Tax Review/Taxation

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Taxation issues

Editorial, Courtesy Business Recorder
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Senate Standing Committee on Finance chaired by Senator and former finance minister Saleem Mandviwalla is often well prepared to criticise the financial authorities and take on the government for its shortcomings. In a recent encounter with FBR Chairman, Nisar Khan, the Senate Committee noted that all governments give fake revenue collection figures and the targets were met only by squeezing the existing taxpayers. Budget deficit data were incorrect. Taxes were collected in advance. FBR had already taken taxes from the National Bank up to December, 2016 and several other entities were also obliged to pay taxes for the next three to six months with the result that there would be a shortfall in revenues in future. Members of the Committee felt that the budget deficit could be much higher than what was shown in documents. They also said that the high-handedness of the FBR should end and it was planned to strike down Section 138 of the Income Tax Ordinance that allows the FBR to seize the bank accounts of a person who paid less than the required tax. The Committee also discussed the impact of monetisation of vehicles on the annual budget of the ministries and termed the policy a failure due to excessive expenditures. Mandviwalla also asked the FBR Chairman to stop accepting unrealistic revenue targets from the Finance Ministry. FBR only “grills and grinds” the existing taxpayers to meet its targets.

Responding to the charges of the Senate Committee, the FBR Chief admitted that the revenue collection target of Rs 3.62 trillion for FTY17 was high and seemingly unrealistic. The FBR had not anticipated, for example, in the budget documents that the sales tax on fertilizers would be reduced from 17 percent to 5 percent. FBR could only collect Rs 625 billion during the first quarter of FY17 or only 6 percent higher than last year as against the desired target of over 18 percent growth due to the government’s decision to keep the domestic prices of oil unchanged and stalemate on property valuation and banking transactions. The FBR officials, however, disagreed to the observations of Mandviwalla about taking taxes in advance from the private sector. They also informed the Committee that FBR had stopped seizing bank accounts after issuing the notices and this action was taken only at the appeal stage.

The highly critical attitude of the Senate Standing Committee on Finance appears to be largely justified. One reason for this plain talk and down to earth position could be the tenure of Mandviwalla in the Ministry of Finance in the last government and his close observations of the working of the FBR. Anyhow, the analysts who are aware of the usual working of the FRR could easily infer that what the Standing Committee has said makes ample sense and Nisar Khan had no proper answer to refute the charges. It could be easily seen from the previous data that tax targets were rarely met and shortfalls in collections every year were explained through various pretexts. This year too, the position is similar as tax receipts during the first quarter of FY17 have only increased by 6 percent as against the annual target of 18 percent. It could be argued that the tax receipts during the remaining part of the year could be increased sharply, ie, by over 18 percent to compensate for the shortfall during the first quarter of the year but this is not going to happen. The PML-N government does not seem to be in a mood to mount revenue mobilisation efforts in view of the present stiff opposition from some of the political parties and the coming elections which are not very far away. The government is also not interested in containing public expenditures which could help reduce the budget deficit. There is absolutely no doubt that existing taxpayers continue to be squeezed by the tax authorities and non-filers continue to lead an easy life without much pressure from the FBR. Non-filers have been subjected to extra levies on certain services and items but it would probably take a long time to bring them into the formal/regular tax net. Collection of advance tax to meet the targets is an old story which cannot be defended or denied. Policy of monetisation of vehicles was implemented to save money and make the bureaucracy less profligate but such expectations do not seem to have materialised. The reported disbursements of Rs 60,000 to a joint secretary and Rs 120,000 to a secretary for fuel and maintenance of vehicles are of course excessive and the change in the policy had not the desired effect. Seizing of bank accounts of course should be very rare and selective.

While there was no plausible denial for the tax issues raised by the Senate Committee, there is no denying the fact that old habits die hard and it will also take some time to resolve these issues. However, we are pleased that the right kind of noises have been made. Their wider publication will make the people more aware about the problems at hand and the right strategies expected to be followed. However, while Saleem Mandviwalla and his Committee now seem to be firing in the right direction and from a close range, it would be pertinent to raise the question of his inability to do the needful when he was in charge of the Finance Ministry.

Ugly preponderance of politics

by
Anjum Ibrahim

The subordination of economics to politics is evident in some decisions taken by governments around the world however unfortunately in Pakistan political considerations trumping economic considerations have become routine; and account for decisions that provide direct relief to the general public through subsidies which remain largely untargeted and/or granting new gas/electricity connections during severe shortages without considering the negative outcome on productive/household sectors as well as support to loyalists through award of contracts/appointments not based on merit.

