Tax Review/Taxation

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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.

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This issue contains:

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United Kingdom

UK to leave EU single market, says May

Theresa May ruled out the possibility of the UK remaining part of the EU Single Market, in a speech that gave more detail on her Brexit strategy.

In outlining plans for Britain to secure full control of its affairs, including on legal matters and immigration, she said that this "cannot mean membership of the Single Market."

May said that she would instead seek to gain "the greatest possible access" to the European market "through a new, comprehensive, bold, and ambitious free trade agreement."

"That agreement may take in elements of current single market arrangements in certain areas – on the export of cars and lorries for example, or the freedom to provide financial services across national borders – as it makes no sense to start again from scratch when Britain and the remaining member states have adhered to the same rules for so many years," she said.

She said a "punitive" deal would be "an act of calamitous self-harm" for the EU.

May said while she wants the UK to remain part of the customs union, as an "associate member," the UK would seek concessions to enable it to engage with other territories towards its own free trade agreements and not be bound by the Common External Tariff.

She said: "Countries including China, Brazil, and the Gulf states have already expressed their interest in striking trade deals with us. We have started discussions on future trade ties with countries like Australia, New Zealand, and India. And President-Elect Trump has said Britain is not 'at the back of the queue' for a trade deal with the United States, the world's biggest economy, but front of the line."

"I know my emphasis on striking trade agreements with countries outside Europe has led to questions about whether Britain seeks to remain a member of the EU's Customs Union. And it is true that full Customs Union membership prevents us from negotiating our own comprehensive trade deals. Now, I want Britain to be able to negotiate its own trade agreements. But I also want tariff-free trade with Europe and cross-border trade there to be as frictionless as possible." – *Courtesy tax-news.com*

Macau

Macau hints at gaming tax reform

Following representations from the gaming industry, Macau's Director of the Gaming Inspection and Coordination Bureau, Paulo Martins Chan, has disclosed the Government is open to reviewing tax on gaming.

Under the specific taxation regime regarding their income from gaming activities, gaming concessionaires are currently subject to a 35 percent tax, calculated on their gross gaming revenue (all revenue derived from casino or gaming areas), and an additional four percent in levies for a range of educational and development programs. On average, these taxes account for more than 75 percent of Macau's total annual revenue.

Some stakeholders have suggested that the specific tax should be reduced, so as to remain competitive with other Asian countries, where lower tax regimes are being introduced to attract gamblers, while others recommend a tax differential between high-stakes (so-called VIP) gamblers and the mass market.

Chan said that the Government does not, as yet, have any particular plans to change the sector's tax rates, but would consult widely. He added that, in any case, there is plenty of time to reach a decision before the present casino licenses are due for renewal between 2020 and 2022. – *Courtesy tax-news.com*

Ireland

Irish firms respond to hard brexit announcement

Irish business association Ibec has warned that a UK departure from the European Single Market and customs union could seriously disrupt trade between Northern Ireland and the Republic.

Responding to UK Prime Minister Theresa May's speech on a 12-point Brexit plan, Ibec said it was "concerned at the increasingly definitive and hard-line position of the UK Government."

Ibec CEO Danny McCoy commented: "The possibility of the UK leaving both the Single Market and the customs union raises fundamental questions about Ireland's future trading relations with the UK."

He cautioned that were the UK to return to World Trade Organization rules, Irish exporters would be hit hard, and the UK and Ireland would be set "on very different economic trajectories."

McCoy called on the UK Government to provide further details of "how the serious challenges presented by a hard Brexit might be addressed, including the impact on cross-border trade on the island of Ireland."

May said that the UK Government's objectives "include a proposed free trade agreement between Britain and the European Union, and explicitly rule out membership of the EU's single market." May added that she does not want the UK to be part of the Common Commercial Policy or to be bound by the Common External Tariff, and that the UK "must reach a completely new customs agreement."

May did nevertheless stress that she wants "tariff-free trade with Europe and cross-border trade there to be as frictionless as possible."

McCoy described May's strategy as "an aggressive move by the UK, showing little regard for our trading relationship and for relations with other EU member states." He noted the UK Government's recent hints that it could slash corporation tax and cut regulation post-Brexit and said that the UK is likely to pose a competitive threat.

"A comprehensive immediate domestic response package is needed to safeguard Irish jobs and enterprises. Ireland must also play a central and constructive role in Brexit negotiations, and ensure our interests are forcefully represented," McCoy argued. – *Courtesy tax-news.com*

Hong Kong

Stamp duty hike cooled Hong Kong property market

At a media session on January 16, Hong Kong's Secretary for Financial Services and the Treasury, K C Chan, said that the further stamp duty increase introduced in November last year has achieved its objective of cooling the city'

"We think the latest round of stamp duty increase has really introduced a period of cooling in the market," he confirmed. "At this point in time, we believe that the latest round of stamp duty has done the job as we intended."

