

FCCI BUDGET PROPOSALS FOR THE YEAR 2014-15



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THE FAISALABD CHAMBER OF COMMERCE & INDUSTRY

FEDERAL BUDGET PROPOSAL 2014-15

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A CLASS ASSOCIATION:

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- 17. FAISLABAD FLOUR MILLS ASSOCIATION**
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- 20. FAISALABAD OLD MOTOR & SPARE PARTS ASSOCIATION**
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- 25. KARYANA MERCHANTS ASSOCIATION FAISALABAD**

INCOME TAX ORDINANCE, 2001

2(1A) & 57A Set off of Business Loss Consequent to Amalgamation

Section 57A was inserted by Finance Ordinance 2002 to provide incentive for merger of sick companies. Originally accumulated loss under the head “income from business” of the amalgamating company or companies was allowed to be set off or carried forward against the business profits and gains of the amalgamated company and vice versa upto a period of six tax years immediately succeeding the tax year in which the loss was first computed in case of amalgamating company or amalgamated company or companies. This section was substituted by Finance Act, 2007 and the incentive was restricted to set off of loss for the year of amalgamation. The brought forward losses of amalgamating companies were excluded from the scope of this section.

In view of current business crises there is a need to enlarge the scope of this section to give incentive for merger of companies running sick units with the companies having adequate financial resources to revive these sick units. It is therefore proposed that the incentive for merger provided at the time of insertion of section 57A be restored and definition of “amalgamation” under Section 2(1A) be enlarged to include all companies incorporated under the Companies Ordinance, 1984.

Section 2(36) Non-Profit Organization

The Chambers of Commerce and Industry, Dry Port Trust and Trade Associations used to enjoy income tax exemptions since inception of Pakistan because of their nature of non-profit operations. A cumbersome procedure is being followed by Income Tax Authorities, such as formation of committees, for approval of trade organization under Section 2(36) and clause 58 to the 2nd Schedule of the Income Tax Ordinance, 2001 which is resulting in delay and hardship.

It is suggested that trade organizations and Dry Ports approved by the Regulator / Directorate of Trade Organization (DTO) and Competent Authorities should be granted automatic approval under Section 2(36) of the Income Tax Ordinance, 2001.

Section 21 Deductions not allowed

Section 21(l) provide that expenditure exceeding Rs. 10,000/- if not paid by a crossed cheque shall not be allowed as deduction in computing the income from business. Applicability of section 21(l) was restricted to profit and loss expenses as explained by CBR vide Circular No. 6 of 1990 dated July 15, 1990 and Circular No. 11 of 1998 date July 25, 1998. These circulars were superseded by issuing a fresh explanation vides Circular No. 01 of 2006 dated July 01, 2006. The scope of this section was enlarged to include every expenditure debit-able to trading or manufacturing accounts or profit and loss account in the purview of this section.

The circular created hardship for the taxpayers and also in contradiction to Section 73 of the Sales Tax Act, 1990 wherein the limit for purchase through crossed cheque is Rs. 50,000/-. It is therefore suggested that appropriate steps be taken to remove this anomaly.

Section 34(5) & (5A) and 70 Write off

In view of current economic crises there are number of medium and small size business concerns who could not pay interest on loans and are making requests to the bankers to waive off interest / markup to make the units viable. The waiver of profit on debt, if allowed by the bankers, is currently taxable.

It is proposed that waiver of profit on debt to the sick units be either exempt from tax or allowed to be recognized as income in subsequent five years.

Section 57 Carried Forward of Business Losses.

A restriction has been imposed on the companies under Section 208 of the Companies Ordinance, 1984 that the loans and advances to associated companies can only be granted at the prevailing bank rate. Interest received by the lender companies are subject to tax at normal rate even if the company has carried forward business losses.

It is suggested that in order to overcome the current liquidity problems of the business community appropriate amendments be made and the interest income on loans arranged for associated undertaking may be allowed to be off set against carried forward losses and the borrowing cost of the current year if the loan is granted out of the borrowed fund.

Section 128 Appeal to Commissioner Appeals

The Commissioner Appeals can stay the recovery of demands against the order under appeal upto maximum time of 30 days. The taxpayers are facing problems where the appeals are lying pending for a long period of time for adjudication for which no provision for stay of demand is available exceeding 30 days. It is suggested that Commissioner Appeals be empowered to stay the recovery of frivolous demands for the time upto disposal of appeals.

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Section 114 - Return Of Income

This section provides a list of persons that are required to furnish a return of income for a tax year.

Act expanded the scope of this section by virtue of which following persons shall also be required to furnish a return of income and wealth statement as well.

Any person registered with:

- any Chamber of Commerce and Industry; or

- any trade or business association; or
- any market committee; or
- any professional body including:

- Pakistan Engineering Council,
- Pakistan Medical and Dental Council,
- Pakistan Bar Council or any Provincial Bar Council,
- Institute of Chartered Accountants of Pakistan and
- Institute of Cost and Management Accountants of Pakistan.

Through Finance Act, 2012 an amendment was made by virtue of which the holders of commercial or industrial connection of electricity are required to furnish a return of Income, where the amount of annual bill exceeds Rs.1 million.

Now the threshold of annual electricity bill is reduced to Rs.500,000/-.

In view of increase in electricity rates the threshold of annual bill should have been increased from Rs. 1 million instead of reduction.

Sub-section (6) provides that any person who, having furnished a return, discovers any omission or wrong statement therein, may file revised return subject to the following conditions, namely:-

- (a) it is accompanied by the revised accounts or revised audited accounts, as the case may be;
- (b) the reasons for revision of return, in writing, duly signed, by the taxpayers are filed with the return;

(c) taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under sections 121, 122, 122A, 122C, 129, 132, 133 or 221.

