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Article

The SBP report

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S.R.O. 30(I)/2017, dated January 18, 2017.

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Kind regards,

Huzaima Bukhari
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The SBP report

by
Anjum Ibrahim

The quarterly State Bank of Pakistan (SBP) report - July to September - on the economy reveals disturbing trends in key macroeconomic indicators though it remained largely optimistic about the future trends premised on 'government policy' (prompting many independent economists to lament its continued subservience to the Ministry of Finance.

So what has gone wrong in the first quarter of 2017? Or, more pertinently, what has gone worse in the first quarter of 2017 that was not predicted by independent economists based on the flawed policies of the past three and quarter years? First and foremost, it was predicted that the budget deficit would be the first casualty after the completion in September 2016 of the 6.64 billion dollar Extended Fund Facility of the International Monetary Fund (IMF). To quote the report "in terms of Gross Domestic Product the fiscal deficit reached 1.3 percent in Q1-FY17 - the highest first quarter level since FY12". And the rise could not be laid at the doorstep of the provinces as they showed "an exceptional growth." So why did Ishaq Dar-led Finance Ministry show such a marked increase in the fiscal deficit? Revenue collection, under the administrative control of the Finance Ministry, was lower than the 20 percent normally collected during the first quarter. And expenditure did not decline significantly to keep the budget deficit within limits. Poor performance of the same three major indicators, as in the last three years and a quarter, accounted for the higher deficit notably decline in tax and non-Tax revenue, with no significant reduction in current expenditure accounting for a massive slash of development expenditure.

Tax revenue shortfall was witnessed due to incentives offered to encourage new investments, though indirect taxes reportedly recovered sharply, so states the SBP report. However, the six-monthly data (July-December) recently released by the Federal Board of Revenue (FBR) indicates a shortfall of 127 billion rupees in collections and this, independent research indicates, is due to the proliferation of cash transactions and exchange of parchis (a cheque to be paid in cash is being used multiple times in response to the tax on banking transactions). Large scale manufacturing sector growth is down which accounts for lower tax collections - to 2.2 percent from 3.9 percent in the comparable period of last year. Withholding tax and more specifically the difference in the rate as applied to non-filers, a main revenue generator envisaged by the government, is being paid at the non-filer rate even by those groups who are not liable to file returns notably housewives, pensioners, students etc who do not have the capacity to file returns themselves or the resources to hire an accountant to file on their behalf. There is no one window facility to refund those exempted from filing as is available at airports in the West for tourists not liable to pay value added tax.

A sharp decline in non-tax revenue which the SBP report partly attributes to zero inflows under the Coalition Support Fund (CSF) in the first quarter - around 170 billion rupees was budgeted under this head for the current year, an amount that is far from guaranteed given the uncertainty in terms of traditional US foreign policy divergence expected when President-Elect Trump's tenure begins on 20 January; drop in dividends from public sector energy enterprises due to low oil prices reducing their profitability - with the continued poor performance of the sector leading to a sustained rise in circular debt not explicitly stated in the report though there is frequent mention of the need to sustain the reform agenda; and lower profits from SBP due to lower government debt stock with the central bank, though sadly the government began to rely heavily on borrowing from external and domestic commercial banking sector. Not mentioned in the report is the fact that Dar since 2014 has shifted dedicated taxes like the Gas Infrastructure Development Cess (GIDC) and natural gas development surcharge from non-tax revenue to other taxes to show a better tax to GDP ratio then is in fact the case - an amount equivalent to 180 billion rupees in 2016-17 budget.

With respect to expenditure, the SBP report maintains that "the government was more prudent as current expenditure registered a marginal decline (no doubt due to a marginal decline in subsidies possible due to low oil prices)". The decline in interest payments was from 415.9 billion rupees in the first quarter of 2016 to 414.3 billion rupees in the first quarter of the current year; however, under the head "others" the report highlighted a negative 9.1 percent decline during the two periods though unfortunately the SBP explanation in footnote 12 for this significant is shoddy at best: "other expenditures mostly consist of salaries and wages and subsidies. As salaries and pension benefits were set to increase after the announcement of 10 percent increase in basic pay and pensions from 1st July 2016 in the FY17 budget this decline was more probably due to reduction in subsidies in Q1-FY17." Lower subsidies are budgeted - from 196.5 billion rupees realised last year (though 137.6 billion rupees was budgeted) - with 140.6 billion rupees budgeted this year though given the political considerations relating to the ongoing Panama Papers hearings as well as the scheduled 2018 general elections it is likely to exceed the budgeted amount. Instead I would argue that data on current expenditure could have been manipulated - a tendency exhibited by Dar-led Finance Ministry again and again in these columns.

