// Daily Tax News (DTN)
Huzaima & Ikram
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This issue contains:

Kind regards

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Fiscal challenges before budget makers

by
Huzaima Bukhari & Dr. Ikramul Haq

The main challenge of budget makers is to devise a comprehensive strategy to tap the real tax potential of the country, which is not less than Rs 4 trillion—the Federal Board of Revenue (FBR) is using all negative tactics and highhandedness to collect the paltry target of Rs. 1952 billion fixed for the current fiscal year. FBR's main reliance is on indirect taxes, levied even under the garb of income tax, shifting major burden on the poor while favouring the rich. Despite imposing all kinds of regressive taxes, blocking genuine refunds, raising fictitious demands and fudging with figures by taking credit of the next year's advance tax in the current year and taking duplicate/multiple effect of tax challans at various stations, FBR has miserably failed to improve the tax-to-GDP ratio.

There is a consensus between official and independent quarters that Pakistan needs to strive very hard to come at par with many developing countries in achieving a desirable tax-to-GDP ratio of 18-20%. Some radical changes like reduction in the exorbitant sales tax rate, equitable tax base, simpler and fairer tax procedures are required to encourage investments and savings. The government, expected to re-prioritize its tax goals in the budget for the fiscal year 2012-13, remained oblivious to improving tax-to-GDP ratio, attain better compliance and collections, coupled with rapid industrial and business growth.

No strategy is yet in sight to tackle prevalent massive sales tax evasion along with under-reporting and non-reporting of incomes. The challenge of broadening tax base has not yet been met on urgent basis. No serious measures have been taken that could help documentation and better collection of taxes without much hue and cry from any segment of society. In the fifth budget of the present regime, no action plan appears to be in the offing that is capable of checking leakages in tax collection and at the same time encourages the people to file their income tax and sale tax returns. A successful programme would be the one that aims at expanding both tax base and combating tax evasion simultaneously.

Present massive evasion in customs, income tax and sales tax can only be tackled through implementing an integrated Tax Intelligence System (TIS), which is capable of recording, storing and cross-matching all inflows and outflows (in the article published in *Business Recorder* on 25 February 2011 we explained the idea in great detail, which as usual, fell on FBR's deaf ears). For expanding tax base, the following measures are inevitable:

- All in-bound and out-bound containers should be scanned/x-rayed to counter evasion of customs duties.

- Anyone who pays sales tax and reports the same to FBR should be entitled to 10% refund of the amount paid.
- The procedure for claiming refund should be simple, i.e. taxpayer should send invoices to the Central Tax and Refund Depository, which should authorise refund from the nearest branch of National Bank, after verification of genuineness of the invoice (by checking sellers' registration number). In this way, FBR can develop a data base about the sales of all registered persons and then can cross verify the same with the particulars declared by them in their sales/income tax returns; or alternately;
  - Any person who pays sales tax may be allowed to claim credit of part of the sales tax paid say 10% against income tax liability by producing all sales tax invoices obtained throughout the year. A detailed mechanism can be devised to cater to the situation where income tax liability is less than the amount of credit of sales tax.
  - In this scheme, the people may choose not to claim full credit of sales tax paid by them since they may be unable to justify the sources of their full expenses. To overcome this problem, the government can announce immunity for 3 years from scrutiny of their expenses declared through sales tax invoices that alone could go a long way to document economy yielding more and more revenues in the coming years.
  - This scheme would encourage people to obtain sales tax invoice for each transaction, which is presently not being insisted. Evasion of sales tax is mutually beneficial. If sales tax payers are given the above incentive, they would insist on a sales tax invoice and the government without expending any money or making extra efforts would be able to expand the tax net manifold.
  - Such schemes were successfully implemented in Taiwan, Turkey and Venezuela. In India, the government of Kerala introduced 5% sales tax for all retail sales with incentives to both the shopkeepers and buyers. The shopkeepers got a 10-15% refund of tax collected and paid to the government while the buyers retrieved VAT coupon of Rs 5 for every purchase of Rs 100. Every week a draw was held and coupons-holders won lucrative prizes. This scheme boosted retail sales of shopkeepers who willingly got themselves registered with the government. There has been tremendous increase in government revenues with the introduction of this scheme.

We suggested a similar scheme in these columns way back in 2007 before the budget announcement, but FBR stalwarts and bureaucrats sitting in the Ministry of Finance did not even bother to study it till today. Their apathy shows that certain vested-interest want to keep the system complex so that their corrupt practices remain flourishing.