There are a number of flawed economic decisions taken for purely political reasons that the Pakistani people have been subjected to during the three most recent administrations: Pervez Musahrraf, Asif Ali Zardari and Nawaz Sharif. The most destructive decision taken by Musharraf was to keep domestic petroleum and product prices constant at a time when they were rising internationally - peaking at a little over 140 dollars per barrel. His objective: not to alienate the public prior to the scheduled elections of 2008. The outcome: an unsustainable deficit of over 8 percent that had negative implications on the general price level, particularly food prices that rose by 24 percent, and compelled the newly elected Zardari government to go on an International Monetary Fund (IMF) programme.

Zardari, following party practice, began to use state owned entities (SOEs) as recruitment centres for political supporters that led to their further hemorrhaging requiring over 500 billion rupees per annum budgetary injections to keep them afloat. The Sharif administration during its three and a half years has been unable to improve governance of SOEs, one estimate not challenged by the government reveals that Pakistan International Airlines, Pakistan Steel Mills and Pakistan Railways are in the red to the tune of a bit over 700 billion rupees. And even though Nawaz Sharif has been maintaining that governance of these entities has improved since he took over power in 2013, he mentioned PIA in particular in recent weeks, yet perhaps he is unaware that Pakistan State Oil this week past warned PIA of fuel suspension unless it paid its past dues.

Subsidies to the power sector, more targeted, continue to be significant - budgeted at 95.4 billion rupees for Wapda/Pepco and 22.6 billion rupees for K-electric in the current year (in spite of 66 percent share ownership of Abraaj Group). The bulk of the subsidy is earmarked for inter-disco tariff differential. However the government taxes this sector significantly and earns more from it (including on fuel used by the transportation sector) than it releases as subsidy. This contention is borne out by the fact that the current year's budget envisions revenue from petroleum development levy at 150 billion rupees alone though sales tax, excise duty are also significant components of the fuel and electricity price. The Sharif administration has attempted to improve governance of this sector through linking hours of load shedding to dues owed to a specific feeder, and efforts are underway to enhance generation capacity but the consensus is that the more urgent need is to improve the transmission network that has a capacity of only 16500MW at best.

Higher rates proposed by regulatory authorities, notably Oil and gas Development Authority and Pakistan Electric Power Company (Pepco) are routinely dismissed during times of political uncertainty triggered by periods of opposition jalsas and/or civilian military leadership not being on the same page. The economy was able to absorb such flawed decisions during periods of falling international fuel prices (during the past three years) however this trend in oil prices is unlikely to continue and requires economic decision making to prevail over politics.

Subsidies also continue to be extended on some essential items through PASSCO (for wheat and freight subsidy on sugar export by TDAP) to the tune of 15.3 billion rupees in the current year with 10 billion rupees disbursed last year, and 7 billion rupees budgeted for Utility Stores Corporation as the Ramazan package which is untargeted. Disturbingly sugar mill owners in this country reflect a who's who of our political leaders and the government is in arrears here too (reminiscent of the sales tax refund arrears to our exporters) and allocated 5 billion rupees for the payment of past sugar arrears in the current year as opposed to releasing 2 billion rupees last year (though 4 billion rupees were budgeted for the purpose). Additionally, the federal budget 2016-17 envisaged 46 billion rupee subsidy for fertiliser - urea and DAP - to be shared equally with provincial governments, however, so far no province has disbursed the amount due though Punjab has approved it.

Contracts awarded to domestic private parties with political affiliations as well as signing long-term deals with foreign governments/private sector continue to raise questions of financial integrity at worst and conflict of interest at best. Examples of the former include Hajj and ephedrine scandal, to name just two during the PPP government's tenure, and the Pindi-Islamabad Metrobus awarded to a Rawalpindi-based PML-N leader during the Sharif administration. Examples of the latter include the power rental deals during the PPP government and the LNG deal of the present government. And it is telling that while the PPP led cabinet agreed to a third part audit of the rental deals the incumbent government has failed to upload the LNG deal signed with Qatar ten months ago in spite of repeated assurances by the relevant Minister that he would do so.

