Agreements (PTAs). The FBR has issued an office order here Thursday on job description and work distribution in the restructured customs wing.

According to the FBR, in partial modification of the Office Order dated August 6, 2013, the job description of Chief (International Customs), Chief (Reforms & Automation), Secretary (Reforms & Projects) and Secretary (Automation) have been modified. FBR Chief (International Customs) would cover positions of Secretary (International Customs), Secretary (WTO/WCO and other International Conventions) and Integrated Transit Trade Management System (ITTMs) Project.

Chief (Preferential Trade, Projects, Reforms & Automation) would cover four positions of Secretary (Preferential Trade), Secretary (Reforms & Projects), Secretary (Automation) and Secretary (Human Resource, Training & Welfare). Secretary (Reforms & Projects) would be responsible for co-ordination with SP&S Wing and field formations on all matter pertaining to Customs Reforms, monitor the progress of ITTMS and all customs-related infrastructure projects as well as prepare reports thereon, including matters pertaining to hardware requirements of field formations.

He would co-ordinate and implement all matters related to SECDIV project of Ministry of Foreign Affairs, co-ordinate the activities of National Trade Corridor Improvement Program (NTCIP) concerning customs and the trade facilitation committee of NTCIP. He would be responsible for co-ordinating all customs related matters related to Trade and Transport Facilitation Program (TTFP) as well as ITTMS, keep liaison with national organisations such as NTTFC, PIFFA and other for developing policies on trade facilitation, liaison with International Development Partners. He has also been directed to co-ordinate the meetings of Joint Working Groups, customs related consultancies procured through TARP and SP&S or any other Wing of FBR, co-ordinating and taking necessary action regarding the activities of customs related international aid projects and monitoring of progress regarding completion of customs related Projects under TARP within the specified deadlines.

Secretary (Automation) will closely work with the internal and external stakeholders to identify requirements for automation and modernisation of the existing business processes of all Customs formations. He would co-ordinate activities of Customs Automation of all field Collectorates and field offices; matter relating to computerisation in Customs, Interface, co-ordination and liaison with IMS Wing on all matters pertaining to automation of customs organisations and offices and carry out intensive consultation within the department to identify the capacity building requirements.

He would assist the Customs Wing in strengthening the linkages between various field/ support formations, compile “requirement for proposals” (RPF) documents for proposed development of applications, in consultation with business users; co-ordinate printing of “User Manuals”, brochures, guidelines, answer to FAQs and their dissemination to the concerned officers and monitor and evaluate the progress of automation and modernisation initiatives by conducting cost benefit assessment and getting feedback from all stakeholders.

Secretary (Reforms & Projects) would be responsible to co-ordinate/conduct “Business Testing” (alpha - versions) of business applications from time to time, monitor the rollout of new business applications and report progress to Member (Customs) on fortnightly basis through a comprehensive report, co-ordinate the plans for holding seminars/workshops for external stakeholders on changed business processes/automation, compile information to prepare periodic reports on the progress of various automation initiatives of the Customs departments and provide support, including procedural documentation and relevant reports to the field formations and other stakeholders.

FBR Secretary (Automation) will also co-ordinate, monitor and execute automation in Customs Wing of the FBR, in consultation with PRAL and under the direct supervision of Member (Customs). He would deal with all matters pertaining to automation of customs procedures including development and implementation of WeBOC and co-ordinating the finalisation of Customs Risk Management System (CRMS) and framing of relevant rules and SROs, monitoring of the automation process (One Customs & WeBOC) and firming up of any change in law and procedures to be notified upon finalization by the L&P Section, all matters related to Risk Management System of WeBOC and co-ordinate and establish liaison with Pakistan Revenue Automation Limited (PRAL) on all customs related matters.