The government must remember that if taxation is viewed as being unfair or favouring some chosen ones, no reform programme can succeed and voluntary compliance will never improve. Special efforts and rational policies are needed to restructure the tax system and restore public confidence in tax officials. Even a good tax system will not work if the prevalent negative mindset of the tax official persists. There is an immediate need to improve both the system and the human fabric that controls it. The tax system must be reformed to provide:

- Taxpayers' Bill of Rights (comprehensive case study of USA and UK and complete text of law for Pakistan already been published in *Business Recorder* from May 12-17, 2011).
- Taxation of all incomes exceeding Rs, 500,000 irrespective or its sources (agricultural or non-agricultural).
- Broad-based Value Added Tax (VAT) covering all goods and services but at a low rate of 8 to 10 percent.

Instead of performing its prime duty of collecting revenues — where due but avoided — FBR is busy in constituting committees to ponder over many issues relating to tax policy and administrative reforms, which are in fact the domain of the sovereign Parliament under the Constitution of Pakistan. It appears that FBR is more eager to do the job of legislators. Recently, a number of committees were formed on the recommendation of the Advisory Board to suggest measures for improvement in the taxation structure and codes. None of the Committees has come up with any meaningful plan of changes—generalised proposals have been made by copying from here and there. These Committees, headed by ex-bureaucrats, are not capable of suggesting result-oriented changes in the tax system—they are devoid of critical thinking let alone capable of suggesting innovations.

Tax bureaucrats — both sitting and retired — suffer from the all-knowing syndrome. They are, in fact, responsible for the existing pathetic state of affairs. They being defenders of status quo can never bring positive, pro-growth and people-friendly changes in the existing oppressive tax system. They thrive on this rotten system and want to exert complete control through complicated laws and cumbersome procedures— nowhere in the world delegated power is available to an executive authority to undo laws passed by the parliament, through a Statutory Regulatory Order (SRO)— this unconstitutional, undesirable, undemocratic and notorious practice should be stopped once for all.

The need of the hour is a low-rate but across-the-board harmonised sales tax coupled with automated, speedy tax refund system which should not only be fair and transparent but at the same time its enforcement should be strict and stringent — with no concept of sacred cows. Tax base cannot be broadened unless all the goods and services — barring a few essentials as eatables, books, children's garments, educational tools, medicines — are brought into the sales tax net and all persons having income of Rs 500,000 or more are taxed, forced to file returns electronically with declaration of assets and liabilities. FBR should publish a directory of taxpayers every year showing amount of tax paid by high-ranking civil-military officials, judges, politicians, public office holders, rich professionals and businessmen and extent of wealth owned by them. The existing tax system, with an exorbitant 16% to 19% sales tax rate, excessive withholding taxes, presumptive taxes and non-taxation of agricultural income has created distortions — the system has failed to create equity, besides not being able to generate the desired tax-to-GDP ratio. To improve tax-to-GDP ratio, all kinds of exemptions and concessions must be withdrawn. Any person earning income of Rs 500,000 or more — from whatever source— should be taxed indiscriminately.

If FBR wants to implement the reforms agenda sincerely, it must study the Mauritius Revenue Authority (MRA) case, which within the last five years has earned world-wide recognition of efficient and modern tax machinery. Not only have revenues increased almost 300% by bringing all potential persons into the tax net, but service to the people has improved beyond expectations. In surveys conducted by independent bodies, MRA has got an approval rate of 95% from the people — a feat not even achieved by many Western countries till today. It is worthwhile mentioning that the MRA is headed by Mr. Sudhamu Lal, once Member Reforms in the FBR. He was not allowed to carry out reforms by certain vested interests in Pakistan. On retirement, he was selected as Director General through independent MRA Board—a great honour for Pakistan which nobody has ever acknowledged or even noticed. In Mauritius, he is a public hero who has helped the economy to grow with rational tax policies and transparent operations—FBR stalwarts by visiting http://www.gov.mu/portal/sites/mra/index.htm can see what marvellous results have been achieved by a revenue authority headed by their ex-colleague.