Now prior approval from the Commissioner in writing is also required for revision of return.

To facilitate the taxpayers the earlier position to file revised return without prior approval of the Commissioner be restored

Section 115 - Persons Not Required To Furnish Return Of Income

Existing sub-section (1) of Section 115 provides that where the employer has furnished the annual statement of tax withholding from salary for the tax year, as required under section 165, then the employee is not required to file his / her return of income for the said tax year.

Proviso to sub-section (1) further requires the e-filing of return of income where salary income for the tax year is Rs.500,000 or more.

Now sub-section (1) and the proviso there-under is deleted by virtue of which, every individual deriving income from salary exceeding the exemption threshold shall be required to furnish return of income, irrespective of the level of salary received during the year.

However, an amendment has also been made in section 118 making it mandatory for individuals deriving salary income of Rs.500,000 or more to electronically file return.

In order to eliminate the duplication of work the earlier position of non-requirement of filing of return of employee where an employee furnish annual statement of withholding tax from salary be restored.

Section 131 Appeal to Appellate Tribunal

The Appellate Tribunal can stay the recovery of demands against the order under appeal upto maximum time of six months. The taxpayers are facing problems where the appeals are lying pending for a long period of time for adjudication for which no provision for stay of demand is available exceeding six months.

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It is suggested that Appellate Tribunal be empowered to stay the recovery of frivolous demands for the time upto disposal of appeals.

Section 153 Withholding Tax on Payments for Goods and Services

The concept of “small company” was introduced through Finance Act, 2005. Such companies were given certain incentives to encourage the corporate sector. One of the incentive was that small company was not required to withhold tax on payment made for goods and services. This incentive was suddenly withdrawn through Finance Act, 2008. This action of FBR has shattered the taxpayers confidence. In order to restore the confidence of taxpayers the incentives provided to the small companies at the time of introduction of this concept are required to be restored.

As per provisions of Notification SRO 586(I)/91 dated 30-06-1991 withholding tax are not applicable on payment of Rs.25,000/- against supplies and on payment of Rs.10,000/- against services. These thresholds were fixed in the year 1991 i.e. 22 years ago.

Considering the inflationary effect of 22 years it is, therefore, suggested that appropriate steps be taken to revise these threshold limits.

Withholding agents are required to deduct / collect tax from payments, deposit it in Government treasury, report such taxes to the FBR and then gets it audited, without any compensation.

It is proposed that appropriate compensation be awarded to withholding agents performing state duties.

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Section 153 - Payments For Goods, Services And Contracts

Currently the following persons are defined as “ prescribed persons” for the purpose of tax deduction under section 153 of the Ordinance.

- (a) the Federal Government;
- (b) a company;
- (c) an association of persons constituted by, or under law;

- (d) a non-profit organization;
- (e) a foreign contractor or consultant;
- (f) a consortium or joint venture;
- (g) an exporter or an export house for the purpose of sub-section (2);
- (h) an association of persons, having turnover of fifty million rupees or above in tax year 2007 or in any subsequent tax year; or
- (i) an individual, having turnover of fifty million rupees or above in the tax year 2009 or in any subsequent year;

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Now the definition of prescribed person for the purpose of Section 153 is expanded and the persons registered under the Sales Tax Act, 1990 will become the withholding agents and liable to deduct tax on purchases.

The amendment is very harsh, the threshold of fifty million for the purpose of deduction of tax has become redundant by introduction of this amendment as every person having turnover of five million is required to be registered under the sales tax act, 1990. A minimum threshold for application of withholding tax provisions should be introduced to exclude small taxpayer.

Section 161 Monitoring of Withholding Tax

The cases of taxpayers are being selected for monitoring of withholding tax under Section 161 simultaneously for more than one year. In most of the notices figures are taken from the financial statements and assessee is requested to reconcile those figures with the payments. This lengthy exercise takes lot of time and resources of the taxpayers. Since the taxpayers are filing monthly withholding tax statements; it is suggested that this data should be used for monitoring and only notices in case of any material difference should be issued. Moreover monitoring of one year should be carried out at one time.

As per provisions of Section 174 of the Income Tax Ordinance, 2001 a taxpayer is required to maintain accounts and documents for six years after the end of tax year to which they relate. Whereas, no time limitation is provided in section 161 of the Income Tax Ordinance, 2001 for monitoring of withholding tax. The taxpayers are receiving notices for the period beyond six tax years for which they are not obliged to maintain / retain records which create hardship to the taxpayers. It is suggested that a time limitation be incorporated in section 161 of the Income Tax Ordinance, 2001 for monitoring of withholding taxes.

In the normal course of business taxpayers have to make various payments on which the provisions of withholding tax are not applicable i.e. on Rs.25,000/- against supplies and on payments of Rs.10,000/- against services as per exemption provided through Notification SRO 586(I)/91 dated 30-06-1991. During the proceedings of withholding taxes the Taxation Officers are not allowed the benefit of the above SRO to the taxpayers and charged tax on aggregate of below taxable limit payments which are against the law and creating the hardship for the taxpayers.

It is suggested that instructions be issued to the taxation officers to give the benefit of said SRO and not to charge withholding taxes on these types of payments.

Section 170 Refunds

Under Section 170(4) of the Income Tax Ordinance, 2001 the Commissioner shall within 60 days of receipt of refund application serve on the person applying for the refund, an order in writing of the decision after providing the taxpayer an opportunity of being heard.

Large number of refunds is pending due to pending verification of payments made by the taxpayers.