Henceforth, Secretary (Reforms & Automation) shall be named as Secretary (Reforms & Projects), whereas Secretary (Information Technology) shall be re-designated as Secretary (Automation). Their job description shall remain, as aforesaid, it added. – *Courtesy Business Recorder*

### Tax measures add to existing taxpayers' woes

State Bank of Pakistan said on Friday that tax measures have only added to the burden of existing taxpayers instead of bringing untaxed segments of the economy under the tax net. According to SBP's monetary policy statement, without expanding tax base and gradually bringing all income generating sectors of the economy into tax net, the tax woes of Pakistan's economy are likely to continue.

A positive development, however, is that tax revenues grew sharply by 19.0 percent in Q1-FY14 compared to 10.3 percent in the corresponding period of last year. This growth is still lower than what is required to achieve the annual budget target. Tax collection by the FBR grew by 17.2 percent during Q1-FY14 against 27.8 percent required to achieve the FY14 target of Rs 2,475 billion. This is despite additional measures announced by the government to strengthen tax administration and revenue collection, including increase in GST from 16 to 17 percent, removal of exemptions, and introduction of some new taxes.

The total tax revenues also include Rs 20.8 billion collected as development surcharges on gas, which is the highest level for a quarter, it added. SBP said that reliance on temporary non-tax revenues to contain fiscal deficit in essence highlights that further efforts would be required to address the structural fiscal weaknesses.

Total revenues have mostly increased due to one-off non-tax revenues of Rs 125 billion. These include proceeds of Rs 68 billion from Universal Service Fund (USF) accumulated over many years and mark-up income of Rs 57 billion received from PSEs and provinces. Moreover, foreign grants of Rs 10 billion have also contributed to non-tax revenues. Reliance on temporary non-tax revenues to contain fiscal deficit in essence highlights that further effort is required to address the structural fiscal weaknesses. With tax revenues at Rs 806 billion during July-November FY14, the FBR would have to deliver a 32.9 percent growth during the remaining months of FY14 to meet the budget target. Achieving this growth seems difficult as it is more than twice the average growth of 16.0 percent in past 10 years for the same period, the SBP said. – *Courtesy Business Recorder*

### Vision 2025 draft fine-tuned

The advisory committee of the Planning Commission Friday urged the government to fix and categorise taxation and reduce corruption. They said there is a strong need to prepare policy on population boom, water shortage, climate change and agriculture, power and industry uplift. The committee members comprising Planning Commission, private sector and academia stressed the need to lay greater emphasis on the development of human resource and institutional capacity in Vision 2025.

They said that if the government fails to take immediate measures to address these issues, Pakistan may face serious crisis viz water and food. The meeting was held under the chairmanship of Ahsan Iqbal, Federal Minister for Planning, Development and Reform at the Planning Commission to fine-tune the draft of Vision 2025 and $11^{th}$ Five-Year Plan 2013-18.

While highlighting these issues, the members said that many plans are being prepared but not implemented. They said the government has to implement the policies and planes to achieve their targets. They said the government should identify specific drivers of growth such as the private sector in agriculture, industry and services to help the economy gain momentum. They said in Vision 2025, they need to address issues like water scarcity, energy shortage and climate change by building more water reservoirs, tapping alternative energy resources - shale gas - and putting in place effective flood control mechanism.

A member from SDPI made a valuable presentation on huge potential of shale gas in meeting the ever-growing energy needs in the world and prospects for Pakistan. Pakistan has huge reserves of shale gas in Badin and other marshy areas in its south. “We can make Pakistan an energy surplus country in future by tapping this tremendous resource.” – *Courtesy Business Recorder*

## Fake claimants galore: ST refund cases to be verified with Afghan customs

The Federal Board of Revenue has approached the Consulate General of Pakistan in Jalalabad to verify export data from Afghan customs authorities to frame strong cases against fraudulent sales tax refund claimants on fake exports from Pakistan to Afghanistan.

Sources told on Friday that the Board is apprehending the declared goods might have not reached their actual destinations in Afghanistan. All cases of sales tax refunds involving huge amounts would be verified from Afghan customs to check whether the declared goods actually reached Afghanistan or not. Irrespective of past track of exporters, all cases involving big amount of sales tax refunds would be dully verified from Afghanistan. The verification would cover each and very case where huge amount of sales tax refunds has been claimed on goods exported to Afghanistan during the last two years.