Chargeable on transactions for residential property signed on or after November 5, 2016, a new flat rate of 15 percent was substituted for the 8.5 percent ad valorem stamp duty. It was then stated that the stamp duty hike was intended "to address the overheated residential property market and to guard against a further increase in the risks of a housing bubble" in Hong Kong. – *Courtesy tax-news.com*

Egypt

Egypt confirms VAT hike this year

The Government of Egypt has confirmed a plan to increase the rate of value-added tax later this year under a series of revenue-raising measures.

Finance Minister Amr El-Garhy announced earlier this week that the VAT rate would increase by one percent to 14 percent in July 2017 as the Government seeks additional revenue to cover a large budget deficit. Previously the Government had indicated the rate would rise from October 1, 2017.

The VAT replaced the 10 percent goods and services tax on September 8, 2016, under a program with the International Monetary Fund that included a lending facility worth USD12bn.

The VAT increase forms part of a plan to boost tax revenues and lift Egypt's tax-to-gross domestic product level to 15 percent. Other measures include a planned overhaul of the customs system and income tax increases. – *Courtesy tax-news.com*

DGCV revises custom duty on imported dates

The Directorate General Customs Valuation (DGCV) on Wednesday revised the custom duty on imported dates. According to details, the DGCV has issued new valuation ruling for dates' imports after over four years. The earlier customs values of dates were determined vide valuation ruling no. 501 in 2012 and the MCC Quetta has recently determined the customs values of dates of Iran origin imported via land route.

It is, therefore, deemed appropriate to re-determine customs value of dates in order to reflect the prevailing price trends in the local and international markets. This prompted an exercise to re-determine the customs values of subject goods. In this context this Directorate General initiated an exercise for determination of customs values of dates. All stakeholders were called for meeting on January 3, 2017 which was duly attended by all the stakeholders.

All the stakeholders strongly contended and requested that the said valuation ruling may be reviewed in the light of prevailing international and local market prices. The view points of all participants were heard in detail and considered to arrive at fair value of subject goods.

It was also highlighted that the subject goods are perishable items and therefore have got limited shelf life, consequently, near the expiry dates, these perishable items are sold on sale and discounted prices.

The importers said that all these factors may also be considered in fixing value of subject goods and prices were also verified on the basis of location of market in the city and date of expiry of the product in question.

The PRAL database, market information and international prices through web were examined thoroughly. All the gathered information was also analysed for determination of customs value. In case of import from Iran via land route through MCC Quetta, 15 per cent margin in value may be admissible considering the reduced element of freight charges.

In cases where declared/transaction values are higher than the customs values 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. Besides that 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 this ruling. The value added products of dates such as filled with almond, honey, chocolates and others will be assessed under section 25 of Customs Act 1969 by clearance collectorate. – *Courtesy Business Recorder*

Illegal manufacturing of cigarettes: Investigation under way: FBR

The Federal Board of Revenue (FBR) has not yet concluded that a leading Karachi-based cigarette manufacturing company is directly involved or connected with the illegal facility raided by FBR's agency in Chingley, Buner. Responding to different queries, Dr Muhammad Iqbal Member FBR official spokesperson told here on Friday that the investigation in the case is under way.

The machinery of Philip Morris (Pakistan) Limited was found at the un-registered premises of in small mountain valley of district Buner, Khyber Pakhtunkhwa (KP). However, the machinery was not operational or fully installed at the said place. The investigation is underway by the FBR's agency/tax department, but it is not confirmed that the company has been involved in running un-registered manufacturing facility at Buner.

Dr Iqbal it is yet to be investigated that the company has be involved in such kind of illegal manufacturing activities. We cannot expect from such a well reputed multinational company to commit such kind of illegal activity. The multinational company like PMI cannot afford to conduct such kind of illegal activity.

FBR official spokesperson said that, "there is a suspicion of involvement of the company, but it has to be proved yet. We are not in a position to declare that the company is involved in manufacturing of non-duty paid cigarettes in Buner", he commented.

He said that the LTU Karachi is also investigating the matter. If there is ample evidence or documentation that the machinery has been dully sold or disposed off under the law, then the burden of responsibility would rest upon the person who is in possession of the machinery at Buner.

To a query, he categorically said that if something wrong has been committed by the company, the FBR will take action as admissible under the law. Anyone involved in such manufacturing of non-duty paid cigarettes would not be sparred.

Directorate General Intelligence and Investigation (I&I) Inland Revenue (IR), Federal Board of Revenue (FBR), has detected an unregistered cigarette manufacturing factory in small mountain valley of district Buner, Khyber Pakhtunkhwa (KP), using machines of a Karachi-based multinational cigarette manufacturing company.

