

Tax Review/Taxation

Daily Alert Service

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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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Sales Tax General Order No. 131 of 2016, dated November 16, 2016

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Kind Regards,

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United States

Sanders to introduce US ‘Outsourcing Tax’ legislation

US Senator Bernie Sanders (I – Vermont) has stated his intention to introduce legislation into Congress that would impose an “outsourcing tax” on companies moving jobs out of the United States, as well as stripping them of their US tax breaks and benefits.

In a reaction to the plan by United Technologies (UTEC) and its subsidiary Carrier to move jobs to Mexico, Sanders stated that, if any company “wants to keep outsourcing decent-paying American jobs, those companies must pay an outsourcing tax equal to the amount of money it expects to save by moving factories to Mexico or other low-wage countries,” or 35 percent of its profits, whichever is higher.

His proposed Outsourcing Prevention Act would also require all companies that outsource more than 50 jobs in a given year to pay back all federal tax breaks, grants, and loans they have received from the federal Government over the last decade. In addition, such companies would be prohibited through tax penalties from rewarding their executives by way of golden parachutes, stock options, bonuses, or other forms of compensation, and would be prevented from buying back their own stock.

The terms of the proposed bill contrast with the reported outcome of President-elect Donald Trump’s recent negotiations with UTEC to stop its plan. He has appeared to move away from his election threat to impose a tax on the imports back into the United States of those companies moving production overseas (with particular reference, at the time, to Ford’s decision to move its small-car production out of the United States to Mexico). – *Courtesy tax-news.com*

IRS commits to provide better service to ID theft victims

The US Internal Revenue Service has committed to improve its support for victims of identity theft.

The IRS has said it will release new internal guidelines on supporting those who have become victims of identity theft and issue new training materials to employees processing requests from taxpayers.

This follows a review by the Treasury Inspector General for Tax Administration of the IRS's Fraudulent Return Request Program, introduced in November 2015.

TIGTA found that 25 percent of the time an IRS employee had made one or more processing errors when dealing with requests from taxpayers. These included not processing the request for a copy of the fraudulent return in a timely manner and not properly redacting all the required information from the return.

Responding to TIGTA's concerns, IRS management said it had also conducted a review and committed to improving its processes and performance. – *Courtesy tax-news.com*

World

MENA Airlines concerned about rising tax burden

Aviation industry players in the Middle East and North Africa region are concerned about rising taxes and charges, says the International Air Transport Association.

The taxation of the aviation sector in the MENA region was one of the four items on the agenda at the Arab Air Carriers Organization's 49th Annual General Meeting in Casablanca, Morocco, alongside infrastructure, consumer protection regulations, and security.

According to the International Air Transport Association (IATA), about USD700m in extra costs were imposed on the industry in 2015 alone. It called for "cooperation to reverse unprecedented rises in taxes and charges."

"Every dollar that a passenger spends in the region creates jobs and spreads prosperity. And every dollar collected in taxes or charges is an incentive for travelers to go elsewhere," said Alexandre de Juniac, IATA's Director General and CEO, in his opening remarks at the meeting.

"A low cost structure is a key component of the region's success, particularly in the Gulf," he added.

IATA says tax is one of the major obstacles to growth in the global aviation sector, and frequently criticizes governments for introducing taxes that "unjustly target the industry," especially in cases where tax revenues are not reinvested in aviation infrastructure and related areas. "Unwarranted or excessive

taxation on international air transport has a negative impact on economic and social development,” it says.

According to IATA, airlines and their customers are expected to generate USD118bn in tax revenues in 2016, equivalent to 45 percent of the industry’s gross value-added. – *Courtesy tax-news.com*

European Union

EU claims WTO victory in Boeing tax break case

The EU has claimed victory in a WTO dispute with the US over tax treatment afforded by the state of Washington to Boeing.

In December 2014, the EU requested consultations with the US on “conditional tax incentives” established by the state of Washington in relation to the development, manufacture, and sale of large civil aircraft. The EU alleged that the measures are prohibited subsidies, inconsistent with the WTO’s Subsidies and Countervailing Measures (SCM) Agreement.

Following a further EU request, a WTO panel was set up in September 2015. The panel’s final report was published on November 28.