MRA was established as an agent of the State under the MRA Act 2004 for the management, operation and administration of Revenue laws. MRA became fully operational with effect from 1st July 2006. MRA is a body corporate and is administered and managed by a Revenue Board. It is responsible for administration of tax policy, and collection and accounting of all revenues arising under the Revenue laws, with Income Tax, VAT, Customs, Excise and Gaming. It administers and collects taxes due in Mauritius within an integrated organisational structure.

The MRA Board has more representation from the public than from the government — this autonomous body selects senior officials of the MRA who implement laws without any political interference. They work without any fear of victimisation, but face tough accountability from an independent Board. MRA's success in a short span of time confirms that the tax reform agenda can only be implemented if work is done professionally and honestly. One wonders if the Board-in-Council of FBR or Advisory Board has even bothered to study the MRA model and its great achievements—perhaps they are not even aware of it which goes to show how isolated they are from global experiences and success stories in other tax jurisdictions.

FBR should be an autonomous body insulated from external political, financial and administrative pressures, but in no way should it assume a legislative role, which under the Constitution is the sole prerogative of the people of Pakistan through their democratically-elected representatives. The Parliament should devise, through a democratic process, a rational and acceptable tax policy after taking input from all stakeholders and experts in the field. This alone would help in broadening the tax base and improving tax-to-GDP ratio in the country to a respectable level — India and Iran have so far achieved the level of 17% and 16% respectively.

The government must remember that excessive and unbalanced taxation can prevent many individuals and businesses from taking full advantage of the opportunities of the new knowledge-based economies. Taxpayers (including businesses) should share the burden of protecting those who are vulnerable as a result of change, either through well-designed social protection measures or retraining, not through excessively rigid job protection measures and inflexible labour regimes that penalise productivity. That is why a fair and transparent tax system is so essential for maximising economic growth.

Politicians must have the courage to achieve a sensible balance between income, capital and consumption taxes. And they must also have the courage to spend, not on ill-designed social programmes introduced more to collect votes than social returns, but on important investments in creating human capital (e.g. education, training and health), and necessary public infrastructure to increase economic productivity. It is by no means an easy task in Pakistan where ruling elite is not inclined to pay taxes but wants to enjoy the perils of democracy (*sic*) for self-aggrandizement. In view of this shameless attitude of rulers, the masses also defy tax laws. In a true democratic society, people are supposed to pay taxes and regimes utilise the same for welfare of all—instances of non-compliance are dealt with firmness. In Pakistan, all of us keep on criticizing the system, rather than improving it. We must pay taxes honestly and diligently and at the same time demand that revenues should be spent on public welfare and not for the luxuries of the rulers and the civil-military bureaucrats. Their perks and privileges should be monetized forthwith — they should be made to live amongst the masses rather than behind iron curtains in palatial houses, remnants of colonial masters.

Independent observers should monitor tax data and survey the costs and benefits of various approaches to taxation that have been adopted, changed, abandoned and reinvented over many years; they should give frank advice on reforms and best practices, and help the government reach consensus on tax matters. They should also explore new challenges, such as taxation of e-commerce, and the problems of harmful tax competition and transfer pricing within large corporations. Simply put, the government must unshackle the constituent elements of economic growth by letting market forces play their respective roles. And governments must transfer the benefits of economic growth to enhance social well-being and cohesion through transparent and well-designed taxation. If the paradigm could be made to work, then Colbert's geese would barely hiss at all.

The government must learn from the experience of others and should immediately take due cognizance of disparities and dichotomies existing in the prevalent tax system, remove them and ensure redistribution of wealth through progressive taxation rather than relying on indirect taxes. Taxes collected should be spent for the public's well-being and not for mere comforts of rulers. Taxes, if spent on the public at large can make the State invincible but if squandered for the luxuries of rulers and State functionaries, are bound to create national disintegration, social unrest and economic disaster.

Successive governments' onerous tax and regulatory policies have pushed millions of people below the poverty line. Whatever is collected from the poor—rich and mighty do not pay taxes in this Land of the Pure—is being wasted ruthlessly or plundered with impunity by incompetent politicians and corrupt officials—more money is spent for the luxuries of civil military bureaucracy than for education, health and the justice system. If Pakistan has to survive and progress, we will have to move quickly and decisively to reverse this trend by making our tax base equitable and wide, improving the tax-to-GDP ratio by taxing the rich and mighty, making mighty civil-military bureaucrats accountable forcing them to live like ordinary citizens, and restoring Pakistan's undeniable geo-strategic and business competitive position in the region by investing money in infrastructure and human resource development.