The status quo parties - PPP and the PML-N - support more gas and electricity connections in spite of the existing shortfall - which is economically not a viable policy. Prime Minister Nawaz Sharif has been announcing new gas connections in jalsas as his legal team struggles to defend his family in the Panama papers; additionally, if funding is disbursed and new connections given as per the Prime Minister's commitment in recent jalsas the deficit would be considerably higher than what has been budgeted which would have repercussions on the rate of inflation and take us one step closer to yet another IMF programme.

And perhaps the most serious charge that can be levelled on both the Zardari and the Sharif administrations is their penchant for supporting the provincial government controlled by their party when in power in the centre. During the Zardari tenure K-Electric was given a contract allowing 650MW from the national grid while at present there is an obvious pro-Punjab bias in allocating federal resources for road construction, new energy projects and other infrastructure development projects to the chagrin of provinces governed by other parties.

Today prominent members of the cabinet as well as Punjab cabinet ministers are not only using the state's resources (our tax money) and time on defending the Prime Minister and his three children in legal matters that are entirely of a personal nature rather than on improving the appalling governance in their respective ministries. During the PPP tenure cabinet members also spent evenings defending their leaders' past and ongoing financial misdemeanours.

To conclude, the system in place supported by the status quo parties - PPP and PML-N - is to favour subsidies and populist policies for example new connections/appointments/laptop/tractor schemes etc as a means to get elected and to protect allegations against their leaders inside and out of the courts. Unless this mindset changes there will be little improvement in the quality of life of the general public.

Switzerland

Switzerland may start CbC exchanges from 2020

Multinationals operating in Switzerland could be required to draw up country-by-country (CbC) reports from the 2018 tax year if the Swiss Parliament approves new proposals put forward by the Federal Council.

On November 23, the Swiss Federal Council adopted a dispatch on the automatic exchange of CbC reports and the federal legislation required for its implementation. CbC reports will provide information on how the turnover generated and the taxes paid by a multinational group of companies are distributed globally.

Only multinationals with an annual consolidated turnover of more than EUR750m (USD792.9m) (or the equivalent in the national currency as of January 1, 2015) will be required to provide CbC reports. The Federal Council expects that around 200 groups resident in Switzerland will be affected.

To implement the new rules, three legal bases must exist. In the first instance, the OECD/Council of Europe Convention on Mutual Assistance in Tax Matters must enter into force. This is scheduled for January 1, 2017, and will be applicable for Switzerland from January 1, 2018. Second, the Multilateral Competent Authority Agreement (MCAA) on the Exchange of Country-by-Country Reports must be implemented. Switzerland signed this agreement on January 27, 2016, and it will now be submitted to Parliament for approval. Finally, the Federal Act on the International Automatic Exchange of Country-by-Country Reports of Multinationals must be passed by Parliament. The Federal Council is submitting this legislation to Parliament.

If Parliament approves the proposals and a referendum is not held, the MCAA and the Federal Act should enter into force at the end of 2017. Multinationals in Switzerland would therefore be obliged to draw up CbC reports from the 2018 tax year. Provided that the relevant legislation enters into force by the end of 2017, multinationals would be able to voluntarily submit country-by-country reports for tax periods before 2018.

The Federal Council expects the exchange of CbC reports with partner states to begin in 2020. The Federal Council will determine the countries with which it wishes to exchange data.

Once the relevant bilateral agreements have been reached, CbC reports will be transmitted automatically on an annual basis to the tax authorities of the countries where affected companies have business units. – *Courtesy tax-news.com*

Australia

Australian gov't to propose 15 percent backpacker tax

The Australian Government has said that it will publish legislation to further lower the proposed backpacker tax rate to 15 percent.

Treasurer Scott Morrison made the announcement during a press conference on November 28. It followed weeks of negotiations with independent senators and attempts by the Labor Party to cut the rate from 19 percent to 10.5 percent.

Last week, Morrison dismissed calls for a compromise on a 15 percent rate, warning that a reduction of four percentage points would cost AUD120m (USD89.7m) over four years.

Under the Government's proposals, most working holiday makers will be treated as non-residents for tax purposes, preventing them from accessing the AUD18,200 tax-free threshold. The Government had originally intended to introduce a 32.5 percent rate from July 2016, but later reduced this to 19 percent and pushed the implementation date to January 1, 2017.

On November 24, the Senate voted in favor of an amendment to lower the rate to 10.5 percent, but the Senate's amendment was subsequently rejected by the House of Representatives. The Government had said that if the legislation was not passed before the Christmas break, the rate would revert to 32.5 percent from January 1. Non-residents are charged income tax at 32.5 percent on every dollar earned.