The exports made by Pakistani businessmen to Afghanistan would be verified from their Afghan buyers or importers in Afghanistan. Through data verification exercise, it would be ascertained whether goods were actually entered into Afghanistan. The FBR will provide information including Goods Declarations (GDs) numbers, quantity and description of goods etc to the customs authorities in Afghanistan.

The initiative has been taken by Chief Commissioner RTO Lahore to verify all exports from Lahore to Afghanistan whether all those goods entered into Customs Stations in Afghanistan during the period of 2012 and 2013. This step has been taken after reports that the goods exported to Afghanistan on which huge sales tax refunds are involved do not actually reached or entered into the Customs Stations in Afghanistan.

Sources said that the Board is verifying export of Pakistani consignments from the Afghan customs authorities to take action against the fraudulent sales tax refund claimant on fake exports from Pakistan to Afghanistan. On the basis of verified information from the Afghan customs authorities, it would be confirmed whether the goods actually reached Afghanistan or refund were claimed on phoney exports on paper transactions. In this regard, the FBR is co-ordinating with the Consulate General of Pakistan in Jalalabad.

The concerned Regional Tax Office of the FBR has also made a request to the Consulate of Pakistan Jalalabad Afghanistan to seek verification from the customs authorities, Afghanistan, regarding the data of exports claimed to have been made by the Pakistani to their Afghan counterpart. Subsequently, the Counsel General Jalalabad has asked the Pakistani tax authorities to provide further details regarding such exports. The regional tax authorities have provided necessary data to the FBR for onward submission to the Counsel General Jalalabad. – *Courtesy Business Recorder*

**Dual nationality: FBR directs all BS-19, -20 officers to submit certificate**

The Federal Board of Revenue (FBR) has directed all BS-19 & 20 officers of Pakistan Custom Service (PCS) to submit certificates of not holding dual nationality under the Civil Servants (Amendment) Bill, 2013. In this regard, the FBR has issued instructions to all BS-19-20 officers of PCS here on Friday regarding the Bill passed by the Senate and transmitted to the National Assembly.

According to the FBR, in pursuance of Rule 117 of the Rules of Procedure and Conduct of Business in the Senate, 2012, the Senate of Pakistan has passed the Civil Servants (Amendment) Bill, 2013 on 16th December, 2013. The contents of the bill are reproduced as under:–

“Provided further that a civil servant holding dual nationality or citizenship of any foreign country shall not be eligible for promotion to posts in Basic Pay Scale 20 or equivalent and above; Provided further that a civil servant upon renunciation of dual nationality or citizenship of foreign country shall become eligible for promotion to posts in Basic Pay Scale 20 or equivalent and above, it added. FBR’s instructions added that it is, therefore, requested that requisite certificate pertaining to the above said Senate of Pakistan’s amendment may be furnished to the Board on priority on the following format:–

**CERTIFICATE**

(i) I, the undersigned, hereby solemnly declare and certify that I do not hold nationality of any other country except that of Pakistan.

(ii) That I held nationality of the (name of country) country but have renunciated of it on __________. Now, I am solely Pakistani national. Signature/Designation PCS/BS-19 &20 Officer. – *Courtesy Business Recorder*

**Consumer items: two percent extra ST could have serious implications for trade**

The imposition of 2 percent extra sales tax on consumer items under SRO 896(I)/2013 has resulted in serious implications for the business and trade in claiming input tax adjustment. Experts told here on Friday that through SRO 896(I)/2013, the FBR has omitted certain items from the Third Schedule of the Sales Tax Act, 1990, and in lieu imposed a two percent additional tax on these items to be paid by manufacturers.

The rate of two percent was also worked out on the basis of actual value addition of these sectors from the manufacturers till retail stage. However, serious implications for input tax adjustment has been reported by industry on items falling within the ambit of extra sales @ 2 percent recently been imposed by FBR.

