Rawalpindi Chamber of Commerce & Industry

Budget Proposal 2014-15

Economic Outlook of Pakistan

Managing an economy is the most convoluted and arduous undertaking, more so in countries like Pakistan, confronted with acute resource constraints, astronomical national debt, a snowballing energy crisis, dwindling foreign exchange reserves, declining foreign investment, low rate of Gross Domestic Product (GDP) growth and a volatile law and order situation. During 2008-2013, the GDP growth rate remained less than three percent and the national debt increased from Rs 6,700 billion to Rs14,800 billion, with the result that a big chunk of the national income had to be diverted to debt servicing to avoid default on the international loans, putting further strains on the availability of resources for development and welfare purposes. The government had perforce to resort to borrowing and printing of notes to meet the expenses. Proper debt management is the prerequisite for the sustainable economic growth of a country. There must be equilibrium in exports and imports so as to minimize the need for borrowing and overcoming fiscal deficit. It could not take plausible and effective measures to break this vicious circle, which was made more difficult by the ever deteriorating law and order situation in the country. This kept foreign investors away and also forced some Pakistani investors to shift their businesses to some other countries.

In a nutshell, Pakistan's economy is at a critical juncture and there is a dire need for taking a pragmatic approach regarding fiscal management and independent decision-making as it is the only sine qua non for economic development.

Following are the suggestions to be added on into the upcoming fiscal budget to address the aforementioned problems.

Income Tax

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

CORPORATE TAX RATES OF NEIGHBORING Countries

- **Afghanistan 20%**
- **Bangladesh 27.5%**
- **China 25 %**
- **India 33.99%**
- **Indonesia 25 %**
- **Pakistan 35 %**
- **Sri Lanka 28%**

Pakistan is one the largest corporate tax payer country.

Proposed Amendment	Rationale of the proposed change
To provide relief to the industry, corporate tax rates should be reduced to 2 to 3% as recently Pakistan is one of the country which are paying highest corporate tax i.e 35%	• The global economic downturn has left many governments struggling for better fiscal policies while maintaining a balance between the deficit and tax collection. Countries across the world, but especially in the South Asia region, have benefited over some time from reductions in corporate tax rates. Keeping in view the total burden of taxes and the need to boost economic recovery, it is proposed that corporate tax rates in Pakistan should be rationalized. • The corporate tax rate applicable in Pakistan is between 35% - 42%. • This step of Government can reduce the burden on investors and investment in Pakistan can be increase in corporate sector.

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Investment Schemes	a) Enterprise zones should be set up to encourage the industry especially labor intensive and technology industry. (b) Extra tax exemption to local and FDI should be allowed in the areas: • Power and energy • Transportation and storage • Manufacturing / Plant and machinery • Technology • Research	According to the World Bank's Doing Business Project report 2013, Pakistan was ranked 107th in terms of doing business and 162nd in paying taxes, amongst 185 countries. Therefore investment incentives need major attention.
Income tax SRO's Introduced within 6 months period.	SRO's cause many malpractice within the system specially in Pakistan power render to FBR to made change in different SRO's for example from 23-07-2013 to 20-12-2013 FBR proposed changes in following SRO's • 1035(I)/2013 • 904(I)/2013 • 828(I)2013 • 799(I)/2013 • 772(I)/2013 • 739(I)/2013 These types of changes increased the chances of corruption and different sectors approached FBR for changes and many cases settle down under table. It is to proposed that in budget 2014-15 power of FBR may be taken to amend any changes not only Federal Government may have power to made changes in SRO's .	This step cause transparency in system and the cartels who waive off million of Rs. due to this system then can contribute in national exchequer.
Income Tax Ordinance, 2001 Salary Taxation Tax Rates First Schedule Clause 1A	The Finance Bill 2013 has proposed 11 slabs containing tax rates for taxation of salary income. The proposed tax rates have created anomalies in the income of different salary levels which resulted in lot of unrest amongst employees. In Up-Coming Budget it is proposed to introduce minimum slabs so that the understanding of tax can be develop	The introduction of simple and easy slab system can increase the understanding of tax payers and they will feel more confidence on taxation system which lead broadening of tax base.