The dispute concerned legislation that amended and extended various tax incentives for the aerospace industry. In particular, the EU raised objections to seven separate incentives, including a reduced business and occupation tax rate, credits against business taxation, and exemptions from various other taxes in the state of Washington.

While the panel did not rule in favor of the EU on all arguments, it did say that “in each of the contested measures, there is a financial contribution by the Washington state government, and that a benefit is thereby conferred. As a result, the measures are deemed to constitute subsidies under the SCM Agreement.”

However, the WTO said that the EU had not demonstrated that the measures are de jure (by right) contingent upon the use of domestic, rather than imported, goods.

Nevertheless, it did conclude that the reduced business and occupation tax rate for the manufacturing or sale of commercial airplanes under the Boeing 777X program – one of seven contested – is de facto contingent upon the use of domestic over imported

goods. It said that this measure is inconsistent with the SCM Agreement.

Reacting to the ruling, EU Trade Commissioner Cecilia Malmström said: “Today’s WTO ruling is an important victory for the EU and its aircraft industry. The panel has found that the additional massive subsidies of USD5.7bn provided by Washington State to Boeing are strictly illegal. We expect the US to respect the rules, uphold fair competition, and withdraw these subsidies without any delay.”

The EU’s claims were however challenged by Boeing. In a statement, the company said: “The WTO rejected entirely the EU’s challenge to six of the seven incentives and rejected most of the challenge to the seventh. The WTO held only and narrowly that a reduction in Washington state’s Business and Occupancy (B&O) tax rate for future 777X revenues is inconsistent with the WTO agreements. The WTO threw out all of the EU’s other challenges to various incentive programs and left untouched even the B&O tax rate as it applies to revenue from the other Boeing models produced in Washington state – the 737, 747, 767, 777 (current model), and 787.”

It added: “In total, the EU claimed that Boeing had received USD8.7bn in subsidies. This claim was rejected by the WTO, which found future incentives totaling no more than USD50m a year to be impermissible. The WTO found that to date Boeing has received no benefit from the 777X rate incentive, and will not until 2020, because the first airplane will not be delivered until then.” – *Courtesy tax-news.com*

Canada

CRA’s handling of income tax objections criticized

The Canada Revenue Agency (CRA) does not process income tax objections in a timely manner, according to a new report by the Auditor General.

The Office of the Auditor General conducted an audit into whether the CRA was efficiently managing income tax objections. It considered the time it takes the CRA to provide taxpayers with decisions on their objections. It looked at where processing delays occurred, and, in the case of income tax appeals, how the Agency used and communicated information on court decisions.

In the 2014 calendar year, the CRA processed approximately 29.6m income tax returns, with the related income tax totaling almost CAD235bn (USD175.2bn). During the same calendar year, taxpayers filed 66,864 objections, with the income tax in dispute worth about CAD4.8bn.

As of March 31, 2016, the CRA had an inventory of 171,744 objections outstanding for personal and corporate income taxes, which represented more than AUD18bn of federal taxes.

Under the CRA's Taxpayer Bill of Rights, taxpayers have the right to a formal review and subsequent appeal, along with the right to receive timely information.

Overall, the Auditor General found that the CRA took too long to process income tax objections, which contributed to a backlog of the inventory of objections. It also concluded that the Agency's method of measuring performance omitted certain steps in the objection process and that, as a result, the CRA's reported performance results were inaccurate.

The report recommended that the CRA should provide taxpayers with a time estimate for how long it expects it will need to review their objections, based on the case's complexity. It said the CRA should develop and implement an action plan with defined timelines and targets to reduce the inventory of outstanding objections, and conduct a review of the objection process to identify and implement reforms.

The Auditor General also argued that the CRA should modify its performance indicators to ensure it is able to accurately measure and report on whether it is meeting its mandate to provide a timely review. These indicators should include all steps in the process from the time the objection is lodged, and the Agency should report these indicators, related targets, and results to Parliament. – *Courtesy tax-news.com*

OECD

OECD: Australian tax reform falling short

Australia has failed to make substantial and crucial changes to its tax system, the OECD said, noting its previous recommendation for a major shift in the tax mix.