Tax experts term amnesty scheme unfair

KARACHI: Tax officials and experts have strongly criticised an amnesty scheme offered by the Federal Board of Revenue (FBR) to persons involved in tax fraud cases, saying that it was injustice to honest taxpayers.

"It is against the spirit of an equitable taxations system," an official at tax department said on Tuesday asking not to be named. "In fact it is supporting the culprits who have been identified in tax fraud cases," the official added. The FBR through a notification of sales tax and federal excise dated May 25 exempted the whole amount of default surcharge and penalties payable by a person against whom an amount of sales tax or is outstanding on account of illegal adjustment, subject to condition that the outstanding principal amount of sales tax or is paid by June 25, 2012. "It is unlawful to facilitate people involved in tax fraud," said Munawar Hassan Shaikh, President of the Karachi Tax Bar Association (KTBA). He, however, defended to the extent that several people involved in flying invoice cases are innocent and become victim of prevailing law under Sales Tax Act of joint liability. "Those people, who are unaware about laws, should be given an opportunity," KTBA president said.

The amnesty was discussed in the last month between the FBR and representatives of bodies following a large number of FIRs had been lodged against industrialists in flying invoice cases and were harassed by tax officials.

"We are not in favour of any person involved in tax fraud cases," said Shaikh Shakeel Ahmed Dhingra, Vice President of the Federation of Pakistan Chamber of Commerce and Industry (FPCCI). "The trade bodies had requested the FBR to give relief to those people, who received the refund incorrectly and transacted through banking channels," he added.

The trade bodies, including FPCCI, Karachi and Lahore chambers had requested the FBR to allow 25 percent payment against unlawful input adjustment and remaining allowed on six equal installments to be paid by December 2012.

Through this amnesty scheme, the FBR would withdraw cases against those who would pay by deadline. The notification did not mention the facility of amnesty to genuine of dishonest taxpayers. Tax officials at Regional Tax Office (RTO) Karachi said that though the FBR had launched the scheme for meeting revenue collection target of Rs1952 billion. "But there is hardly any chance of big recovery as most of taxpayers involved in fraud cases got stay orders from courts," an official said. "Besides, those taxpayers are freely undertaking business activities because when tax officials blocked such taxpayers' identity on main database for sale and purchase the FBR authorities imposed heavy fines on the tax officials," the official added. – *Courtesy The News*

PAAPAM calls for pro-industry budget

LAHORE: Pakistan Association of Automotive Parts Accessories Manufacturers (PAAPAM), with its main objective to bring self-reliance and competitiveness in the country's auto sector, called for a pro-industry budget, which should give support to counter various issues faced by the small and medium enterprises (SMEs), including energy crisis and the law and order situation, a statement said on Tuesday.

Addressing the managing committee of the association, Syed Nabeel Hashmi, chairman of the BFP and PAAPAM, said that the auto sector is looking forward to the implementation of Auto Industrial Development Plan (AIDP-II). The auto vendors stressed the need to promote large-scale automotive industries, which have adequate capacities to fulfill local, as well as export demands, it said.

Hashmi said that the government would have to focus on upgrading electricity distribution managements, devolve distribution companies (DISCOs) to provincial levels and invest in the energy solutions in the upcoming budget to achieve key economic targets set for 2012/13.

He demanded the government to allocate maximum funds in the upcoming budget for the construction of dams, tapping of Thar coal, completion of Iran-Pakistan gas pipeline and establishment of LNG terminals and power projects, the statement said.

The government should share its energy plan with the industrial bodies, as the highest-ever electricity tariff and power outages have crippled the industry, in general, and the SMEs, in particular, which have no other option, except the government-generated electricity, said Hashmi.

He said that unemployment, price hike, industrial closures always give birth to lawlessness and anarchy and urged the government to reset its priorities.

The TDAP funding lines must be enhanced so that it can participate more professionally in the international trade fairs, besides trimming its own structure and making it more professional, he said, and proposed the government to strengthen Export Development Board (EDB) to develop Pakistan's engineering sector, especially the SMEs.

Regarding trade with India, he appreciated the ministry of commerce for taking necessary steps to ensure that adequate space exists for the auto sector prior to complete opening of auto trade with India.