According to details, 2 percent extra sales tax was levied and introduced vide notification 896(I)/2013 dated 4th October 2013 on 11 items. These items were earlier been brought up in Third Schedule of the Sales Tax Act., 1990 and thus subject to payment of sales tax on retail price. Later on these items were deleted from Third Schedule of the Sales Tax Act, 1990 upon strong reservation of relevant trade and industry. The FBR taking alternatively measure has included these items in special procedure where extra sales tax @ 2 percent was applied in order to collect value addition sales tax from single stage. It is important to note that subsequent supplies under this procedure are exempt from sales tax. Furthermore, the buyers are not entitled to claim input tax and thus its resulted in an anomaly.

When contacted, a prominent sales tax expert Arshad Shehzad confirmed that there is an anomaly in this subject. He explained that all these 11 items apparently are consumer based items and therefore FBR has firstly included these on Third Schedule of the sales tax to collect maximum amount of sales tax applicable on its retail/consumer value. However due to practical problems such as reporting of price on each article, pack and bag, industry has made strong reservation on its applicability, accordingly instead of sales tax collection on retail price structure, extra sales tax has been levied.

In his opinion, though levy of extra sales tax @2 percent is correct but special procedure needs to be modified considering all practical problems in order to avoid issues for the documented and settled sectors. Extending example, Shehzad informed lubricating oil is used in industrial segment as well as consumer end. The industrial segment due to application of special procedure firstly burdened with extra amount of sales tax and at the other end not allowed to claim input tax credit on it hence hit in both the ways.

He suggested that since input adjustment is a legitimate right and basic principle of value addition sales tax, hence the FBR should brought immediate amendment to the special procedure. Firstly, an option may be provided in the law for supplier of these items who may allow either to operate under special procedure or under normal value addition base regime. Secondly, supplies to other than end consumer particularly to persons registered as industrial concern be allowed without application of extra sales tax with input tax adjustment facility to avoid such anomaly, Shehzad added. – *Courtesy Business Recorder*

### Dar reviews availability of cancer-related medicines

Finance Minister Senator Mohammad Ishaq Dar presided over a meeting at the Finance Ministry on Friday afternoon to review the availability of cancer-related medicines in the country. The meeting of all stakeholders including FBR, Health officials, Narcotics Control Board was called on short notice in response to a news item appearing in a section of media regarding shortage of cancer drugs in the country.

In his opening remarks the Finance Minister said the government led by Prime Minister Nawaz Sharif was committed to ensure the availability of medicines at affordable prices especially life-saving drugs so that the common man is provided better health care. After discussing various proposals and reviewing the present position it was decided that all hospitals including Shaukat Khanum Memorial Hospital would be issued No Objection Certificate against Certificate of Pharmaceutical Product (COPP) or free sale certificate by Drug Regulatory Authority of Pakistan for import of anti-cancer drug provided they submit Certificate of Analysis at the time of import.

This permission would allow repeated import of the same product without any restriction of quantity from the source for the approved period. This applies to both registered drugs which are not available as well as unregistered drugs. Similarly, the hospitals entertaining cancer patients would directly import opiod drugs which may not be available in Pakistan in order to ease the suffering of cancer patients.

The decision will lead to streamlining the import of anti-cancer drugs in the country and address the issue of their shortage in the future as well. The Finance Minister directed the relevant authorities to complete necessary formalities and implement these decisions by next Friday.

The representatives of SKMH thanked the Finance Minister and the government hailing those decisions as timely and a huge step towards the resolution of the issue. The meeting was attended by Saeed Ahmed, Chairman Steering Committee on Islamic Bank, Advisor Finance Rana Asad Amin, Secretary Health Imtiaz Inayat Elahi, Chairman Federal Board of Revenue Tariq Bajwa, representatives of Shaukat Khanum Hospital, Drug Regulatory Authority, Director General Health and senior officials of the government. – *Courtesy Business Recorder*

### Government urged to make 'Capacity Tax scam' public

Former Vice Chairman of Pakistan Beverage Manufacturers Association Ikram Elahi called upon the Federal Government to direct FBR to make all details of the Capacity Tax scam public under which the country suffered a loss of Rs 2.1 billion in first quarter of FY 2013-14. The government withdrew this controversial tax last month.