In its latest Economic Forecast, the OECD noted that reforms are underway to better target superannuation tax concessions, and

that reductions in company tax rates are also proposed. However, the report referred back to the OECD's previous Economic Surveys of Australia, and explained that it had "stress[ed] the importance of efficient tax bases, such as goods and services tax and land tax."

Turning to the economy more broadly, the OECD stated that economic growth is projected to "pick up to three percent by 2018," with monetary policy tightening expected to commence toward the end of 2017.

It explained: "The Government envisages fiscal consolidation. In the event of disappointing growth, however, fiscal rather than monetary support should play the leading role given the housing market concerns and fiscal leeway. Tax reform should be a core element of structural policy." – *Courtesy tax-news.com*

Financing for HBFC: FBR says it's ready to grant tax exemptions

Federal Board of Revenue said on Thursday that it is ready to consider and grant tax exemptions in the larger interest of the country after the Senate Standing Committee on Finance sought its opinion on issuance of tax-free bonds to arrange financing for House Building Finance Corporation (HBFC).

A meeting of the Finance Committee chaired by Senator Saleem Mandviwalla took a briefing on the financial health of the HBFC and how the corporation established to provide financing for houses to the low-income group, Rs 480 billion circular debt, and why Federal Consolidated Fund was regulated through presidential rules as a stop-gap arrangement instead of an Act of the Parliament.

The committee was informed that a proposal of issuance of tax free bonds was forwarded to the government and Federal Board of Revenue to mobilise finances for HBFC but the proposal was not taken seriously. Upon this, the committee sought FBR's viewpoint and Member FBR Rahmat Ullah Wazir stated, "Although we are withdrawing tax exemptions and concessions, yet we are ready to grant tax exemption in the larger interest of the country."

The meeting was informed that HBFC is not viable in its present structure because of lack of finances. The committee also invited well-known Chartered Accountant Syed Muhammad Shabbar Zaidi. Zaidi stated there are only two options to make it viable, either the government allows it to issue a tax-free bond or provides a subsidy to it. The Finance Ministry did not support the proposal of providing subsidy to the housing sector because commercial banks are there to help the consumers.

A sub-committee was also constituted to probe Rs 480 billion circular debt paid by the present government soon after coming to power. A two-member sub-committee headed by Mohsin Aziz would look into the matter of the circular debt from initiation of the summary to audit and payment of the amount and would submit a report to the committee within 60 days. The sub-committee was constituted after Water and Power Ministry failed to satisfy the main committee of the finance on the issue of circular debt during a string of committee meetings.

The committee also recommended to the government to adopt a Parliamentary Act to regulate inflows and outflows from Federal Consolidated Fund. Secretary Finance Dr Waqar Masood said

since 1935, the whole system of Federal Consolidated Funds has been regulated through its own rules. He also argued there is no need of legislation to regulate the Fund because it would not have any impact on its functioning.

Waqar Masood said that the ministry is also working on Financial Code and it will be ready by December 2016. The Financial Code, he added, is under review to update the entire code and align it with the new realities and requirements faced by public finance management.

He added that the rules made by the President comprehensively cover the payments of moneys into and withdrawal from Consolidated Fund and Public Accounts, and other related matters. These rules include the General Financial Rules, the Treasury Rules, GP Fund Rules, Accounting Policy and Procedures Manual, etc. The secretary finance stated that in addition to financial rules, the federal government has in place regulations/office memoranda that guide the system of financial control and budgeting from planning to post-implementation processes related to development projects, besides other executive orders that are approved from time to time by the competent forums. The custody of Consolidated Fund and Public Account is guided by the rules made by the President under the Constitution, added finance secretary. The committee also directed State Bank of Pakistan to resolve Najam Korashi's 26-year-old financial matter of compound of interest on 150,000 pounds with a leading bank in the light of a decree as per order of the Supreme Court of Pakistan. – *Courtesy Business Recorder*

FTO Secretariat holds awareness workshop for Peshawar traders

Federal Tax Ombudsman (FTO) has organised an awareness workshop regarding its project titled "Public Awareness and Advocacy About Dispute Resolution Mechanism of Federal Tax Ombudsman" for medium and small scale enterprises on Wednesday at a local hotel of Peshawar.