	among common masses and it is also observed that due to introduction of many slabs FBR officials also got confused regarding tax collections.	
Income Tax Circular No. 15 of 2013	The FBR has issued an Income Tax Circular No. 15 of 2013)with regards to immunity from tax audit under section 177 and 214C read with clause 84 of part IV of second schedule to the Income Tax Ordinance 2001, as per SRO.1040(I)/2013 dated 5.12.2012. The SRO applies to all persons i.e. an individual, AOP and company. Although the said circular is a clarification, yet some questions being raised are detailed below: 1. Point no. 6 and 8 confirms the application of the said SRO to taxpayers who have paid minimum tax paid u/s 113 and that comparatively it does not apply to tax paid as final tax or fixed tax or a separate block of income respectively. But what it lacks is a clarification if other minimum taxes are allowed to be compared or not e.g. tax paid u/s 153 (1) (b). 2. By excluding taxable income cases (point no. 7 of the clarification) the FBR has not given an opportunity to small retailers/wholesalers. It is proposed to introduce such amnesty schemes for small retailers and wholesalers as well.	FBR has itself missed an opportunity of collecting more taxes from a sector that, as per the FBR, does not pay much.

Sales Tax

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Reduction in Sales Tax	Sales Tax rate should be reduced to Single digit gradually.	The reduced rate will encourage registration/documentation of the economy. Registered persons will be able to avail the benefit of input tax adjustment. This will in turn increase the tax revenue Economies like India, Thailand, Srilanka are enjoying low tax rates which make them more competitive in doing business as compare to Pakistan .

Country	VAT / GST / Sales
Bahamas	0%
Qatar	0%
China	17% with many exceptions
India	14.5% - 5.5%

Thailand	The standard VAT rate is 7%, which has two components: the standard 6.3% VAT and the municipal tax of 0.7%. A 0% VAT applies on a range of activities, including the export of goods and services wholly used outside Thailand. The 0% VAT rate also applies to the export of goods or services, i.e. any services rendered in Thailand and used abroad.
Srilanka	12%
Pakistan	17%

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Notification 895(I)/2013 And SRO 896(I)/2013 Statute Ambit STA (3rd Schedule) And STSPR (Clause 58-S)	Through Finance Act, 2013; (introduced through budgetary proposals), FBR enlisted items in the 3rd Schedule of STA, which were subjected to printed sales price on packing including GST. Through afore-referred amendments FBR has levied 2% Value Addition Tax ("VAT") on the amount of supplies made by Manufacturers to Wholesalers, Distributors, and Retailers. Previously, such ST was levied at each stage of supply i.e: • From Manufacturers to Wholesaler and/or Distributor, and • Distributor and/or Wholesaler to Retailer.	The introduction of such SRO's means inflation rate will increase and ultimately end consumer will suffer as industrialist will earn their proportionate profit but will pass on its cost effect to the whole sellers then this effect will ultimately shift to the end consumer .

	With the promulgation of afore-said SROs such stage-wise levy of ST has been eliminated. VAT Rate on Electrical Appliances has been increased from 0.75% to 2%, which will increase the burden of tax on industries. It is proposed to eliminate such taxes to facilitate the existing tax payers and end consumers.	
Change of SRO.1125/2011 dated 31.12.2011 relating to zero rating'/concessionary rate of sales tax	SRO is very confusing both for the tax payers as well as for tax collection/Govt. Certain condition of the SRO have been added/amended by the following SROs 221/2013 dated 19.3.2013 504/2013 dated 12.6.2013 154/2013 dated 28.8.2013 682/2013 dated 26.7.2013 898/2013 dated 04.10.2013 Similarly previous SRO 283/2011 dated 01.04.2011 was amended many times just in a few months. The tax payers cannot understand such sudden changes.	Therefore it is proposed that a new SRO may be introduces with two to three rates of taxes and with simple conditions; two percent for importers and 3% for registered manufacturers as no adjustment of input tax on purchases is allowed.
Disallowing input tax for failure of input tax within 180 days as provided under section 73.	Disallowing input tax for failure of input tax through banking transaction is within 180 days as provided under section 73 is very harsh for the tax payers. Period should be at par with other rules. Now a days, in a	