It is suggested that a 30 days limit be fixed to complete the process of verification of tax payment challans by amending Section 170 of the Income Tax Ordinance, 2001.

Further there is no time limitation for disposal of refund application by the taxation officer due to which number of refund applications are pending for decision.

It is suggested that a reasonable time to make the order on application may please be prescribed.

Section 164 - Certificate Of Collection Or Deduction Of Tax

Withholding tax agent is required to deposit tax into the government treasury through a Challan. A certificate issued by such withholding tax agent is currently treated as sufficient evidence for the purpose of collection and deduction of tax and the recipient was entitled to claim the credit of tax paid on the basis of said certificate.

Through Finance Act 2013 it is prescribed that the said certificate shall not be considered as sufficient evidence of payment of tax. Accordingly the recipient shall be required to file Challan in order to claim credit for tax paid.

The amendment would create hardship for exporters as the tax deducted by banks on export realization is deposited through consolidated challans and the exporters were entitled to claim the credit of tax paid on the basis of certificates issued by the banks. Collecting party-wise challans of deductions of tax on export realization, cash withdrawals and profit on debt would be difficult.

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section 182 – penalties and additional tax

Sr. No.	Offences	Existing Penalties	Amended Penalties
1	Failure to furnish a return of income as required under section 114 within the due date	Equal to 0.1% of tax payable for each day of default subject to a minimum penalty of Rs. 5,000 and a maximum penalty of 25% of tax payable of that tax year	Equal to 0.1% of tax payable in respect of that tax year for each day of default subject to maximum penalty of 50% of tax payable and a minimum of Rs. 20,000

1A.	Where any person fails to furnish a statement as required under section 115, 165 or 165A within the due date	(As per penalty U/S 114)	A penalty of Rs.2,500 for each day of default subject to a minimum penalty of Rs. 50,000
1AA	Where any person fails to furnish wealth statement or wealth reconciliation statement U/S 116	(As per penalty U/S 114)	A penalty of Rs 100 for each day of default
8	Without any reasonable cause, non compliance with the provisions of section 177 by failure to produce record or documents on receipt of: (a) first notice; (b) second notice; and (c) third notice	Rs 5,000; Rs 10,000; and Rs 50,000	Rs 25,000; Rs 50,000; and Rs 100,000

9	Failure to furnish information required or to comply with any other term of the notice served under section 176	Rs 5,000 for the first default and Rs 10,000 for each subsequent default	Rs 25,000 for the first default and Rs 50,000 for each subsequent default
16	Fails to display NTN certificate at the place of business as required under Section 181C of the Ordinance	--	Rs. 5,000

The penalties are very harsh, it should be rationalized.

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Section 236G - Advance Tax On Sales To Distributors, Dealers And Wholesalers

A new section 236G is inserted, requiring manufacturers or commercial importers of following goods to collect 0.1% advance tax from distributors, dealers and wholesalers of such products at the time of making sale.

- electronics,
- sugar,
- cement,
- iron and steel products,
- cigarettes,
- glass,
- textile,
- beverages,

- fertilizer,
- motorcycles,
- pesticides,
- paint or
- foam sector

Advance tax so collected is adjustable against the tax liability of the tax year in which the tax is collected.

A somewhat similar amendment was made vide insertion of section 153A in the Ordinance through the Finance Act, 2012, whereby manufacturers were required to collect 0.5% advance tax on the gross amount of sales to distributors, dealers and wholesalers which was kept in abeyance vide SRO 1487(I)/2012 upto June 30, 2013.

The practical application of this section is difficult as the seller has no authority to forcibly collect advance tax.

There is no mechanism available for collection / deposit of advance tax from the distributors, dealers and wholesalers who are not NTN holders or are not willing to provide CNIC.

Section 236H - Advance Tax On Sales To Retailers

A new section 236H is inserted, requiring manufacturers, distributors, dealers, wholesalers or commercial importers of following goods to collect 0.5% advance tax from retailers of such products at the time of making sale.

- electronics,
- sugar,
- cement,
- iron and steel products,
- fertilizer,
- motorcycles,
- pesticides,
- cigarettes,
- glass,
- textile,
- beverages,
- paint or
- foam sector

This amendment seeks to ensure registration of the retail sector dealing in specified products and to bring them within the tax net.

The practical application of this section is difficult as the seller has no authority to forcibly collect advance tax.

There is no mechanism available for collection / deposit of advance tax from the distributors, dealers and wholesalers who are not NTN holders or are not willing to provide CNIC.

Second Schedule – Part – IV - Clause (72B)

The provision of section 148 in respect of tax collection on the import of raw material by industrial undertakings shall not be applicable, provided that the tax liability for the current tax year is determined on the basis of tax liability for any of the preceding two tax years,

whichever is higher, has been paid and a certificate to the effect has been issued by the Commissioner and the higher liability is being paid during the current tax year.

A combursum procedure is introduced vide circular No. 8 of 2013. The following conditions have to be fulfilled for obtaining exemption certificate.

i. Application is required to be submitted mentioning the following information.

- Quantitative and qualitative detail of raw material consumed during the immediately preceding year.
- Raw material required for current year
- Production capacity

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ii. Exemption certificate shall be issued for a quarter after furnishing of stock consumption and production report for previous quarter.

iii. The quantity of raw material to be imported shall not exceed 110 percent of the quantity of raw material imported in the immediately preceding quarter. The taxpayer shall be liable to pay tax at the normal rate at the time of import for the quantity exceeding the quantity of raw material imported in the immediately preceding quarter.

iv. The first exemption certificate shall be issued after conducting an inspection of the manufacturing facility.

The procedure should be simplified.

