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KTBA calls FBR's digital payments measure 'anti-business, contradictory'

Writes letter to FBR chairman, argues provision of law is anti-business; sans due diligence and is incorporated without taking the stakeholders into confidence

The Karachi Tax Bar Association (KTBA) has said that the Federal Board of Revenue's (FBR) measure that makes it mandatory to incur business expenditures for its admissibility broadly via digital means "is remarkably in contradiction with other modes of payment through banking channels".

In a letter addressed to FBR Chairman Dr Muhammad Ashfaq Ahmed, the KTBA said that it feels that this provision of law is anti-business, a statement that comes after the business community also criticised the move that is required to be implemented from November 1.

Pursuit of going digital: FBR's latest measure draws business community's ire

Earlier, the FBR had quietly proposed the use of digital means to bring corporates further under the tax ambit, restricting them to make payments beyond Rs250,000 through any means other than digital in order to make the expense deductible.

The measure essentially makes all post-dated cheques or any other paper-based payment system a non-deductible expense for businesses.

Multiple members of the business and trading community Business Recorder reached out back then had said that the amendment challenges the current transaction culture prevalent in the country, arguing also that this measure only targets companies that are already part of the system and paying their due taxes.

On Monday, the KTBA, in its letter, said that the condition is remarkably in contradiction with other modes of payment through banking channels, which has historically remained in practice and is widely accepted under the provisions of the Income Tax Ordinance, 2001.

“We feel that this provision of law is anti-business; sans due diligence and is incorporated without taking the stakeholders into confidence,” the KTBA stated in the letter, a copy of which is available with Business Recorder.

“Additionally, it is not practical for many business houses.”

The KTBA also presented a summary explaining certain situations.

“You will appreciate that it is normal business practice that in lieu of advance delivery of goods, the buyer tenders its payment by way of post-dated cheques, which is normally accepted by the other party and is inherently a secured way of making the payment.

“We are afraid that this law of 'digital mode of payment' is surely going to hamper the business activities, as it does not cater the situation and solution of such transactions.”

The KTBA also used the example of port terminal charges, wharfage charges, charges for clearance of delivery orders.

These charges “are paid in advance through crossed cheques or pay-orders”.

“We understand that presently, the businesses, including but not limited to Port Terminal Operators and Shipping Lines, are unaware and are not ready for implantation of this "digital mode of payment”.

“In our view, it needs a rigorous awareness campaign for them. Furthermore, we feel that the similar issues are likely to arise and are to be faced by the companies for making payments to the growers of various agricultural crops such as sugarcane, rice, cotton, wheat etc. We feel that a rigorous campaign is also required for the recipients of such payments.

“Moreover, in our view this 'digital mode of payment' is also impractical and is likely to affect the business transactions in the cases where petty cash payments, in aggregate exceed millions of rupees, which cannot be made digitally.”

Lastly, the KTBA argued that various banks have fixed their own limitation on the quantity of making digital/online payments in a day and have also fixed the threshold of the amount and they do not allow to exceed the threshold limit fixed by them.

“In our view, this also needs a proper campaign without which the implementation of the law is not possible. We are sure that you will come across with the other impediments on the subject in times to come.

“We strongly believe that, unless there is a wide off the mark in conventional banking transaction, this move is likely to create lots of trouble for the Corporate Sector.”

A carrot-and-stick approach to challenge

The KTBA suggested that the mandatory condition of "digital mode of payment" for Companies as envisaged U/s. 21 (1a) of the Income Tax Ordinance, 2001, be allowed to run simultaneously with other conventional modes of payments for at least a year so that their business is not affected and is smoothly run till they are aware of this change in the mode of payment.

For the past several years, Pakistan has been looking at ways to increase documentation of the economy. While it has taken a carrot-and-stick approach in its push to document, some measures have been more successful than others.

Many believe the measures have targeted those already in the tax net including the one on digital payments.