Morrison said that the compromise reached with independent senators, including Nick Xenophon, will allow the Government to move forward with its plans. However, he added that "the Parliament will now have a AUD120m bill to deal with as a result of making this change."

Morrison explained that the Government will announce how it intends to plug the AUD120m hole as part of the Mid-Year Economic and Fiscal Outlook (MYEFO) on December 19.

News of the compromise was welcomed by the Australian Chamber – Tourism. CEO James Pearson said the 15 percent rate was more internationally competitive than the 32.5 percent rate originally proposed and will mean that Australia remains able "to attract the backpacker labor it needs to pick fruit come harvest time and service cafes, restaurants, and accommodation."

The Labor Party on the other hand described the announcement as "the latest humiliating back down in what has been a rolling crisis for the Abbott/Turnbull Government."

Shadow Treasurer Chris Bowen said: "The backpacker tax has been ill-conceived, ill-thought out, based on no consultation, and the Government has lurched from position to position in a way which has undermined confidence in regional Australia, which has affected backpacker numbers to Australia even already, even before the tax has come into place."

Bowen stressed that the Labor Party "will maintain its position on a 10.5 percent preferred tax rate." – *Courtesy tax-news.com*

China

China to challenge Trump tariffs at WTO

During a press conference on November 23, China's deputy international trade representative Zhang Xiangchen said that China would use World Tariff Organization (WTO) rules to counter the tariffs threatened by US President-elect Donald Trump.

Before his election, Trump pointed out that he would impose a 45 percent tariff on imports from China to counteract China's not "living by the rules," particularly with regard to its alleged currency devaluation policy. "I would tax China on products coming in," he said, although he also commented that just the threat of sharply higher tariffs could itself alter China's policies.

However, in the press briefing after the US-China Joint Commission on Commerce and Trade China, Zhang confirmed that China denies any use of currency devaluation to help its exporters, and would rely on the US honoring its WTO obligations to protect against any unjustified imposition of tariffs. He did not mention any possible retaliatory action against US exports to China. – *Courtesy tax-news.com*

United Kingdom

UK to reduce VAT flat rate scheme benefits

As announced in the Autumn Statement, the UK Government is to clamp down on the "inappropriate use" of the VAT flat rate scheme (FRS) for small businesses.

Typically, under the value-added tax regime, businesses are eligible for input tax credits on the goods or services they acquire to make onward supplies, thereby reducing the amount of VAT they must remit to HM Revenue and Customs.

Under the flat rate scheme, companies with revenues of less than GBP150,000 a year can remit a set percentage of VAT on outputs depending on their type of business. This allows them to obtain a fixed percentage VAT refund (the amount between the rate charged to the customer and the rate set for their type of business), to offset the VAT they have incurred on inputs. The scheme is intended to reduce the compliance burden for smaller businesses.

The Government said it is concerned that certain companies are paying less VAT than similar businesses not subject to the scheme.

Chancellor Philip Hammond said in his Autumn Statement speech: "We will shut down inappropriate use of the VAT flat-rate scheme that was put in place to help small businesses."

From April 1, 2017, businesses with low cost bases, known as limited cost traders, will be required to remit 16.5 percent VAT on their supplies under the FRS. Therefore they will only be able to claim notional input tax relief at 3.5 percent.

The change will impact companies that spend less than two percent of their gross turnover on goods, or spend less than GBP1,000 (USD1,240) on goods in a year. Spending on low-cost capital goods, vehicles, or food and drink will be disregarded. The change is to impact services providers in particular. – *Courtesy tax-news.com*

European Union

EU publishes Tax-GDP ratios for member states

The tax-to-GDP ratio in the European Union remained stable in 2015, while the ratio in the Eurozone was down slightly on the previous year.

According to Eurostat, the EU's statistics office, tax revenue accounted for 40 percent of EU GDP in 2015. In the euro area, the tax-to-GDP ratio fell from 41.5 percent in 2014 to 21.4 percent in 2015. "This is the first time since its low point 2010 that the tax-to-GDP ratio in both zones did not increase," Eurostat said.

Eurostat said that the tax-to-GDP ratio varies significantly between EU member states. The highest ratios were recorded in

France (47.9 percent), Denmark (47.6 percent), and Belgium (47.5 percent).