SALES TAX ACT 1990

SECTION 2 – CLAUSE 5AC – CREST

Through Finance Act 2013 a new clause (5AC) inserted to define the term ‘CREST’ to mean the computerized program for analyzing and cross-matching of sales tax returns, also referred to as Computerized Risk-based Evaluation of Sales Tax.

Such term is defined for the purpose of disallowance of input tax against CREST objections under section 8.

The FBR has not issued any General Order or prescribe any procedure to remove the discrepancies pointed out by CREST. The procedure to remove the discrepancies should be prescribed.

SECTION 3 - RATE OF TAX

The general rate of sales tax at present is 17 percent. This rate was originally 12.5 percent which has been enhanced to 15 and then 16 percent.

From an economic context, especially in relation to the percent state of affairs there is a need to review the present rate of Sales Tax in Pakistan. There is a very reasonable case to gradually reduce the rate of value added tax to 10 percent over a period of two years. Rate of tax should be reduced first to original 12.5 and then subsequently to 10%.

TAX CREDIT NOT ALLOWED – SECTION 8

Input Tax Credit on Electricity and Gas consumed in Residential Colony of Independent Power Producers (IPPS).

The tax auditors have been objecting adjustment of input tax paid by the taxpayer on electricity and gas consumed in residential blocks of the factory where its production facilities are located.

It is pertinent to note that the Customs Excise & Sales Tax Tribunal (CESTAT) has already allowed input tax credit related to electricity and gas consumed in residential blocks of the taxpayer's factory. Even otherwise such input tax very much becomes refundable to the taxpayers since it is paid on workforce without which the factory operations cannot function. It is therefore, suggested that suitable provisions may be added in the law regarding the issue.

JOINT AND SEVERAL LIABILITY OF REGISTERED PERSONS IN SUPPLY CHAIN WHERE TAX UNPAID – SECTION 8A

This section requires that a registered person shall be made jointly and severally liable if the sales tax is not paid by the seller of the goods from whom the registered person has purchased goods. It is strongly recommended that this section should be deleted as in any case registered person (purchaser) can not be made liable if seller fails to pay sales tax. Further this section is also against the law of justice where a person is punished for an offense which he has not committed.

EXPORT REFUNDS

Apart from the list of supportive documents prescribed in Rule 38 of Sales Tax Rules 2006, the department requires the refund claimant to furnish records, returns, accounts, statements; summaries pertaining to his suppliers to cross match the payment of output

tax. Such departmental requirements are not backed by the rules. Further, under the law, the supplier is not bound to furnish his returns, summaries and other statutory declarations to his buyers.

To streamline the entire refund verification and sanctioning process, the FBR should device necessary mechanism for the whole country in the light of the Section 10 and Sales Tax Rules 2006 thus ending practical hassles, liquidity problems for refund claimants and frivolous litigation pertaining to refunds.

SECTION 21 – DE-REGISTRATION, BLACKLISTING AND SUSPENSION OF REGISTRATION

Previously, the Act allows the input tax against invoices issued by blacklisted suppliers where the buyer has fulfilled its responsibilities under Section 73 making payment through banking channel, etc.

Trough Finance Act, 2013 this relief is withdrawn from the buyer and the invoices of blacklisted suppliers would not be entertained for allow-ability of input tax.

Further, where a registered person is engaged in issuing fake or flying invoices, claiming fraudulent input tax or refunds, does not physically exist or conduct actual business, or is committing any other fraudulent activity, the Act, in such cases, empowered the Board, Commissioner or any officer authorized by the Board in this behalf, to block the refunds or input tax adjustments of such person after recording reasons in writing, and direct the concerned Commissioner having jurisdiction for further investigation and appropriate legal action.

In case of compliance of Section 73, the input tax against invoices issued by black listed suppliers should be allowed and previous position be restored.

SECTION 22 – RECORDS

Previously as per section 22 a registered person is required to maintain the following records –

- Records of supplies made shall indicate the description, quantity and value goods, name and address of the person to whom supplies were made and the amount of the tax charged;
- Records of goods purchased shall show the description, quantity and value of goods, name, address and registration number of the supplier and the amount of tax purchases;
- Records of goods imported shall show the description, quantity and value of goods and the amount of tax paid on imports;
- Records of zero-rated and exempt supplies;
- Double entry sales tax accounts;
- invoices, credit notes, debit notes, bank statements, (banking instruments in terms of section 73) inventory records (utility bills, salary and labour bills, rental agreements, sale-purchase agreements and lease agreements); and

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- such other records as may be specified by the Board;

(Provided that the persons paying retail tax shall keep such records as may be specified by the Board.

Through Finance Act 2013 by amending this section, the inward or outward gate passes and the transport receipts are made part of sales tax records to be maintained by the registered person under section 22 of the Act.

In case of owned vehicle the transport receipt is not possible, therefore, this condition should be waived.

Additional Tax/Default Surcharge – Section 34

It should be clarified that in case of past cases (cases related to all preceding years) additional tax will be levied at the rate presently applicable as default surcharge subject to a maximum of principal tax liability.

Appeals Section – 45B

It is suggested that the power for grant of stay in subjudice cases under section 45B may be restored.

APPEAL TO APPELLATE TRIBUNAL SECTION – 46

The Appellate Tribunal can stay the recovery of demands against the order under appeal upto maximum time of six months. The registered persons are facing problems where the appeals are lying pending for a long period of time for adjudication for which no provision for stay of demand is available exceeding six months. It is suggested that Appellate Tribunal be empowered to stay the recovery of frivolous demands for the time upto disposal of appeals.