In a letter to here on Friday, Elahi said it has come to light that this flawed capacity tax system on beverages was introduced in the FY 2013-14's budget only to favour two major international brand manufacturers of aerated wasters of the country. These manufacturers had assured the FBR to enhance the tax revenue paid by the industry by 25 percent over the previous year upon which the FBR changed the entire tax collection system by introducing capacity tax without taking the entire industry on board vide SRO 649/2013 with effect from July 09, 2013, even without realising whether the capacity of a beverage factory can be determined and fixed on the bases of valve/spout of a filling machine installed in that factory.

He said the FBR imposed this ill-conceived tax without taking into account the losses of 1990 capacity tax which was an absolute failure and had to be withdrawn. Fixation of capacity bases on the filling valves/spouts of machine is just like taxing wheels of a transport vehicle not the actual carrying capacity, he remarked.

FBR had monitored the performance of capacity regime since July 2013. There has been a massive shortfall from the beverage industry in remaining months of 2013-14 instead of 25% growth with the introduction of this flawed system. There has been an unprecedented increase in input tax adjustments of 24 percent to an extent even creating refunds in some cases.

Elahi pointed out that there has been a substantial reduction in the growth of FED payment by one of the concentrate sellers of a leading multi-national brand. There has been a reduction in the number of spouts brought into the system against the commitments of these two bottlers.

He alleged that at the time of fixation of tax rate, they cheated the government by indicating a higher number of filling valves/spouts than actually installed in the country and managed to get the rate per valve fixed at a lower level. Some of the manufacturers started claiming excessive input tax adjustments taking advantage of not getting audited under the Capacity Tax SRO. – *Courtesy Business Recorder*

**S.R.O. 17(I)/2014, Islamabad, the 7th January, 2014.–** In exercise of the powers conferred by sub-section (2) of section 53 of the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Government is pleased to direct that the following further amendment shall be made in the Second Schedule to the said Ordinance, namely:–

In the aforesaid Schedule, in Part IV, after clause (88), the following new clauses shall be added, namely:–

"(89) The provisions of section 236I shall no apply to-

(a) the Federal Government or a Provincial Government;

(b) an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 (XX of 1948);

(c) a foreign diplomat or diplomatic mission in Pakistan; or

(d) a person who is a non-resident and-

(i) furnishes copy of passport as an evidence to the educational institution that during previous tax year, his stay in Pakistan was less than one hundred eighty-three days;

(ii) furnishes a certificate that the he has no Pakistan-source income; and

(iii) fee is remitted directly from abroad through normal banking channels to the bank account of the educational institution.

(90) The provisions of section 236D shall not apply to-

(a) the Federal Government or a Provincial Government;

(b) an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 (XX of 1948); or

(c) a foreign diplomat or a diplomatic mission in Pakistan."

---

**C.No.4(10)ST-L&P/2011-5692-R** Islamabad, the 10th January, 2014

**SALES TAX GENERAL ORDER NO. 04/2014**

Subject: **Amendment in STGO 07/2007 dated 13-09-2007 – withdrawal facility of zero-rating on supply of electricity.**

In exercise of the 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. 07 of 2007 dated 13th September, 2007, namely:–

In the aforesaid General Order, in the Table, following serial numbers in column (1) and entries relating thereto in columns (2), (3) and (4) shall be **omitted;**