At 24.4 percent, Ireland had the lowest ratio. However, Eurostat explained that Ireland's GDP for 2015 "was substantially affected by the relocation from outside the EU to Ireland of balance sheets of large multinational enterprises." Beyond that, Romania (28 percent), Bulgaria (29 percent), and Lithuania (29.4 percent) registered the lowest ratios.

The largest increases to ratios were seen in Lithuania, where the ratio rose from 27.9 percent in 2014 to 29.4 percent in 2015, and Estonia (from 32.8 percent to 34.1 percent). In contrast, decreases were recorded in eight member states. Ireland saw the largest drop, from 29.9 percent to 24.4 percent, followed by Denmark (50.3 percent to 47.6 percent).

At 13.6 percent, taxes on production and imports accounted for the greatest share of EU GDP. This was followed by net social contributions (13.2 percent) and taxes on income and wealth (13 percent). In the Eurozone, net social contributions represented the greatest share (15.3 percent), followed by taxes on production and imports (13.3 percent) and taxes on income and wealth (12.6 percent).

Eurostat said that "a clear diversity prevails across the EU member states" when it comes to the revenue generated by the main tax categories. For instance, the share of taxes on production and imports as a percentage of GDP was highest in Sweden, Croatia, and Hungary, and lowest in Ireland, Germany, and Slovakia. The highest ratios for taxes on income and wealth were recorded in Denmark, Sweden, and Belgium. – *Courtesy tax-news.com*

United Kingdom – European Union

ESRI: Brexit to hit UK-Europe trade

If the UK's trading relationship with the EU reverts to World Trade Organisation (WTO) rules post-Brexit, the impact on trade with individual EU member states will depend on the volume and nature of the merchandise traded, Ireland's Economic and Social Research Institute (ESRI) has said.

ESRI analyzed bilateral trade flows between the UK and each of the 27 other EU member states. It obtained information on the value and unit/weight of over 5,200 product lines and matched each line to the external tariff applied by the EU to third country trade as registered with the WTO where there is no separately agreed trade agreement.

"In the event of a 'hard' Brexit and no immediately agreed trade treaty, we assume these third country tariffs would be the fall-back or default position between the EU and UK. We further assume that these tariffs would be applied by both the EU and the UK," ESRI stated.

The report explained: "The WTO tariffs vary widely across products with many subject to a zero tariff while some products are subject to a tariff as high as 75 percent (for water pipe tobacco). Many basic products and commodities are subject to both an ad valorem tariff and a weight based tariff which often results in high overall levels of tariff."

"This implies that the aggregate impact of Brexit under a WTO scenario is a function of the detailed trade patterns and the impact will thus vary considerably across EU member states."

The report noted that the UK's most important trading partners are Germany (10.2 percent of total merchandise exports) and France (5.9 percent), while Croatia and Latvia account for only 0.05 percent and 0.07 percent of UK exports, respectively. It said that the UK is a particularly important destination for merchandise exports for certain countries, accounting for 13.7 percent of Irish exports and 10.1 percent of Cypriot exports. By contrast, Croatia and Slovenia export only 1.7 percent and 2.2 percent of their merchandise to the UK, respectively.

ESRI calculated that, overall, the application of WTO tariff rates on exports from the EU to the UK would result in an average (minimum) tariff of 4.1 percent. At two percent, the lowest tariff would be imposed by Luxembourg, whereas the tariff on UK exports to Ireland would be six percent (with a potential maximum value of 11.7 percent).

ESRI also found that "the implied tariff that would be imposed by the UK on goods coming from the EU would be higher than that applied by the EU." It estimated that the average minimum tariff would be 5.7 percent, but that tariffs imposed on imports from Denmark and Ireland would be over 10 percent.

On a sector-by-sector basis, a number of sectors – including paper products, pharmaceuticals, iron and steel – would face either no tariff or a rate set very close to zero. On the other hand, ESRI calculated that food, clothing, and tobacco products would face the highest tariffs. Meat products exported from the UK to the EU could be hit by tariffs of 49.4 percent, while cereals could face tariffs of 45.7 percent, and tobacco 38.1 percent.

Overall, ESRI estimated that, under this scenario, the EU's exports to the UK would fall by 30 percent, representing a two percent reduction in its total world trade. Ireland and Belgium would be worst affected, losing four percent and 3.1 percent of their total exports, respectively.