ALTERNATE DISPUTE RESOLUTION COMMITTEE (ADRC) SECTION 47A

Keeping with the international best practices, the ADRC in Pakistan could also be empowered to pass an appropriate order after hearing the case rather than only acting as advisor to FBR. This would result in enhance efficiency and effectiveness of the FBR as well as enable achievement of basic objectives of setting up the ADRC.

SRO 898(1)/2013 DATED 04-10-2013 [AMENDMENT IN SRO 1125(I)/2011]

SRO 1125/(I)/2011 allows reduced rate of 2% and 5% or normal rate 17% for goods relating to five major sectors viz. textile, leather, carpet, sports and surgical goods.

Now amendments have been made in SRO 1125 through SRO 898 (1) 2013 dated 04-10-2013 By virtue of which refund against local supplies have been made admissible subject to the pre-refund audit and in case of value addition of less than 10% subject to the furnishing of revolving bank guarantee valid for at least 90 days of an amount not less than the average monthly refund claim during last twelve months.

Further the post refund audit shall be conducted and finalized within a period of 90 days.

The condition of two audits pre-refund and post refund is discriminatory and should be removed.

SRO 897(I)/2013 DATED 04-10-2013

SRO 505(I)/2013 DATED 12-06-2013

THE SALES TX SPECIAL PROCEDURES (WITHHOLDING) RULES 2007

Previously the Government Organizations, autonomous bodies and public sector organizations were required to withhold sales tax on purchases made from unregistered persons as per the sales tax special Procedures (withholding) Rules 2007.

Through SRO 505(1)/2013 dated 12-06-2013 an amendment has been made in Sales Tax Special Procedures (withholding) Rules 2007 by virtue of which every withholding agent (including exporter) are liable to deduct sales tax, on purchase of taxable goods from unregistered persons, at the applicable rate of value of taxable supplies made to him, from the payment due to the un-registered suppliers. Sales Tax shall be worked out on gross value.

Withholding Agents:

- Federal or Provincial Govt. department, Autonomous Bodies, Public Sector Organization.
- Companies (Registered for Sales Tax, Excise duty and Income Tax)
- Registered recipient of services of advertisement
- Exporters.

Through SRO 897(1/2013 dated 04-10-2013 amendments have been made in Sales Tax Special Procedures (withholding) Rules 2007 by virtue of which a withholding agent is required to deduct sales tax @1% of value of goods from the persons liable to be registered but not actually registered.

The condition of deduction of withholding sales tax from the person liable to be registered is complicated and practically not possible, as the withholding agent cannot ensure himself that the supplier is liable to be registered or not. The procedure of withholding tax should be simplified.

SRO 509(I)/2013 AND

SRO 510(i)/2013 DATED 12-06-2013

EXTRA TAX ON ELECTRICITY / GAS BILLS

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Extra tax @ 5% of the billed amount in addition to normal rate will be charged by distribution company on industrial or commercial connections if:

- (i) Not obtained registration of sales tax
- (ii) Bill exceeds Rs. 15,000/- month
- (iii) Registered but not on the Active Taxpayer List (ATL)
- (iv) Extra tax shall not be adjustable (must be paid)
- (v) Name, address and other particulars appearing on registration should be same as that of Electric Power / Natural Gas connection.
- (vi) In case of multiple places of business, all places should be declared and entered on registration certificate and on Active Taxpayer List (ATL).

(vii) Electricity / gas supplier shall incorporate sales tax registration number in the bill.

The amendment is very harsh in case of small taxpayer and for the persons using the commercial electricity or gas meters who are not liable to be registered.

Such type of persons should be excluded from the charge of extra tax.

PROVINCIAL SALES TAX ON SERVICES

As per provisions of SRO 1125(1)/2013 the processing services on “Toll manufacturing basis” are subjected to Sales Tax @ 2% where as the Government of Punjab has also levied Sales Tax on such type of services @ 16% which is very harsh and justified. There is confusion that a person is liable to pay sales tax to Federal Government or Provincial Government. The provincial tax levied should be deleted.

The –e-system of FBR currently not allowing the adjustment of input tax paid by the registered persons which is discriminatory and should be allowed.

E-Filing

Heavy internet traffic towards the deadline for filing returns and other statements lead to intermittent connectivity issues while accessing the portal. It is therefore proposed, that different dates, for e-filing of returns, may be specified for different sectors so that the filing could be done without connectivity problems.

CUSTOMS AND EXCISE – GENERAL PROPOSALS

1. To make operationalize the Dry Ports fully, the benefits or Custom Duty concession granted under SROs, should be provided to concerned Collectorates/units. The custom staff will be able to monitor the benefits/concessions rightly and business will be shifted to the Dry Ports in addition to providing increased employment to the people at the Ports.
2. Smuggled Goods confiscated under Customs Laws are lying for years and are scrapped. It is suggested that these should be auctioned immediately for increased revenue to the national exchequer. An exclusive Auction Directorate be constituted on whole Pakistan basis to enable the Anti-Smuggling and Customs Intelligence Departments to fetch good price for these confiscated goods . Suggested to fix commission @ 2% for the Auctioneers.
3. Differentiation of Stock Lots and job Lots of imported items becomes difficult after customs clearance. These should be exempt for import ban to avoid theft and corruption.
4. Customs Clearing Agents' Annual Training should be scheduled permanently at Faisalabad which is usually done either in Lahore, Rawalpindi or Karachi. It is great hassle for the Clearing Agents to bear the out-of-city expense and suffering of business.
5. Valuation Committees have been constituted by FBR. It is suggested that such a Valuation Committee be formed at every Collectorate wherein representatives of respective Chambers of Commerce and Industry be included.
6. In the past ADR(Alternate Dispute Resolution) Committees were constituted by FBR which have become non-functional. These Committees should be made functional wherein representatives from Chambers of Commerce be included as Member.
7. Monthly meeting by every Collectorate with concerned Chambers of Commerce be made obligatory.