"We, however, have a lot of work to do, especially within the Pakistan Standard Quality Control Authority (PSQCA) whom we feel is currently clueless of the role it is required to play for the development of Pakistan's industrial base, especially with a focus on trade with India. We are also expecting that necessary steps shall also be taken to discourage import of used cars, which is eating away employment in Pakistan."

The PAAPAM chairman said that the association has concluded its series of meetings with various government organisations on the annual budget and appreciated deputy chairman of the Planning Commission for understanding their position on tariffs and his support for R&D and a competitive-based industrial culture in Pakistan. – *Courtesy The News*

FPCCI demands tax on exempted sectors

ISLAMABAD: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) has demanded the government to impose income tax on sectors enjoying unjust exemptions in the upcoming budget, saying there will have no future sans effective governance, transparent reforms and easily comprehensible taxation regime, a statement said on Tuesday.

The tax regime should be balanced as presently the business community and salaried class are bearing the entire burden, while several sectors are enjoying exemption, which is a hurdle in the national development, said Mirza Abdul Rehman, vice president of the FPCCI, while speaking to the business community, it said. Flanked by Malik Sohail, chairman of Media FPCCI, and other business leaders, he said, "We are pinning high hopes on the finance minister who has promised a friendly budget."

The country will remain dependent on foreign aid unless all the sectors, especially agriculture and defaulters are brought into the tax net, he said. The sales tax and markup rate be brought to a single-digit to accelerate growth, said Rehman.

All the duties on import of pharmaceutical machinery and raw materials should be waived off to give a boost to the local industry and to enable it to compete with other countries in the global market, he added. – *Courtesy The News*

FBR attaches all bank accounts of PTA for tax recovery

ISLAMABAD: The Federal Board of Revenue (FBR) has attached all bank accounts of telecom regulator, Pakistan Telecommunication Authority (PTA), for recovery of income tax of Rs3.6 billion, a statement said on Tuesday.

According to the FBR announcement, the board in its ongoing campaign to recover outstanding tax liabilities against various companies, the Large Taxpayers Unit (LTU), Islamabad has attached all bank accounts of the Pakistan Telecommunication Authority (PTA), which owed Rs3.6 billion to the exchequer on account of income tax, it said.

The PTA was served with recovery notice under Section 138 (10) of the Income Tax Ordinance 2001, to deposit the outstanding liabilities by May 28, which it failed to do so, accordingly, various teams were formed by the chief commissioner, LTU, Islamabad to recover the amount from PTA through attachment of bank accounts and its receivables from the mobile operators, wireless local loop (WLL) operators, long distance and international (LDI) operators, land-line operators and the Ministry of Information Technology, the statement said. Giving update on the recovery of Mobilink outstanding dues, Pakistan Mobile Communications' (Mobilink) agrees to pay outstanding tax amount of Rs2.5 billion by May 30 by availing the FBR's tax surcharge and penalty waiver scheme. The issue has been resolved amicably. – *Courtesy The News*

National Budget to be announced on Friday

ISLAMABAD: The National Budget for Fiscal Year 2012-13, envisaging growth rate acceleration, economic stabilization, employment generation and relief to the common people, is scheduled to be presented in the National Assembly on Friday (June 1).

Federal Minister for Finance, Dr. Abdul Hafeez Shaikh will announce the Budget 2012-13, after its formal approval from the Federal Cabinet, sources in the Ministry of Finance said on Wednesday.

Enhancing revenues to minimize dependence on the external finances, cutting down the government expenditures, enhancing productivity through a new growth strategy and job creation, will feature in the upcoming budget.

The budget will also address the issues of energy generation, social sector development and revenue enhancement, besides reforms will also be introduced for improving governance and boosting private sector investment.

Amid domestic and international challenges, the realistic GDP growth target will be 4.3 percent while in the outgoing fiscal year 3.7 percent GDP growth is likely to be achieved against the target of 4.2 percent.

The growth in FY 2012-13 will be achieved through improvement in productivity and competitiveness, reforms in the markets, promoting cities as regional clusters, improve connectivity, reforming the civil service, institutions and Public Sector Entities, harnessing potential of youth and embarking on result-based management.

The agriculture growth during the upcoming fiscal year 2012-13 is projected at 4 percent, manufacturing at 4.1 percent while the services sector will grow at 4.6 percent.

This year, the budget will also focus on infrastructure, human capital, promotion of investments and exports and agriculture sector development.

Emphasis will also be made to normalize agriculture activity and maintaining good performance in services sector.