It added that the UK's exports to the EU would fall by 22 percent. However, "as these reductions apply to 27 trading partners, the aggregate effect is larger than that of the EU with the UK facing a fall in its total trade of 9.8 percent," it explained. – *Courtesy tax-news.com*

Realty sector, provincial ST adjustment: Ordinances extended by 120 days

The Opposition staged a walkout from the National Assembly in protest against the extension-for a further period of 120 days- in "The Income Tax (Amendment) Ordinance, 2016," which is related to valuation of immovable properties, and "The Tax Laws (Amendment) Ordinance, 2016," wherein input adjustment on provincial sales tax adjustment has been restored. The opposition members said that tabling the ordinances in the Parliament is tantamount to insult of the House. The Parliament should not be turned into an "ordinance factory", they said.

Federal Minister for Law and Justice Zahid Hamid moved separate resolutions in the House to extend both the Ordinances for the next 120 days. With the promulgation of the Presidential "Income Tax (Amendment) Ordinance, 2016" for new property tax, the FBR is empowered to place market value up to an extent which will yield a substantial increase in revenue collection during the current fiscal year 2016-17.

Syed Naveed Qamar while opposing the resolution said that National Assembly Standing Committee on Finance has approved this ordinance in the form of a bill which is totally against the "Income Tax (Amendment) Ordinance, 2016." He said the government should not extend the ordinance as the Committee has approved the bill. He said the government should clear its position in relation to the Ordinance. He said that Finance Committee and Federal Board of Revenue have opposed the ordinance. But this ordinance is being extended only at the behest of the Ministry of Finance, he said.

While discussing the Income Tax (Amendment) Ordinance, 2016, Rashid Godil of Muttahida Qaumi Movement (MQM) Pakistan said that it is right of the province to evaluate the prices of properties under the 18th Constitutional Amendment. He said that the FBR has evaluated the properties of 21 cities within 4 days which is not possible while the properties in other cities would be DC valued, which is an injustice. He said the government must not implement two different laws at the same time in the cities.

Aftab Ahmed Khan Sherpao said the government is not giving importance to the Parliament and relies on ordinances and SROs to run the affairs of the country. He said that the 18th Constitutional Amendment stipulates a reduction in ordinances.

"Ordinance and SROs affect the powers of the Parliament. The powers which were given to the provinces under the 18th Constitutional Amendment are being snatched away," he said.

Sahibzada Tariq Ullah of Jamaat-e-Ismali (JI) also opposed the ordinances and said that it is tantamount to a no-confidence vote against Parliament. He added that the government should give importance to the Parliament. While responding to the opposition members, Parliamentary Secretary for Finance Rana Muhammad Afzal said that Finance Committee has discussed the ordinance thoroughly. He said if the Committee has approved the bill relating to the ordinance earlier, there was no need to extend the ordinance further for the next 120 days. He said that the Parliament would approve the bill in the next few days.

He said, "We are closing the door of black money through ordinances and legislations." Afterwards, the whole opposition staged a walkout from the House in protest against the ordinances. Later, the House passed both the resolutions in the absence of Opposition. Chairman Standing Committee on Finance Qaiser Ahmad Sheikh also presented a report on the "Income Tax (Amendment) Bill, 2016" in the House. Rana Muhammad Afzal also laid before the House the annual report of the State Bank of Pakistan on the State of Pakistan's Economy for the year 2015-16. – *Courtesy Business Recorder*

Customs values on copper laminated sheets revised

Directorate General of Customs Valuation Karachi has revised customs values on the import of copper clad laminated sheets. According to a valuation ruling issued here on Monday, the customs value of copper clad laminated sheets was determined and notified vide Valuation Ruling No 821/2016, dated 18-03-2016.

A number of representations were received from stakeholders for revision of the valuation ruling as the prices of raw material have decreased internationally. Therefore, the Directorate General initiated an exercise for determination of the customs values of the copper clad laminated sheets under Section 25A in order to reflect the prevailing international prices.

Stakeholders' participation in determination of Customs values: A meeting for the determination of customs values of copper clad laminated sheets with stakeholders was scheduled on 24-11-2016. Different stakeholders, including importers, representatives of

FPCC&I & KCC&I, besides Clearance Collectorate were requested to attend the meeting. It was attended by a few commercial importers.