Sector-Wise Proposal:

Sector/Association	Proposal
Foundry & Engineering Industry Owners Association	17% sales tax has been imposed in the Federal Budget 2013-14. Agriculture machinery is tax free in USA, Canada, China, and India. The neighboring countries as India and China are also subsidizing for free electricity. Sales Tax be exempted from foundry and engineering industry.
	Frequent rise in gas, electricity and petroleum prices has made the cost of production much high rendering our products unfeasible locally and international markets. Pakistan would become trading market for neighbouring countries. Due to closure of industry, hundreds of thousands workers would be unemployed.
	Steel Mills products such as Pig Iron, Hard Coke and billets be exempted from the levy of Sales Tax.
	The rate of General Sales Tax be reduced to 5%.
	Agriculture engineering products have great demand in African countries. Government must encourage the exports by allowing incentives.
	TDAP to provide facilities and subsidize as to free stall, traveling cost and boarding to the Foundry and Engineering SMEs in international trade fairs. Government to provide modern technology machinery to the sector.
	4% rate is too high regarding direct deduction of tax. It should be reduced to 1% and agriculture machinery be exempt from it.

	Income Tax deduction on Dividend payment be abolished immediately. Circular No.98 and No.154 be withdrawn, Turnover tax rate be brought back to previous position for retailers.
	Income Tax rate for company be reduced from 35% to 25%.
	Trade with India would be harmful particularly in agriculture produce as India is offering agricultural subsidies of IR 950 billion on agriculture produce and flour subsidy of IR 340 billion per annum reducing their cost to 50%. If Government of Pakistan can allow Rs. 1 billion subsidy, then it can think over its trade with India. before liberalizing trade with India
ANJUMANE TAJRAN FAISALABAD	<u>Income tax return:</u> Income tax Return should be made simple and of one page as small traders are unable to fill which presently contain of 16 pages.
	<u>Documentation</u> imranghazi.com/mtba Small traders should be exempt from documentation and those whose income is not taxable, be exempt from tax audit.
	<u>Tax System</u> Tax system be made easier and simple.
	<u>Minimum Tax under Section 113A</u> Rate of Turnover tax has been increased from 0.5% in 2013 to 1% in 2014 budget. It should be reinstated to previous status along with allowing adjustment of electricity and telephone bills in the income for turnover tax.
	<u>Revision of Return U/S 114(6)</u>

	Permission from Commissioner Income Tax is needed for revised return in case of occurrence of some error/mistake. It should be reinstated as before i.e., no permission is to be sought.
	<u>Wealth Statement U/S 116</u> Wealth Statement should only be essential for those whose income is above Rs.10 lac.
	<u>Bank Account details U/S 165-A</u> An amendment has been made in the Finance Act 2013 to appoint a senior officer to provide bank account details and documentation to FBR. This amendment should be withdrawn immediately.
	<u>Penalties U/S 182</u> The following penalties are imposed in Finance Act 2013: On first non-compliance Rs.25,000/- On 2 nd non-compliance Rs.50,000/- On 3 rd non-compliance Rs.100,000/- These harsh penalties should be withdrawn and brought back to the previous status.
	<u>Advance Tax on Sale to Retailer U/S 236(H)</u> Vide Finance Act 2013, every distributor is liable to deduct 0.5% advance tax on purchase by the retailer. This would prove suspending the business of retailers. This amendment should be withdrawn.
	<u>Income Support Levy Act 2013</u> Vide Finance Act 2013, Income Support Levy has been imposed. Honourable Sindh High

	Court has given stay. The matter is complicated. This should be amended through Finance Bill 2014.
Yarn Sector	<p><u>INCOME TAX:</u></p> <ol style="list-style-type: none"> 1. Yarn dealers are basically MEDIATORS and are not traders. They are not buyers or sellers but liaison between buyers and sellers. The spinners and yarn purchasers both sides selling on them for payments to both sides. <p>The FBR wrongly consider their bank transactions as their business and trade and wrongly issues notices to them under section 165 of Income Tax Act.</p> <p>The yarn dealers are already existing tax payers. It is therefore wrong and unfair to issue notices of Income Tax to them on the basis of information from bank accounts.</p> <p>It is requested that Section 165 of Income Tax Act may be amended to remove this discrepancy about yarn dealers.</p> <ol style="list-style-type: none"> 2. The rates of Income Tax are on the higher side and should be reduced in view of high inflation. 3. Minimum threshold of income tax Rupees 350,000 has become out dated in view of rising cost of living and rampant inflation, this should be raised to Rs. 400,000 for

business assesses.

SALES TAX:

1. Yarn dealers being MEDIATORS do not fall in the orbit of any provision of Sales Tax and hence are not liable to be attracted under Sales Tax levies.