Development expenditure, the report points out, increased by 12.4 percent in Q1-FY17 on year on year basis, on top of the 47.4 percent rise recorded in Q1-FY16. But here's the clincher: provinces increased allocation on public sector development programme (PSDP) by 37.2 percent in the first quarter of the current year (from 75.1 billion rupees to 103 billion rupees) while the federal government reduced the allocation on PSDP by 10.1 percent (from 71.3 billion rupees to 64.1 billion rupees) during the first quarter of the current year in comparison to the comparable period of the year before. In this context, it is disturbing to note that disbursements for the China Pakistan Economic Corridor (CPEC) have been budgeted at only 130 billion rupees for 2016-17, which would negatively impact on the rate of its implementation.

Second, disturbing trend, other than a rise in deficit, is the rise in borrowing. The stock of debt rose from 18.1 trillion rupees in September 2015 to 20.5 trillion rupees in September 2016 - a rise of 13 percent while the flow rose from 762.5 billion rupees to 866.1 billion rupees - also a rise of 13 percent. Domestic debt rose by 759.8 billion rupees in July-September 2015-16 to 759.8 billion rupees in the first quarter of the current year. External debt payable in rupees, rose from 4952.7 billion rupees to 5515 billion rupees during the first quarters of 2015-16 and 2016-17 - a rise of 11 percent; however disturbingly the largest net inflow of external loans was not from China (279 million dollars), nor from the IDB (158.2 million dollar inflows), nor from the Asian Development Bank (with negative 121.1 million dollar), nor IBRD, (with negative 53.2 million dollars) but from commercial banks abroad with a net inflow of 624 million dollars procured at high rates of interest and for the short term. This turned negative by the end of 2016 calendar year as repayments became due. How did Dar opt to deal with this situation? Through directing the SBP to keep the rupee exchange at below the real rate through market intervention/purchase of dollars (to understate the foreign debt) and reducing the interest on national savings instruments (to understate the domestic debt). The real effective exchange rate was around 120 in April last year, with the rate through market intervention at 104.67 during the same month as per SBP data.

And finally, exports continued to decline as did foreign direct investment - two major coveted sources of foreign exchange earnings. Remittances as had been predicted by independent economists because of recession in oil producing countries also declined.

And yet Dar continues to express satisfaction over the state of the economy and his flawed policies - claims that one would be compelled to assume are only believed by the Prime Minister. Being a Finance Minister for Dar has implied never having to admit failure of his policies and he cites a buoyant stock market and the large foreign exchange reserves as proof of the success of his policies (reserves that have also begun to decline during the first six months of the current year). The equity investments, as per the SBP report, improved during Q1-FY17 as compared to Q1016, when the increase in overall portfolio investment was mainly attributed to an inflow of US $500 million from a Eurobond issued in September 2015 at a rate well above the interest prevailing in the West. One would have hoped that the SBP had identified Eurobond as equity debt investment.

The Sharif administration has been extremely fortunate during its tenure to date as it witnessed a massive decline in the international oil prices, a major import item for the country, but it has frittered it away by: (i) heavy borrowing from the commercial banking sector, and manipulating the budgeted interest and principle repayments through manipulating the rupee value and reducing the interest payable on government saving schemes with serious negative repercussions on exports and tax revenue; (ii) failure to reform the tax system from indirect to direct taxes and has desisted from taxing the stock market at a rate comparable to that of other countries including India thereby generating only around 5 billion rupees from this source rather than the potential 100 billion rupees - the objective being to keep the 40 odd important stock market players compliant enough to manipulate the market as and when the Finance Minister faces criticism; and (iii) continued reliance on slashing development expenditure to keep the deficit at sustainable levels thereby compromising growth.

It is disturbing, however, that in spite of a fairly accurate quarterly report SBP forecasts improvement in Large-Scale Manufacturing (LSM) growth for 2017 "on the back of supportive policies like low interest rates, reduced cost of energy with improved availability, strong domestic demand, healthy corporate margins, and a conducive investment environment" - words that belie not only international assessment of the poor investment friendly environment in Pakistan but also the repeated concerns voiced by the local business community known to have politically supported the PML-N in 2013.