| S # | S.No. in the STGO | Name of Unit | Registration No. | Reference No. Consumer No. | Reason |
|---|---|---|---|---|---|
| 1 | 263 | Exquisite Textile Ind. | 1100580201082 | 2750365764812<br>AP 069970<br>AL 810428 | RTO Recommendation |
| 2 | 268 | Fabrica | 1100511130064 | AP 078490 | |
| 3 | 315 | GIA Associates (PVT) LTD | 1200580200655 | 2305677111103<br>2808466801075<br>2808466801083<br>2808466806492<br>BL 00157<br>AL 207913<br>BH 000178 | |
| 4 | 526 | Mateen Corporation | 1100119004464 | 2900465669258 | |
| 5 | 544 | Modren Fabrics (PVT) LTD | 1200551150637 | 2808456871067 | |
| 6 | 623 | Noorani & Co | 1100620081791 | 2850355850308<br>2850355850316 | |
| 7 | 821 | Syncotex Agencies | 1200520800655 | AP 060099<br>AP 085865<br>AP 062288 | |
| 8 | 1002 | Faisal Shehzad Weaving Mills (PVT) LTD | 1121999956337 | 2305677356009<br>BH 000407 | |
| 9 | 1016 | Shan Tex | 1700590007619 | 2706457750231 | |
| 10 | 1098 | Burraq Knits | 1200610304219 | AP 076105 | |
| 11 | 1211 | Asif Industries | 1100520865573 | 2506467471102<br>AP 073450 | |

---

**C.No.4(4)ST-L&P/2011/5706** Islamabad, the 10th January, 2014

**SALES TAX GENERAL ORDER NO. 05/2014**

Subject: **Amendment in STGO 11/2007 dated 13-09-2007 – withdrawal facility of zero-rating on supply of electricity.**

In exercise of the 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. 11 of 2007 dated 13th September, 2007, namely:–

In the aforesaid General Order, in the Table, following serial numbers in column (1) and entries relating thereto in columns (2), (3) and (4) shall be **omitted;**

| S # | S.No. in the STGO | Name of Unit | Registration No. | Reference No. Consumer No. | Reason |
|---|---|---|---|---|---|
| 1 | 87 | Hammad Cotton Waste Factory | 0912520200282 | 24232722913005U (Old) 24123630366600U (New) | RTO Recommendation |
| 2 | 110 | K.T. Surgical | 0905901815346 | 21224114856000U | |
| 3 | 196 | Sunlike Industries | 0905901820291 | 21221500236012U | |

**C.No.4(5)ST-L&P/2011-6349** Islamabad, the 13th January, 2014

## SALES TAX GENERAL ORDER NO. 06/2014

Subject: **Amendment in STGO 08/2007 dated 13-09-2007 – withdrawal facility of zero-rating on supply of electricity.**

In exercise of the 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. 08 of 2007 dated 13th September, 2007, namely:–

In the aforesaid General Order, in the Table, following serial numbers in column (1) and entries relating thereto in columns (2), (3) and (4) shall be **omitted;**

| S # | S.No. in the STGO | Name of Unit | Registration No. | Consumer No. Reference No. | Reason/RTO Recommendation |
|---|---|---|---|---|---|
| 1 | 541 | SHAHNAWAZ TEXTILE MILLS LTD | 0305520212291 | 24191991770034u | LTU Recommendation |
| 2 | 544 | SHAHRAJ FABRICS | 0302520801291 | 24117419109010U 24174191090106U | |
| 3 | 591 | TAJ TEXTILE MILLS LTD | 0305520203128 | 24191990290000U | |

**S.R.O. 19(I)/2014, Islamabad, the 10th January, 2014.–** In exercise of the powers conferred by Section 506B of the Companies Ordinance, 1984 (LVII of 1984), the Securities and Exchange Commission of Pakistan (the Commission) in continuation to SRO 831(I)/2012, dated July 5, 2012, is pleased to extend the deadline for seeking Commission's approval for dividends announced upto December 31, 2014:

Provided that a company in addition to the requirements of SRO 831(I)/2012 shall also produce evidence for publication of the requirement of CNIC from the shareholders in atleast one issue each of a daily newspaper in English language and a daily newspaper in Urdu language having circulation in the Province in which the stock exchange on which the company is listed is situated, along with the evidence of sending notices through registered post to all the shareholders who have not provided copy of their CNIC to company. The Commission while granting such relaxation shall direct the company to ensure compliance within a specific period as the Commission may deem appropriate.