The government is keen to provide relief to the people in the budget and has taken comprehensive measures to achieve this objective.

The National Economic Council (NEC) has already approved a development budget of Rs.873 billion Public Sector Development Programme (PSDP) for the year 2012-13, with Rs.360 billion as Federal component and Rs.513 billion provincial component.

Under the PSDP allocations, priority would be given to the completion of projects, maximum utilization of foreign loans and balanced development while only high priority new projects would be introduced.

Out of the total Rs.513 billion allocations for the provinces, Rs. 206 have been allocated for the Punjab, Rs.188 billion for Sindh, Rs.78 billion for Khyber Pakhtunkhwa while Rs.41 billion have been allocated for Balochistan. – *Courtesy Business Recorder*

Withdrawal of SRO 191; 3 percent "further tax": two key proposals finalised for documentation of economy

The Federal Board of Revenue has finalised two key proposals for documentation of the economy to abolish SRO 191(I)/2012 and charge 3 percent "further tax" from un-registered persons or amend SRO-191, curtailing disallowance of input tax adjustment in budget (2012-13).

Sources told here on Tuesday that the FBR is working on two alternative proposals for most of the disputed notification 191(I)/2012 introduced with the intention to achieve documentation of economy during the last financial year, however after stern reaction from the trade and industry now FBR is working on alternative measures.

According to sources 3 percent "further tax" on supplies to un-registered persons or amendment under SRO191 to reduce disallowance of input tax adjustment in budget (2012-13) are the two major alternatives under discussion and review.

Sources said that the FBR has submitted two key proposals to the Ministry of Finance to get basic particulars of the un-registered buyers from next fiscal. Under the first proposal, SRO 191(I)/2012 would be abolished in budget (2012-13) and FBR would make it mandatory for the registered persons to collect 3 percent "further tax" from unregistered buyers.

The second proposal is that the SRO 191(I)/2012 would continue to operate during 2012-13 with suitable modifications /amendments in the controversial clauses of the notification. The FBR has proposed that one of these proposals may be adopted for documentation of the economy. In case the first proposal is implemented in budget, the old regime of "further tax" would be restored through Finance Bill (2012-13) and SRO191 would be abolished by rescinding the said notification.

The implementation of the second proposal would require re-drafting of the SRO191 to limit disallowance of input tax adjustment. In this regard, the clause pertaining to disallowing input tax adjustment shall be limited to 10% of the amount of input tax claimed.

Both the proposals have been chalked out with the main objective of documentation of the supplies made to the un-registered persons in 2012-2013. There are strong chances that the controversial SRO 191(I)/2012 may be abolished in budget (2012-13) and registered persons would be required to charge 3 percent "further tax" from unregistered buyers.

During budget preparation exercise, the policy makers reviewed the entire gambit of SRO 191(I)/2012 which could not be implemented in 2011-12. The FBR has already suspended the applicability of SRO191(I)/2011 up to May 31, 2012 and importers, exporters and manufacturers would not be required to submit the computerized national identity card numbers (CNICs) and National Tax Number (NTNs) of their unregistered buyers in sales tax returns to be filed in June 2012.

The FBR had drafted the revised SRO for phase-wise implementation of the said SRO, but the tax department has been forced to repeatedly suspend the notification upon persistent reaction by the trade and industry, who think the requirement is not practicable, sources added. – *Courtesy Business Recorder*

Ghee and cooking oil: increase in rate of FED in value addition mode likely

The Federal Board of Revenue has proposed major changes in the taxation regime for the ghee and cooking oil industry, including increase in the rate of Federal Excise Duty (FED) in value addition mode from Rs 1 per kg to Rs 4 per kg on the import of edible oil in budget (2012-13).

Sources told here on Tuesday that the FBR has also proposed sales tax zero-rating on cotton seed oil from next fiscal (2012-13). Following approval of the persons behind the budgetary proposal of the FBR, Finance Bill (2012-13) would incorporate necessary changes in the sales tax and federal excise laws from next fiscal year.

According to the FBR budgetary proposal received in the Ministry of Finance, at present, the FED is being charged on edible oil at import stage at the rate of Rs 1 per kg which has been proposed to be enhanced to Rs 4 per kg. This Rs. 1 per kg is being collected in lieu of value addition at manufacturing stage, whereas the actual value addition of ghee and cooking oil sector is over and above Rs 4/kg, reflecting an increase of Rs 3 per kg. Keeping in view the huge difference in the existing and actual value addition of the ghee and cooking oil sector, the FBR has proposed that the FED in lieu of value addition may be increased to Rs. 4 per kg.