	situations period may be extended upto three years as prevailing Under the income Tax law. However, payment exceeding Rs. 50,000/- may be made through banking instrument within 03 years. Even otherwise, disallowing input Tax both to suppliers as well as to recipient of goods is against norms of business as it leads to double taxation which is against spirit of Fundamental Law.	
Revision of sales tax returns	If a person commits any a small error, then revision of return is allowed by the Commissioner and sometimes one cannot submit next returns without rectifying its previous return, in case of carry forward specially.	Therefore, it is proposed that taxpayers may be allowed to revise its returns at their own within one year and the original as well the revised may be got saved in the system for audit purpose.
Further tax @ 1 % is to be charged on suppliers made to unregistered person u/s 3(IA) of the Sales Act 1990.	Further tax @ 1% become chargeable through the Finance Bill/Act, 2013. Exemption from further tax on certain items was granted through on SRO but it is silent about goods on reduced rates of textile.	It is proposed that a clear cut notification regarding zero rated goods may be issued.

Limited Government Borrowing

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
During the last six months there has been a massive increase in government borrowing. According to the statistics released by the State Bank of Pakistan (SBP) the total debt increased from Rs. 14,896.9 billion in March 2013 to Rs. 16,661.9 billion in September 2013. If we look at the break down of this debt it can be seen that in March 2013 out of Rs. 14,896.9 billion Rs. 9,452.80 billion was domestic debt andRs. 5,770.2 billion was external debt. Similarly in September 2013 out of the total of Rs. 16,661.9 billionRs. 10,849.30 billion was domestic debt and Rs.6,159.7 billion was external. It can be seen from the above mentioned figures that government relied heavily on the domestic debt which also lead to excessive printing of currency by the SBP and ultimately contributed towards double digit inflation which is extremely damaging for the business community. Furthermore according to the Fiscal Responsibility and Debt Limitation Act 2005, following June 2013 the total debt should not be more than 60% of the GDP. However the current data speaks otherwise as according to the SBP in September 2013, Pakistan's total debt was 68.1% of the GDP.	Government is expected to gain at least 20 billion rupees by selling 5% shares of Pakistan Petroleum Limited, 70 to 80 billion rupees by selling 10% shares of Oil and Gas Development Company, 15 billion rupees by selling 10% shares of United Bank Limited, 40 to 50 billion rupees by selling 20% shares of Habib Bank Limited and another 10 billion rupees by selling 10% shares of Allied Bank Limited. As now Government is expected to generate almost 180 billion Rs. after privatization, now Government needs to develop those development projects which will generate more revenue for Government.	Government reliance on bank borrowing may reduce and our local business community may have more opportunities to get soft loaning and more employment opportunities can generate.

Revival Sick Units

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
According to Ministry of Industries and Production statistics during 2005-2010, 1,579 industrial units were shut down including 700 in Sindh, 688 in KP, 115 in Punjab, 47 in Export Processing Zones Authority (EPZA) and 29 in Balochistan. In the report the Provincial Government of Punjab and Export Processing Zones highlighted the reasons for closure of the industrial units. In Punjab majority of the industrial units were shut down due to financial constraints, load shedding and ownership problems whereas in the EPZA majority of the industrial units were closed down due to non-fulfillment of export obligations as per their license agreements by the investors. The business community urges the government to take appropriate measures for the revival of these sick units. The announcement of allocating Rs. 2bilion by the Sindh Government for the revival of sick units is a welcome sign but other provincial as well as the federal government needs to follow the suit of Sindh Government.	To revive the economy Government should adopt relief measures for sick industrial units as to revive the units is less expensive as compare to install new units. Following are the recommendations which may adopt by the Government to revive the sick units for creation of thousands of new employment opportunities a) Reduction in interest rate of existing loans. (b) Conversion of short-term loans in to long-term loans. (This gives the unit under revival the much-needed leeway to repay short term borrowings.) (c) Conversion of part of long term loans into equity. (d) Funding of the overdue interest (un-paid interest) and making it repayable in easy installments. The funded interest component may carry concessional rate of interest or even at times bears no interest. (e) Offering a revised schedule of repayment for the principal components of term loan. (f) Sanction of additional loan to meet the additional capital expenditure. (g) Enhancement of working capital limits and regularizing the irregular portion of working capital	Revival of Sick Unit is less expensive as compare to setting up new units throughout the world Government announced special policies for the revival of sick units to expedite the wheel of economy cause this step can generate more jobs and economic activities in lesser time period.