GENERAL ECONOMY:

1. Textile exports should be ZERO RATED. All over the world exports are Zero rated to enable the exporters to become competitive in international markets and to fetch precious foreign exchange for the Country.
2. Energy being the back bone of the Industry should be given top priority and should be provided on continuous basis to ensure maximum productivity and flow of business, trade and exports.
3. Inflation should be brought down to minimum possible level to make the manufactured goods cheaper for domestic market as well as competitive for exports.
4. Cost of inputs and over heads should be the cost of transportation and carriage of goods both for domestic market as well as export destinations.
5. Trade with India should be carefully liberalized. India should be persuaded to remove non trade barriers and should not be allowed to dump its goods or subsidize its export to Pakistan Industry should not be allowed to be harmed by hidden unfair trade practices

	<p>of India Textile being the mainstay of Pakistan Economy import of Yarn from India would be harmful for our Industry and therefore should not be allowed.</p> <ol style="list-style-type: none"> 6. Business and Trade with other regional countries particularly with Central Asian Republics should be encouraged and active support should be given to expand trade in this market. 7. Various trade agreements with friendly Countries and FTA's P.T.A's with Sri Lanka, China, Indonesia, Malaysia, SAARC should be activated on promotion of regional trade policy of "Look EAST" should be encouraged. 8. Diversification both of Exports destinations as well as diversification of exports products should be accelerated to reduce heavy dependence on western (Europe, USA) markets and to escape trade hegemony. 9. Bank mark up should be reduced
<p><u>HOSIERY SECTOR</u></p>	<ol style="list-style-type: none"> 1. Hosiery sector has become more as "value added" in the wake of GSP-Plus Scenario due to its role to attain growth in foreign exchange earnings. At present it contribute more than 2.00 billion US\$ foreign exchange earnings in national exchequer. To achieve growth in export this sector needs constant supply of gas & electricity on priority basis. For this matter Hosiery industries may be placed at priority number one in Energy Policy. 2. All export oriented in every country are exempted from local taxes. Unfortunately, in

	<p>Pakistan, export industry is charged with local taxes which are refunded later on. The refund system is very cumbersome, time consuming and open door of corruption. It is suggested that no tax, no refund regime for export based industry be reintroduced.</p> <ol style="list-style-type: none"> 3. Hosiery sector is facing liquidity crunch due to blockade of heavy amounts of Duty Drawback, income tax refund, sales tax refund and DLTL (Drawback of Local Taxes and Levis) refunds. It is requested that reasonable financial provision should be made available in forthcoming budget for immediate disbursement of these refunds to give liquidity support to this ailing industry. 4. Mechanism should be devised to maintain stability in prices of utilities and raw material in domestic market. Export industry faces huge financial losses due to rapid fluctuation in the cost. 5. Hosiery export industry is losing confidence of hosiery foreign buyers due to complex security problems and law & orders situation. Emphasis should be made to bring the situation to normal position for restoration of confidence of international buyers.
<p>Chemical Sector</p>	<p><u>Maintaining duty on Caustic Soda H.S Code: 2815:1100 and 2815:1200</u></p> <p>The domestic installed capacity of caustic is 418,000 MT/year against the actual demand of 265,000 MT/year which means that already Pakistan has 153000 MT/year surplus capacity. So in order to save the local caustic soda industry it is highly important that followings should be</p>

ensured at government level:-

- a. Caustic Soda Liquid (2815:1200) and Caustic Soda Flakes/Solid (2815:1100) should remain in the **Negative-list**, as government is considering India to give the status of most favored nation (MFN)/NDMA, while abolishing **Negative-list**.
- b. Status-quo on Tariff duty on Caustic Soda Liquid (2815:1200) and Caustic Soda Flakes/Solid (2815:1100) should be maintained, while in 2nd second round of Pak-China Free Trade Agreement (CPFTA), Caustic Soda should remain in the sensitive List.

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It is pertinent to mention that Caustic Soda Industry is the life line and raw material of so many other industries and national Institutions of Pakistan and its timely availability is very important. Caustic Soda Industry is not only providing caustic soda and other allied products to Industry of Pakistan and government institution of national significance on most economic rates, but also its timely availability is ensured.

EOBI

1. Pension should be doubled. Minimum pension should equal to minimum wages.

Marriage Grant

1. Marriage grant should be increased from Rs 100,000/- to Rs 150,000/- for daughter.
2. Furthermore, Rs 100,000/- marriage grant for son should also be given (presently marriage grant is only for girls).

Social Security

Contribution of social security should be on minimum wages i.e. Rs 10,000/-

WPPF (Workers Right Participation Fund)

It should be 06 times of the minimum wages.

Categories should revised as under:

Existing	Proposed
Cat - A (Less than 7500)	Cat - A (1-10000)
Cat - B (7501-15000)	Cat - B (10001-20000)
15000 and above	20000 and above

Previously, as per law contract workers were also entitled for WPPF which has been revised

	<p>due to SIND HIGH COURT decision. It is proposed that proper legislation should be done for grant of WPPF to contract workers also.</p> <p><u>Revenue Optimizing Measures:</u></p> <p><u>Measures to encourage local industry.</u></p> <ol style="list-style-type: none"> 1) Special incentives for industries involved in value addition using local raw material. 2) Discouraging export of raw material. 3) Preference for use of local made items should be made obligatory for Govt. Organizations.
	<p><u>Harmonizing the application of GST law on industries by reducing the rate:</u></p> <p>Govt. should work on expanding the application of normal GST procedure to more industries by reducing tax rate.</p> <p>It is proposed to allow input tax adjustment against all the invoices issued by the services provider registered under Punjab Revenue Authority or Sind Board of Revenue as well as registered in capital territory.</p>
	<p><u>Minimizing fixed tax and final tax regimes:</u></p> <ol style="list-style-type: none"> (i) Normal Tax Regime (ii) Fixed Tax Regime (iii) Final Tax Regimes (iv) Minimum Tax Regime

	<p>Naturally, only normal tax regimes fall in the definition of direct tax. Therefore, other tax regimes should be abolished gradually. It would also harmonize the tax provisions with developed countries of the world.</p>
	<p><u>Discouraging the collection of duties along with Electricity and gas:</u></p> <p>Another forced and exploitive collection of duties is made along with electricity and gas bills which disturbs cash flows of the tax payers and increase financial cost ultimately reducing revenues of the business operation.</p> <p>www.imranghazi.com/mtba</p>

Procedural Easement Measures:

Easing the compliance of Tax laws.