When contacted, a tax expert said that presently the FED is being charged at import stage at the rate of Rs 1 per kg which may be increased to Rs 4 per kg. However, the decision would have an affect of Rs 5-6 per kg on end consumers. The rationale behind increase of price of Rs 5-6 per kg of vegetable ghee and cooking oil is that the importer will pay Rs 4 at import stage which will be charged from consumers after the lapse of approximately two months. During this period, the capital of importers, distributors and wholesalers remained blocked in the course of furtherance. This would result in enhanced cost of doing business within the supply chain, analyst added.

Sources said presently the cotton seed has been zero-rated whereas cotton seed oil has been totally exempted from sales tax. Under the current status of sales tax exemption, the solvent extractors have not been required to issue any sales tax invoice to the ghee and cooking oil mills. In the absence of the sales tax invoices, the tax department cannot ascertain the actual production of oil and ghee mills. This also resulted into misuse of imported oil, which is sold in the open market, substituted by the production of oil/ghee from locally produced oil. The FBR has proposed that cotton seed oil may also be zero-rated to ensure due amount of collection from oil/ghee sector.

Practically, the solvent extraction plants consume tax exempted edible oil in their own vegetable ghee and cooking oil mills and sell the finished product at market price thereby pocket the differential of duties and taxes. As a result of sales tax zero-rating on cotton seed oil, solvent extraction plants have to issue sales tax invoice. They have to maintain book of account and ensure book keeping following issuance of sales tax invoices, sources added. – *Courtesy Business Recorder*

Outstanding liabilities: LTU attaches all bank accounts of PTA

The Federal Board of Revenue (FBR) in its ongoing campaign to recover outstanding tax liabilities against various companies, the Large Taxpayers Unit (LTU), Islamabad has attached all Bank Accounts of the Pakistan Telecommunication Authority (PTA) which owed Rs 3.6 billion to the exchequer on account of income tax.

The PTA was served with recovery notice under Section 138(10 of the Income Tax Ordinance 2001), to deposit the outstanding liabilities by 28th of May 2012 which it failed to do so. Accordingly, various teams were formed by Chief Commissioner, LTU, Islamabad to recover the amount from PTA through attachment of bank accounts and its receivables from mobile operators, wireless local loop (WLL) operators, Long Distance and International (LDI) operators, land line (LL) operators and Ministry of Information Technology, FBR added. Meanwhile, Pakistan Mobile Communications' (Mobilink) agrees to pay outstanding tax amount of Rs 2.5 billion by 30th May, 2012 by availing FBR's Tax Surcharge and Penalty Waiver Scheme. The issue has been resolved amicably. – *Courtesy Business Recorder*

16 percent ST on supplies against international tenders likely

The government is likely to impose 16 percent sales tax on supplies against international tenders to check massive misuse of the facility in budget (2012-13). Sources told here on Tuesday that the zero-rating facility against international tender is expected to be withdrawn in the upcoming budget.

The government is likely to bring supplies against international tenders within the sales tax net by imposing 16 percent levy to curb massive misuse of the zero rating facility. Sources stated that at present supplies against international tender are zero-rated under 5th Schedule of the Sales Tax Act, 1990. The facility of sales tax zero-rating has reportedly been grossly misused under the cover of issuance of international tender which resulted in accruing massive inadmissible sales tax refunds. The FBR has proposed the Ministry of Finance to withdraw zero-rating facility on supplies against international tenders.

Sources informed, that special procedure for zero rating supplies against international tender was recently been introduced by the Federal Board of Revenue vide notification 167/2012 dated 22nd February 2012, through which a new chapter VII-A was inserted in sales tax rules 2012.

This area of zero rating remained unfocused in the absence of appropriate rules and regulation due to which gross misreporting and abuse of facility was observed. International tenders were usually called where vast area of work and supply was required by any corporation or public entity to secure expertise and competitive rates throughout the world.