Sales tax on motor spirit, HSD oil increased

The Federal Board of Revenue (FBR) has increased sales tax on motor spirit and high speed diesel oil from January 16, 2017. Explaining the SRO 21(I)/2016 issued by the FBR here on Sunday, sources said that the sales tax on motor spirit has been increased from 14.5 percent to standard rate of 17 percent. The motor spirit has been excluded from the table of petroleum products specified in the SRO 21(I)/2016. The exclusion of motor spirit from SRO 21(I)/2016 has brought this POL product under the standard rate of sales tax ie 17 percent.

According to an SRO 21(I)/2016 dated January 15, 2017, sales tax rate on kerosene would remain at zero percent from January 16, 2017.

Sales tax on high speed diesel oil has been increased 25.5 percent to 28 percent, reflecting an increase of 2.5 percent. Sales tax on light diesel oil would remain at zero-percent, notification added. – *Courtesy Business Recorder*

Taxpayer’s bank account attachment orders withdrawn

A taxpayer’s bank account attachment orders have been withdrawn voluntarily by the Federal Board of Revenue (FBR) officials, following timely intervention by the Federal Tax Ombudsman (FTO), before start of the first hearing of the case of mal-administration.

Sources told that FTO has taken up a serious complaint of an IT professional, whose bank account was attached without serving any statutory notice and thereafter continuation of bank attachment orders despite having vacation of tax demand order issued by competent authority.

FTO has initiated investigation against the mal-administration of tax functionaries of RTO Islamabad, for not de-attaching the bank accounts of a taxpayer despite vacation of demand by competent court. Now the RTO authorities have withdrawn the bank account attachment order even before attended any hearing in investigation initiated by the FTO.

The FTO has started investigation on the complaint filed by the said I.T professional through Lahore based lawyer Waheed Shahzad Butt and notices have been issued to the Secretary Revenue Division, Chief Commissioner, RTO, Islamabad, tax employee/public servant, Zone West, Islamabad, Commissioner Zone-III, Islamabad and Chief Commissioner.

The complainant states, instant complaint has been moved against the administrative excess and severe highhandedness of tax employee working in the Zone III (West) RTO Islamabad. Complainant was earlier employed in Islamabad and after resigning started his own business, however, due to certain unavoidable circumstances remained failed to continue its own business, therefore, again started employment. In the month of July 2016 a cheque issued by the Complainant from his personal bank account was returned dishonoured by the Bank with the strange remarks that "Bank Account has been attached by the order of the IRS official of Zone III, RTO, Islamabad".

After visiting the concerned RTO, a request was moved to tax employee with the categorical remarks that no order/demand note etc was ever issued/ served and attachment of bank accounts is not only highly unjust but unconstitutional. On 05.08.2016 certified copy of order dated 28.06.2014 has been issued/ served, wherein it has been revealed that a huge demand of income tax has been raised by the then tax employee, however, during the period June 2014 to June 2016 (long 24 months) there was complete silence from most vigilant IRS functionaries representing Zone III, Regional Tax Office, Islamabad. Being aggrieved appeal was preferred before the Commissioner (Appeals). On the basis of specific written request patently illegal demand was stayed in the light of provisions of Section 128(1A). Despite receiving the order, bank accounts were never de-attached by the tax employees working under the CIR and CCIR Islamabad. Thereafter, pending appeal was heard and decided in favour of complainant and demand was vacated for de-novo proceedings.

However, due to judicious intervention by the FTO, bank account attached order has been withdrawn by the RTO Islamabad authorities, even without attending a single hearing in investigation initiated by the FTO, sources added. – *Courtesy Business Recorder*

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*

Accord to verify FTA certificates being finalized: Customs

Following receiving a number of complaints vis-à-vis submission of forged and bogus Free Trade Agreement (FTA) certificates by some 'unscrupulous elements' for availing inadmissible tax exemptions, the Pakistan Customs is finalising an agreement with Chinese authorities to verify FTA certificates through online EDI system.

This was stated by Director (Reforms and Automation) Wajid Ali at a meeting held with a delegation of All Pakistan Customs Agents Association (APCAA) at Customs House here, the other day.

He said that the condition of submitting FTA certificates would also be eliminated as the Customs department would be in a position to verify the same through online EDI system once the agreement is signed with China in this regard.

He said that government was signing an agreement with China and, thereafter, the assessing officer could verify the origin of certificate through online EDI system. Such an arrangement would not only eliminate the condition of submitting FTA certificates at the FTA Cell, but would also help in releasing consignments without any delay, he added.