Considering the level of literacy and documented economy it would be the first priority of the authorities that the compliance of the tax laws must be so much simple and easy that a common man can understand these laws failing which he would be inclined to escape these formalities by indulging himself in bribery.

Further there exist special procedures and regimes for various industries which make the compliance complex and difficult to follow.

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Discarding the formalities having nominal revenue outcome:

There are various formalities which have nominal outcome for revenue collection but create much difficulties for business concerns regarding compliance. For example withholding of sales tax. It seems that objective of these measures was to maximize the documentation of economy but the very objective could not fetch desired results and Govt. imposed withholding of 1% additional sales tax on sales to a non-registered person whereas withholding of sales tax @10% and 20% is still applicable and need consideration for deletion as this has no real revenue effect but is resulting in complication regarding compliance.

	<p><u>Discouraging frequent changes regarding procedures:</u></p> <p>During last few years we observed frequent and haphazard amendments in the legal provision pertaining to procedures. This results in planning failures on the one hand and increases the chances of mistakes by common business entrepreneurs on the other hand. Both ultimately opens the doors of corruption but little revenue outcome.</p>
	<p><u>Administrative Betterment Measures:</u></p> <p><u>Training of field staff of FBR and increase of field Offices.</u></p> <p>An important measure to be taken by FBR is training of field staff as it is general feeling of the taxpayers that officers are not familiar with income tax law or sales tax law. Parties who are suffering are taxpayers due to undue notices and wrongful interpretation of laws.</p> <p>Another issue is that offices of FBR must be located very near to the taxpayers to facilitate them and monitor the activities. This would ultimately increase tax base.</p>
	<p><u>Trust building measures between Authorities and Taxpayers and issue of Corruption:</u></p>
Cottage Industry/ Light engineering	<p>Cottage Industry Sales Tax and Income Tax, From 1990-2014, Cottage Industry got less facilities.</p> <p>Small Industry (Cottage industry) plays an important role in progress of country.</p> <p>It is to be supposed that an effective tax system is very important for a successful economy.</p> <p>But unfortunately, in our country small industry is in crisis from last three decades.</p> <p>From Sales Tax 1990 Act it is cleared that no facility is to be provided.</p>

	<p>In Cottage Industry, it is necessary to be registered annually with Five million and utility bills of 7 lacs as per Sales Tax Act 1990. In last 23 years there is a rapid increase in price of electricity and gas bills.</p> <p>It is suggested that following slabs being enhanced in this budget:</p> <p>Utility bills: 300,000 annually</p> <p>Sales: 20 million</p>
General	<p><u>Penalty for non-filing of monthly Withholding Statements U/s 165 & 149.</u></p> <p>It needs to be reconsidered.</p> <p><u>Notification by FBR on Collection of Workers Profits Participation Fund (WPPF)</u></p> <p>In case it has not been paid by the taxpayer, clarification/notification by the FBR be issued</p>
Sizing	<p>Haji Talib proposed:</p> <ul style="list-style-type: none"> • CREST program is un-justified. • SRO is not properly in practice. • Tax should be fixed.
PTEA	<p>Mr. Ilyas Mahmood, Chairman PTEA proposed:</p> <ul style="list-style-type: none"> • Refunds are stuck up. Delay in refund.

	<ul style="list-style-type: none"> • Bank mark up rise from 3% to 11%. Mark up must be reviewed. • Fixed rate must be practiced.
Hawk international	<p>Mian Abdual Wahid proposed:</p> <ul style="list-style-type: none"> • Property tax should not raise than 10% of previous rate.
Fittnes Emporium	<p>Mr shahid latif proposed:</p> <ul style="list-style-type: none"> • Remove tax on fitness goods. If apply then it should be 6% instead of 17%.
	<p>Rana Fiaz Ahmed suggests:</p> <ul style="list-style-type: none"> • Tax duty on paper is high about 55%. It must be shrink.
Embroidery Association	<p>Mr. Nadeem Ashfaqpuri:</p> <ul style="list-style-type: none"> • <u>Social security</u>: Flat rate system should implement for small traders.

Revenue inland meeting: 3-Feb-2014

- Resolve energy and gas crisis.
- Rise in bank mark up must control.
- Make proper arrangement to increase in Tax net.
- Problems with Information Notices.
- LRO-Local Registration Office. Suggest a time frame for submission of report.
- For company registration increase the threshold from 5millions to 10 millions.

- There must be proper co-ordination between PRAL system and STAR. It will create problem in future refund cases.
- With holding tax statement date must extended when date for sales tax return filed extended.
- Sale tax registration must across the aboard.
- Same rates for services implemented in province as in federal.
- Refund claim must release as soon as possible.

Miscellaneous

<p>Income Tax</p>	<ul style="list-style-type: none"> • Bank Information Notices. • Difficulties faced by traders for supply to customers in Sindh province. • Self Assessment Scheme in its true spirit. • Audit cases under 2012. Accept the declared income of small cases.
	<p>Mr. Abdul Jabbar proposed:</p> <ul style="list-style-type: none"> • Tax rate should be rationalized for AOPs. • Withholding Agent responsibility should be taken back.
<p>Dyes & Chemicals Association</p>	<p>Mr. Rashid Munir proposed:</p> <ul style="list-style-type: none"> • Uniform sales tax for industrial and commercial importers. • No additional income tax on commercial importers.
<p>Embroidery Association</p>	<ul style="list-style-type: none"> • SRO culture be abolished.

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| | <ul style="list-style-type: none">• Refund adjustment on utility bills. |
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