The team raided the manufacturing premises, but the said manufacturing facility was found closed. The team returned back and decided to visit the premises under Section 25/26 read with Rule 62/63 of the Federal Excise Act, 2005 again on Saturday (10th December 2016).

Directorate of intelligence IR is investigating the case from different angles. Firstly, cigarette manufacturing unit in Buner has not obtained Federal Excise registration and is thus involved in the evasion of Federal Excise Duty (FED). Secondly, how the machines of a multinational company have been purchased by someone in village Chingley, district Buner, for running unregistered cigarette manufacturing unit in the said area? The Karachi regional directorate of I&I IR would inquire whether the company has duly informed the tax department/ Large Taxpayer Unit Karachi about selling and transfer of the cigarette making machines to some individual in village Chingley, Buner. Thirdly, the directorate would also check whether or not the machines have been shifted or sold to someone after fulfilment of all legal formalities and rules and regulations with the Large Taxpayer Unit Karachi. – *Courtesy Business Recorder*

Avoidance of double taxation: Pakistan, Iraq to initiate talks

Pakistan and Iraq have decided to initiate negotiations on convention on Avoidance of Double Taxation and Prevention of Fiscal Evasion. Sources told here on Thursday that a delegation of Iraqi tax authorities will visit Pakistan once dates are finalised. So far, there is no convention on the Avoidance of Double Taxation and Prevention of Fiscal Evasion between Pakistan and Iraq. Both the sides have agreed to start negotiations on the said issue.

The new convention would ensure in letter and sprit encompassing valid rights of business community of both the countries pertaining to taxation matters. The agreement will contribute to the economic development and business relationship of both the countries, and facilitate the cross-border transactions between businessmen of the contracting states. – *Courtesy Business Recorder*

Illicit tobacco/cigarettes trade: RTO Rawalpindi works out strategy

Regional Tax Office (RTO) Rawalpindi Thursday worked out a detailed strategy for combating illicit tobacco/cigarettes trade within its jurisdiction i.e. civil Districts Rawalpindi, Jhelum, Chakwal and Attock. According to sources, a major enforcement action at a renowned super store in Bahria town Rawalpindi resulted in recovery of huge stock of smuggled cigarettes by the regional office enforcement team of the said RTO.

Chief Commissioner RTO Rawalpindi has constituted one special squad and two enforcement teams which in co-ordination with each other shall ensure that movement, warehousing and sale of non-duty/taxes paid cigarettes is discouraged effectively. RTO Rawalpindi has decided to plug various loopholes in the existing tax enforcement regime.

Firstly, the enforcement team-Attock shall monitor the illegal entry/movement of locally manufactured (KPK based) cigarettes in Punjab.

Secondly, the Jhelum Enforcement Team shall focus movement of illicit cigarettes from AJK.

Thirdly, Special Squad Rawalpindi shall keep vigilant eye on both locally produced non tax paid cigarettes and the smuggled ones. This squad shall co-ordinate with enforcement teams for organised raids/interceptions. The squad shall perform intelligence function with the help of I&I-IR Peshawar and Islamabad so as to ensure an effective response to this tax evasion menace.

Since last two days Special squad has been visiting different business premises at Rawalpindi, especially the posh & known sale points of foreign smuggled cigarettes at Adyala Road, Lalkurti, Saddar, and Bahria Town. On Thursday, during the surprise visit of special squad quite substantial stock of smuggled cigarettes was located at a renowned super store in Bahria town.

Store management realizing the gravity of the case immediately complied with the instructions of the squad. Chairman FBR Dr Muhammad Irshad has appreciated the efforts of RTO Rawalpindi and conveyed special appreciation for the members of the squad. – *Courtesy Business Recorder*

PTC celebrates posting of Dr Irshad as acting FBR chief

Pakistan Taxation Club (PTC), Karachi on Thursday celebrated the posting of Dr Muhammad Irshad, Member Inland Revenue (Operations) as Acting Chairman Federal Board of Revenue (FBR). The cake cutting ceremony was held at Regional Tax Office-II, Karachi here. The President of the Pakistan Taxation Club and the Management Committee felicitated Dr Muhammad Irshad on his posting as Acting Chairman FBR and also lauded the initiative taken by the government to appoint him for the said post.