In response to an issue raised by the APCAA's senior vice chairman, Arshad Jamal, he assured that suitable amendments would be made to the system so as to enable the goods declarant to monitor the valid valuation rulings, database prices, 90 days data and other relevant information at his computer screen. Besides, the issue would also be discussed with D-G (Valuation), he said.

He further said that the performance of terminals was very poor and they were neither in a position to start scanner-based clearance nor the Customs department has issued any specific order in this regard.

Earlier, Jamal suggested entering commodity-wise code in the Weboc System for enabling terminal staff to arrange containers for examination through codes.

He also cautioned that since there was no mechanism for stacking of dangerous goods, food stuff and chemicals, etc, it may lead to some untoward incidents.

Deploring that terminals were collecting undelivered service charges, including scanner infrastructure charges, he urged the authorities concerned to insert the module in the system for releasing goods through scanner without examination, especially for the single description commodity. – *Courtesy Business Recorder*

Dr Shujat new secretary finance

Dr Shujat Ali has assumed the charge of Secretary Finance after the retirement of Dr Waqar Masood, according to media reports. However when contacted, director general media of the Finance Division expressed his ignorance over the development. He said the decision for the appointments of chairman Federal Board of Revenue (FBR) and secretary finance would be taken on the return of Prime Minister Nawaz Sharif from Davos. Dr Shujat Ali, a BS-21 officer of Pakistan Administrative Service, has been posted as additional secretary in the Finance Division since April 2014. – *Courtesy Business Recorder*

Anomalies in registration of vehicles revealed

An audit team of Excise department has revealed anomalies in registration of two-wheelers by the staff, causing revenue loss to the government. According to the sources, the Director General Excise department Akram Ashraf Gondal has took action against the responsible ones, including one MRA and three data entry operators, for causing loss to the national exchequer.

He said audit team has been activated, which has pointed out variations in data entry causing tax loss. He said a direction has been issued to all circles for verification of the data. – *Courtesy Business Recorder*

FBR supports Board of Investment's relocation package

The Federal Board of Revenue (FBR) has supported the special package of the Board of Investment (BoI) for relocation of industry in Pakistan from China and other countries for which threshold level for tax breaks/exemptions would be worked out in consultation with stakeholders.

Sources told here Friday that the second inter-ministerial meeting was convened in Board of Investment to deliberate on the formulation pf policy package for relocation of industry into Pakistan. In this second follow-up meeting, the FBR officials showed their willingness to provide incentives/exemptions/tax holidays under the package for relocation of industries and transfer of technology to Pakistan.

Representative of the FBR stated that the government of Pakistan has already announced various incentives and exemptions with regard to customs and sales tax. He pointed out that as per policy measures, fresh exemptions are being discouraged. Rather, the existing exemptions are being phased out. However, the FBR can consider a special package as and when finalised in the light of its merit and contribution towards the economic development of Pakistan, the sources said.

According to sources, the BoI is working on devising a policy package for relocation of industry in Pakistan from China and other parts of the world with specific reference to Special Economic Zones and industrial parks being established in different parts of the country in the context of CPEC. The BoI also highlighted the importance of industrial growth through value addition and export orientation in the overall growth and socio-economic development of a country. The BoI appreciated the participants for their participation and contribution in this important national cause.

The director policy BoI gave an introductory presentation and highlighted the decisions taken in the last meeting and comprehensively convened the current situation of manufacturing sector, distribution of existing private sector investment, rising trade deficit and case studies with regard to strategies opted by Vietnam and Korea and lessons learnt for Pakistan.

Representative of Khyber Pakhtunkhwa Economic Zones Development & Management Company (KPEZDC) pointed out that local industry needs protection as it cannot compete because of the influx of cheap imports/dumping, especially from China. The BOI responded that National Tariff Commission imposes anti-dumping duty for making for the protection of local industry. Moreover, the policy to be framed would definitely take care of this aspect of distortion in the market. He appraised that KP province has huge potential of iron ore and minerals and the government of KP is working to create one window facility for all existing and potential investors. The government of KP has already announced concessions and incentives for investment in the province and the same would be shared with BOI.

Representatives of Engineering Development Board (EDB) informed that no technology has so far been transferred to Pakistan in real terms. He also highlighted that China is planning to relocate its chemical and heavy industry from Tanjin province to improve pollution and emission levels. Pakistan can get maximum benefits of this relocation especially in terms of technology transfer in the form of joint ventures. The provincial governments are required to focus on improving their HR capabilities. He also commented that relocation will not hit the certified/complaint industry in the country.