M Siddique, Advisor (Implementation & Monitoring), shed light on the historical perspective of the ombudsman office. He gave detailed presentation about the working of the FTO office. He said at present, there are 150 ombudsman offices in the world. In Pakistan, the ombudsman office was established in 1983 and in year 2000, an independent office of Federal Tax Ombudsman was

established. He elaborated in detail the complaint filing procedure and other available facilities provided by the FTO office to aggrieved taxpayers.

He said the mandate of FTO office is to ensure prompt and inexpensive redress of taxpayers' genuine grievances against maladministration by the tax employees of Federal Board of Revenue Revenue Division, Government of Pakistan. He said an average 1500 complaints annually are currently being handled by the FTO offices across Pakistan. Siddique also highlighted the success stories of the FTO office since its establishment in year 2000. – *Courtesy Business Recorder*

C.No.6(88)/ST-LP&E/ZR/2016/144408-R

Islamabad, the 16th November, 2016**SALES TAX GENERAL ORDER NO. 131/2016**

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

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, read with SRO. 1125(I)/2011 dated 31.12.2011, the Federal Board of Revenue is pleased to make the following further amendments in its Sales Tax General Order No. 09 of 2007 dated 13th September, 2007 namely:–

In the aforesaid General Order, in the Table, after serial number 2756 in column (1) and the entries relating thereto in columns (2), (3) and (4), the following new serial number and the entries relating thereto shall be **added**, namely:–

S. #	Name of Unit	Registration No.	Consumer No.
2757	H.S. Textiles	3277876117389	24131535309503 U

C.No.4(2)ST-LP&E/ZR/2016/144415-R

Islamabad, the 16th November, 2016**SALES TAX GENERAL ORDER NO. 132/2016**

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

In exercise of powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, read with SRO. 1125(I)/2011 dated 31.12.2011, the Federal Board of Revenue is pleased to make the following further amendment in its Sales Tax General Order No. 11 of 2007 dated 13th September, 2007 namely:–

In the aforesaid General Order, in the Table, after serial number 575 in column (1) and the entries relating thereto in columns (2), (3) and (4), the following new serial number and the entries relating thereto shall be **added**, namely:–

S. #	Name of Unit	Registration No.	Consumer No.
576	Pakistan Tannery	0990999955655	27122351832801 U

C.No.15(1)ST-LP&E/ZR/2016/146839-R

Islamabad, the 24th November, 2016**SALES TAX GENERAL ORDER NO. 133/2016**Subject: **Allowing facility of zero-rating on supply of Diesel Oil and Coal.**

In exercise of the powers conferred by clause (d) of section 4 of the Sales Tax Act, 1990, the Board is pleased to specify the purchase of Coal, falling under HS Code 2701.0000 and diesel oil falling under HS Code 2710.1931 of the First Schedule to the Customs Act, 1969, supplied by the Registered Persons mentioned in the column (2), to M/s Liberty Mills Limited bearing STRN 0201511103746, as the goods on which sales tax shall be charged at the rate of zero per cent subject to the conditions mentioned in the sTGO 107/2016 dated 20.09.2016, with additions of the following:

- (a) Monthly zero-rated supply of Coal and Diesel Oil shall not exceed the quantity mentioned in Column (3).
- (b) The Diesel Oil and Coal shall only be consumed in the manufacture of goods specified in Notification No. SRO 1125(I)/2011 dated 31.12.2011.
- (c) The Boilers and Generators for which Diesel Oil and Coal have been purchased shall be installed at the declared manufacturing premises of Registered Person.

S.#	Name of Supplier	Qty per month	Particulars of Suppliers	Fuel
1	2	3	4	5
1.	Hascol Petroleum Limited	26,629 Liters	NTN 1496632-8 STRN 1200271018373	Diesel Oil
2.	Byco Petroleum Pakistan Ltd	26,629 Liters	NTN 0815616-6 STRN 1200271002019	Diesel Oil
3.	Awan Trading Co (Pvt) Ltd.	2,896 Tons	NTN 1019292-1 STRN 1220999937946	Coal