It is expected that Finance Bill (2012-13) would amend the 5th Schedule of the Sales Tax Act, 1990 to omit entry of sales tax zero-rating facility on supplies against international tenders. The entry at serial number 4 of the 5th Schedule of the Sales Tax Act, 1990 would be deleted to implement the decision. In case the proposal has been made part of the Finance Bill (2012-13), it would be one of the major revenue generation measures in budget. – *Courtesy Business Recorder*

Massive duty evasion by coal mine owners unearthed

The Inland Revenue Officers of the Federal Board of Revenue (FBR) have unearthed massive evasion of sales tax/excise duty and concealment of income by the coal mine owners located within the territorial jurisdiction of the Regional Tax Office (RTO) Rawalpindi.

Sources told here on Tuesday that the tax department has focused on coal mining sector taking into account massive tax evasion within the said sector. Keeping in view detection of cases by the RTO Rawalpindi, similar kind of action by all RTOs would result in increasing revenue collection from the coal mining sector against exiting collection which is negligible. In line with the policy of the FBR, the exercise has been conducted under the supervision of Chief Commissioner RTO Rawalpindi Shahid Anwar Khan and Commissioner RTO Abdul Hafiz.

The mining sector has vast potential which could be instrumental in improving revenue collection of the FBR. The focus of the tax department on mining sector will also result in expansion of the tax base across the country, sources added. Details of the case revealed that mining sector has rich potential from where domestic taxes in millions can be collected throughout the country. The RTO Rawalpindi has taken a major step for recovery of domestic taxes ie income tax, sales tax & special excise duty from mining sector.

Under the tax laws, every mine owner has to pay Rs.55 per ton coal, gypsum etc as royalty to the contractor. They are showing very meager production to the concerned Mine & Mineral Departments. Every mine lease holder is operating a few mines himself remaining mines are being run by petty contractors who extract minerals from his mine and pay the owner 30% to 40 % share of their production. Thus, every lease holder is enjoying tax free commission or tax free produced coal. Most of the lease holders are enjoying good social status. Despite running many businesses, they are paying a very meager amount of taxes. Most of coal mine owners are not even registered with the sales tax & special excise department.

Sources said that recently RTO, Rawalpindi has started very aggressive derive to register the mine lease holders and monitoring plan of their sales, production and stocks under section 40B of the Sales Tax Act,1990. The Mine & Mineral Department award royalty contract every year to contractors through open bidding. Advance Tax has been levied on all the contractors @5% of the total contract amount under Section 236-A of the Income Tax Ordinance 2001 through Finance Act, 2009. But in most of the cases contractors fail to pay the advance tax. RTO Rawalpindi has recovered a huge amount on this account.

Under the ongoing drive, the RTO, Rawalpindi has posted officers at Tax Facilitation Center (TFC) PD Khan, Chakwal, Attock, Jhelum and Wah. Basic purpose of the opening of TFCs is to facilitate the taxpayers at their door step. These areas are almost 150 to 200 KM away from the main building of RTO Rawalpindi. However, it has been learnt through reliable sources that effective enforcement actions have been taken by the officers posted in these TFC PD Khan and Jhelum. An ideal case against a big coal mine owner located at Choa Syeden Shah has been made where more than Rs 12 million unpaid taxes have been unearthed. This company has shown more than 17 million sales as per its income tax returns for 4 years but did not pay even a single penny to national kitty since 2005. Whereas, the unit's electricity bills were over three-times of the declared sales. Other mines owners are also being brought into tax net as per FBR, broadening the tax base (BTB) policy and major cases are being framed against them.

The mining area is a potential area where massive tax evasion is being made on daily basis. No mine owner except a very few is showing 10% of its total daily actual production of coal, salt and gypsum. Leases have been allotted by mines & mineral department Punjab and normally royalty contract have been awarded to different contractors to collect royalty on coal, gypsum salt and other minerals. No advance tax has been collected by the Mines & Mineral Dept which has been detected by the RTO, Rawalpindi who recovered millions of rupees on this account.

Recently, the FBR is planning to empower the officers posted in TFCs to also conduct audit in view of performance of TFCs of RTO Rawalpindi. Board has called opinions from all RTO/LTU on the issue of delegation of audit powers to the TFCs.

One of the orders issued by Muhammad Afzal Malik, Assistant Commissioner Inland Revenue, (Enforcement-VI, ZONE-I), TFCC, Pind Dadan Khan against a mine owner revealed that tax evasion to the tune of millions has been detected by the said officer in a case of mining company. Other RTOs are expected to take similar kind of action against the mining companies to recover duties and taxes in view of experience of RTO Rawalpindi. – *Courtesy Business Recorder*