He is known for his high achievements while serving as Member Inland Revenue (Operations). He has not only strengthened the Inland Revenue Service and also assisted the board through his efforts for surpassing the revenue targets for the Tax Year 2015-16. It was resolved that his appointment has encouraged the fraternity of the IRS to do more to achieve the revenue targets assigned for the current financial year. – *Courtesy Business Recorder*

PTEA lauds performance of outgoing FBR chairman

While commenting on the economic situation, here on Thursday, Chairman Pakistan Textile Exporters Association (PTEA) Ajmal Farooq and Vice Chairman Naeem lauded the steps taken by the finance team especially the outgoing Chairman FBR Nisar Muhammad Khan in economic uplift of the country and achieving macroeconomic stability by pursuing comprehensive reforms in a short period of time. Member IR, Dr Muhammad Irshad was also the key player of economic team and we are hopeful that the under his dynamic leadership pace of economic stability will grow further and the good work initiated by his predecessor would be carried forward, they said.

As a result of progressive measures, Pakistan's economic growth is gradually increasing; fiscal deficit is reducing while inflation had continuously declined in the country, they added.

Economic team is effectively implementing structural reforms to consolidate recent gains in macroeconomic stability and improve the investment climate, they said. These reforms are critical for fiscal and economic sustainability and to promote investment and economic growth. Policy of consultation on core economic issues being adopted will take the country at the highest level of economic growth and development. Pakistan had an opportunity to become more ambitious in reforming its economy and reducing poverty in the country.

PTEA fully supported the continuation of economic policies and the economic team as well to achieve desired results for economic stability, they said. – *Courtesy Business Recorder*

November & December 2016: over 6000 new vehicles registered under DVRS

Over 6,000 vehicles were registered under Dealer Vehicle Registration System (DVRS), through as many as 23 registered dealers online in the districts of Lahore, DG Khan, Rawalpindi and Multan during the months of November and December 2016.

DVRS, which is a joint project of the Punjab Excise and Taxation Department and Punjab Information Technology Board (PITB), is aimed at elimination of bogus and non-registered vehicles in the province of Punjab.

It may be noted that the DVRS was formally launched in November 2016 by the chief minister Punjab, while it is being expanded to Bahawalpur and Faisalabad districts very soon.

The new system is helping reduction in late registration of vehicles and evasion of government tax on vehicles while facilitating the citizens in the quickest registration of their vehicles before it leaves from the dealer's showroom. All types of vehicles including motorbikes are being registered through this automated system, sources in the E&T department, said.

For this prompt technology base service, the buyers of new cars pay Rs 2000 and for motorbike Rs 500 extra to the dealer. – *Courtesy Business Recorder*

S.R.O. 30(I)/2017, Islamabad, the 18th January, 2017.– In exercise of the powers conferred by sub-section (1) of section 237 of the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Board of Revenue is pleased to direct that the following further amendments shall be made in the Income Tax Rules, 2002, the same having been previously published *vide* Notification No. S.R.O. 05(I)/2017, dated the 6th January, 2017 as required by sub-section (3) of the said section, namely:–

In the aforesaid Rules, in rule 81A, in sub-rule (3), after the word "CNIC", the words "if provided" shall be inserted.

C.NO.4(1)ST&FE/Misc./2016/7206-R

Islamabad, the 18th January, 2017

SALES TAX GENERAL ORDER NO. 01/2017

Subject: **Notification of zones for determination of highest retail price of fertilizer in retail packing.**

In exercise of powers conferred by proviso to clause (27) of section 2 read with clause (a) of sub-section (2) of section 3 and S.No. 32 and entries relating thereto of the Third Schedule to the Sales Tax Act, 1990, the Federal Board of Revenue is pleased to specify zones and the areas falling therein as mentioned in the Table below for the purpose of determination of the highest retail price of any brand or variety of fertilizer for that zone as sold in retail packing:

TABLE

Fertilizer/Freight Zones	
Zones	**Division/Civil Districts**
Z1	Karachi, Mirpur Khas, Shaheed Benazirabad Division, Hyderabad, Jamshoro, Tando Allayyar, Matiyari, Tando Muhammad Khan, Thatta, Sajuwal Civil Districts.
Z2	Sukkur, Larkana, Naseerabad Divisions, Dadu, Sibi, Kohlu, Dera Bugti Civil Districts
Z3	Bahawalpur, Rahimyar Khan and Ranjanpur Civil Districts.
Z4	Multan, Quetta, Zhob, Kalat, Makran Divisions, Bahawalnagar, D.G. Khan, Muzaffargarh, Layyah, Harnai, Ziarat Districts.
Z5	Faisalabad, Sahiwal, D.I. Khan Divisions, Bhakhar, Mianwali Civil Districts.
Z6	Lahore Division, Sargodha, Khushab Civil Districts.

Z7	Gujranwala, Rawalpindi, Islamabad, Hazara, Peshawar, Bannu, Kohat, Malakand and Mardan Divisions, FATA, Northern Areas, Azad Jammu & Kashmir.