Secretary industries Sindh highlighted that no strategy can be translated into reality without having commitment and a quality human resource. He emphasised that Pakistan needs strict implementation on laws and HR strategies. There should be some structural mechanism to mitigate the risks involved in relocation. Moreover, linkages between industry and educational institutions need to be strengthened.

The chief executive officer, NIP, Ministry of Industries & Production gave a presentation highlighting the reason for relocation of labour intensive manufacturing firms from China. It was also discussed that only that industry be allowed to be relocated that is suited in the context of import substitution. The sectors highlighted were industrial raw materials, copper and aluminium intermediary and finished goods and steel related intermediary and finished goods.

Representative from Ministry of Science and Technology suggested that testing labs could be established in the industrial zones so that the standardised product may be tested at the manufacturing spot for following the international standards and certifications.

The representatives of Ministry of Industries, National Industrial Parks, and National Productivity Organisation, EPZA, Ministry of Textile Industry and representatives of provincial governments gave their viewpoints with regard to expected distortion for the local industry and transfer of obsolete technology/plants etc, ie, the technology should not lie within next four years of End of Life (EoL) and End of Service (EoS) by the principal manufacturer and suggested the proposed policy may address these aspects as well. It was brought to knowledge that Punjab government has started a demand-driven skill development programme to train the workforce.

After detailed discussions and deliberations, it was agreed that ministries/provincial governments and other relevant agencies will provide the details of sectors for value addition. It has also been decided that the incentives/exemptions/tax holidays already being given to those sectors and possible additional incentives would be pointed out for new package.

The Ministry of Commerce would prepare a negative list or a standard in every sector to avoid dumping and to encourage hi-tech industry.

The proposed policy would be prepared on the basis of certain principles/parameters entailing threshold level for tax breaks/exemptions etc; employment and training of Pakistan labour force; export from Pakistan by the relocating industry; transfer of technology and incentives needs to be linked to compliance.

The sector representative organisations may also be taken on board before giving any such incentive package for a broader cohesion and proper implementation at a later stage, sources added. – *Courtesy Business Recorder*

Promoting tax culture: FTOs seek to instill confidence in potential taxpayers

Federal Tax Ombudsman Secretariat (FTOS) is trying its optimum best to promote tax culture in Pakistan by facilitating taxpayers and creating confidence in the new and potential taxpayers, said Irshad Sheikh Director General Secretariat of the Federal Tax Ombudsman.

Addressing an awareness session regarding FTO in Faisalabad here on Friday, he said the patriotic business community is fully aware of its genuine tax liabilities. Similarly, the FTO secretariat is also trying to bridge the difference between the taxpayers and tax-collectors with efficient redressal system of complaints.

He said that taxpayers could approach the FTO secretariat in case of any maladministration by income tax or sales tax officials. He assured that these complaints would be immediately resolved and FTO secretariat will also take measures to avoid any recurrence of such complaints in future.

Representing the business community of Faisalabad Engineer Muhammad Saeed Sheikh President Faisalabad Chamber of Commerce and Industry (FCCI) said that business community is contributing 60 percent towards the total tax revenue but the taxpayers and tax-collectors are always at daggers drawn due to the procedural discrepancies. He appreciated the efforts of FTO secretariat in resolving these differences within minimum possible time and without adding any financial burden on the complainants.

He further said that during 2016 the local FTO office received total 102 complaints, out of which 91 have been disposed off. He said that it is a great achievement and we appreciate the advisors of the local FTO office. He said that FTO secretariat should also take measures for the immediate clearance of pending refund claims which is main cause of concern for the industrialists as well as exporters. He also appreciated the co-operation of the in charge FTO office Haji Ahmad and hoped that co-operation between FCCI and the local office of FTO will be further strengthened in the near future. – *Courtesy Business Recorder*

S.R.O. 21(I)/2017, Islamabad, the 15th January, 2017.– In exercise of the powers conferred by clause (b) of sub-section (2) and sub-section (6) of section 3 of the Sales Tax Act, 1990, the Federal Government is pleased to direct that the following further amendment shall be made in its Notification No. S.R.O. 57(I)/2016, dated the 29th January, 2016, namely:–

In the aforesaid Notification, for the existing Table, the following shall be substituted, namely:–

"TABLE

S. No.	Description	PCT heading	Rate
(1)	(2)	(3)	(4)
1.	Kerosene	2710.1911	0% *ad valorem*
2.	High speed diesel oil	2710.1931	28% *ad valorem*
3.	Light diesel oil	2710.1921	0% *ad valorem*.".

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.