A few documents were submitted by the importers but all requisite documents were not furnished. The importers were of the view that due to fall in the prices of petrochemical, copper and materials used for laminates have reduced significantly in the international market which has resulted in decrease in the prices of copper clad laminated sheets. During the meeting they also presented their LCs and invoices indicating values much lower than the existing values in the ruling. It was also clarified during the meeting that almost all import of the subject goods is from China. They also contended that there are different types of copper clad laminated sheets, but the import in Pakistan is mostly of low quality sheets where base material is paper phenolic resin which is cheaper than glass epoxy resin base laminates, ruling said.

It said that the valuation methods given in Section 25 of the Customs Act, 1969 were applied sequentially to address the valuation issue at hand. Transaction Value Method under Sub-Section (1) of Section 25 of the Act ibid was found inapplicable because required information under the law was not available. Identical and Similar Goods valuation methods provided in Sub-Sections (5) and (6) of Section 25 of the Customs Act, 1969 provided some reference values but due to wide variations in the declarations the same could not be relied upon exclusively. In the sequential order, the directorate also conducted market inquiries in terms of Sub-Section (7) of Section 25 of the Customs Act, 1969. Input and feed back by the participants during the stakeholders' meetings were also considered. Online available information was also checked. All the available information was analysed and evaluated. Keeping this in view, Customs values of copper clad laminated sheets are determined under Sub section (9) of Section 25 of the Customs Act, 1969. – *Courtesy Business Recorder*

Rs 1.2 million India currency seized at Lahore airport

Airport customs authorities on Monday foiled a bid to smuggle Indian currency of Rs 1.2 million abroad and arrested a passenger at Allama Iqbal international airport. According to customs sources, a passenger named Ijaz Hussain resident of Allama Iqbal Town came at airport for leaving Dubai through a private flight and during scrutiny process Rs 12 lakh of India currency were recovered for his bag. The accused passenger was arrested for investigation. – *Courtesy Business Recorder*

Proposed amnesty scheme for real estate sector: FBR has not conducted any study on revenue impact

The Federal Board of Revenue (FBR) has not worked out the exact estimated figure to be generated from the proposed one-time amnesty scheme for real estate sector, which was recently approved by the National Assembly's Standing Committee on Finance.

Sources told here on Monday that the FBR has opposed both the proposals of real estate sector ie onetime exemption/waiver from explanation of sources of investment in immovable property and fixation of nominal tax rate for difference between the DC rates and the FBR notified rates. "FBR strongly opposed the scheme. Therefore, FBR has not conducted any detailed study on revenue impact from the proposed amnesty scheme," they remarked.

Referring to a guesstimate of Rs 7,000 billion invested in real estate sector annually, sources said if it is assumed that Rs 7,000 billion are invested, the tax may be worked out over Rs 200 billion per year on payment of 3 percent proposed tax. Another assumption is that if Rs 4,000 billion transactions took place in real estate sector, Rs 115-120 billion could be estimated at the rate of 3 percent proposed tax. But all these are guesstimate and FBR has not worked out the exact revenue impact of the amnesty scheme keeping in view serious reservations over the amnesty schemes as a government policy.

Various proposals were also put forth by the members in the 41st meeting of the Standing Committee of the National Assembly on Finance, Revenue, Economic Affairs, Statistic and Privatisation held on October 05, 2016 (05.10.2016). It was suggested that a one-time exemption/waiver for a specified period may be granted with respect to explanation of sources of investment made in immovable property. Another proposal was that the difference between the DC rates and the FBR notified rates in respect of immovable property be subjected to a nominal fixed tax rate. However, the FBR did not agree to these proposals.

The last meeting of the Finance Committee chaired by Qaiser Ahmad Sheikh, approved recommendations of the sub-committee that "FBR may charge 3 percent additional tax to the extent of amount they (people renegade real estate transactions) are unable to reconcile in their wealth statement and amnesty scheme must be only available for the people engaged in the real estate transactions. The areas where valuation has been done on higher side by the FBR may be rectified immediately with the consent of stakeholders."

The sub-committee also recommended that the "federal government may charge 1 percent in total for withholding tax, advance tax from both buyers and sellers and capital gain tax. Prevailing federal government taxes charged by the FBR on property transaction was approximately 3 percent to 6 percent and capital gain tax on FBR value or 1 percent of fair market value whichever is higher. This one percent will be inclusive of all advance/adjustable federal government taxes including capital gain tax," it added. – *Courtesy Business Recorder*