Export Development Fund

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
EDF was formally established through a resolution on 1st September 1992with the purpose to strengthen and develop infrastructure for promotion of exports. The receipts of EDF during 2011-2012were Rs. 5,807.045million, against the said receipts Finance division has allocated funds for 2012-2013 rs.1508.731 million only. Thus there is short provision of Rs.3, 578.314million.The total short provision since amendment in the act in 2005 i.e from 2006-2013 has accumulated to Rs.15,060.450 million.	The government should spend all of of the Export Development Fund (EDF), which it deducted from the export sector and equipped the value-added industry with modern technology and trained/skilled workforce. These fund may be divided province wise and the eminent stake holders of chambers of Commerce and Industry may be the part of Board of management for the disbursement of these funds.	Export s of the country will enhance and by utilizing this EDF exports sector can compete international market and we can secure our GSP status with new machinery and new techniques. Economic and political stability are linked together and could be achieved with private sector's support of it is given due role in economic policies and their implementation.

Water Reservoirs

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Energy crisis had hit the economy hard and its intensity could be gauged by endless stories of gas and electricity load shedding across the country.	There is need for building water reservoirs. They are necessary for storing water for drinking and irrigation. In short term it is easy and cheapest way of storage water.	In China after every 100-150 kilometers, there is a dam for storing rain water in that country, therefore they are not suffering from the acute shortage of energy crises . If Government allocate amount for the water reservoirs it can help out Pakistan from energy and water crises.

Inspected Fee on Vehicles

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Government must keep vehicles driven on a road in roadworthy condition. Like United Kingdom have Ministry of Transport (MOT) and vehicle insurance.	An inspected fee should be introduced and charged on all vehicles driven on road. Option of formulating a ministry can also be considered.	To check that vehicles meets road safely and environmental standards.

Rationalization for Freight Subsidy on Exports

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Scheme for Freight Subsidy on Exports was started in some prior years. Providing subsidy of 25% on exports of new products.	There is a need to review and rationalize the freight subsidy again.	To promote local industry. Freight subsidy to be provided to producers to increase exports.

Import /Regulatory Duties

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
Import Duties	Decrease in Import Duty will lead in less smuggling across the borders of Pakistan neighboring countries.	Protecting of local industry must be taking into consideration its capacity to meet local demands. If unable the remaining should be allowed to be imported thus reducing the incentive for smuggling.
	Decrease Import Duties on Medical Equipment	Overall ratio of medical equipment is much less as compared to Pakistan's overall imports of all sectors. Therefore, the government would not lose much revenue. This will ensure getting advanced diagnostic facilities and help to raise medical standards. When import duties of new equipment are decreased the used outdated equipment in technology will

		automatically be discouraged and the quality infrastructure and equipment will be entertained.

Simplification of Tax Laws

BRIEF DETAILS ON MAJOR PROPOSED AMENDMENTS

Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
At present the tax laws are written in very complex manner that poses a challenge for even the educated to understand.	Simplification in tax laws, by decreasing the size and complexity.	This will promote better interpretation and discourage the need for very expensive tax advisory and decrease the quantity of tax evasion.
