

ACCA PAKISTAN - Budget Proposal 2013-2014

S. No.	Clause/Detail of the Relevant Law	Proposed Amendment	Rationale of the proposed change
INCOME TAX/SALES TAX/CUSTOM			
1.	<p><u>INCOME TAX</u></p> <p><u>Small Companies:</u></p> <p>(a) Clause 59A section 2 (definition of small company already exists)</p> <p>(b) Clause (iii) Division II, PART I of THE FIRST SCHEDULE (rate of tax already prescribed @ 25% compared to other companies where it stands at 35%</p> <p>(c) Clause 11/11A PART IV - PART IV EXEMPTION FROM SPECIFIC PROVISIONS</p> <p>(d) 153(7) 'prescribed person'</p>	<p>Small companies should be exempt from paying turnover tax which is applicable since the Tax Year 2010.</p> <p>Exemption from withholding income tax when making payments or apply same conditions as applicable to Individuals/AOPs i.e. where turnover exceeds Rs. 50 million in a tax year</p>	<p>Increase corporatisation and in turn increase documentation and tax culture. Improve tax revenue as Individuals/AOPs pay a maximum of 25% on a progressive slab rate while Small Companies pay 25% fixed rate.</p> <p>Give a level playing field to Small Companies when compared to Individuals and AOPs.</p>

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<p>2.</p>	<p><u>Dividends (Small Companies)</u> Section 5 ; 150 and Division III of Part I of The First Schedule</p>	<p>Reduced rate of tax on dividends paid to Directors/Shareholders of Small Companies or application of the same rate of tax that is applied to a Salary of the Director with a maximum ceiling of 7.5%</p>	<p>Increase corporatisation; Increase tax revenue as most Directors of Small Companies avoid taking dividends due to the fixed tax rate of 10%. Reinvestment in the company; Capital formation and long term savings for a small company.</p>
<p>3.</p>	<p><u>Profit on Debt (Small Companies)</u> Section 151 (3)</p>	<p>In case of reinvestment by directors, of the same amount taken out as dividends, no tax should be applied on dividends Deduction of 10% tax on interest to be final tax and no further tax to arise.</p>	<p>Increase long term savings and in turn create a possibility of future investment. Companies avoid opening savings accounts due to tax rate being higher i.e. 25% for small companies and 35% for other companies when compared to Individuals/AOPs (fixed/final tax of 10%), therefore this amendment would increase savings under the companies' name.</p>
<p>4.</p>	<p><u>Money Laundering</u> Section 111 (1) & (4) Sub-section (1) does not apply 'to any amount of foreign exchange remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect'</p>	<p>Sub-section (4) of section 111 to either deleted or only applicable to foreigners showing proof that they were residing outside Pakistan for at least 2 tax years and are now investing their monies in the economy.</p>	<p>Tap the possibilities of whitening untaxed money by misuse of this provision, discourage the unorganized sector and eventually increase tax-to-GDP ratio.</p>

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<p>5.</p>	<p><u>Technical & Vocational Visiting Faculty</u></p> <p>(a) 75 percent tax rebate under clause (2) of Part-III of the Second Schedule of the Ordinance</p> <p>(b) Service fees of part-time teachers / visiting faculty instructors at technical / vocational institutes are charged @ 6% U/S 153 of Income Tax</p>	<p>Payments to such visiting instructors / teachers of Technical Vocational Training Institutes be allowed a reduction of 75% as per part IV of 2nd Schedule</p>	<p>Avoid unnecessary creation of refunds. Reduce litigation in terms of section 153 (1) (b) being minimum tax. Reduce burden on taxpayers working in the education/research sector.</p>
<p>6.</p>	<p><u>Time allowed to amend assessment</u></p> <p>Section 122 (1), (2) & (4)</p> <p>The time period available to the Commissioner Inland Revenue to amend an assessment under section 122 is five years</p>	<p>The time period of five years allowed to the Commissioner Inland Revenue to amend an assessment under section 122 should be reduced to three years</p>	<p>Five years to amend an assessment under section 122 of the Ordinance creates uncertainty amongst taxpayers. Furthermore, an extended one year is allowed under section 122(4) (b). Therefore, time allowed to amend an assessment to be capped at three years.</p>

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<p>7.</p>	<p><u>Withholding Taxes:</u> Section 153 (1) ; 21 (l) & Clause (xii) SRO 586 (1) / 1991</p>	<p>Threshold for tax deduction on supplies and services stands at Rs. 25,000 and Rs. 10,000. This should be increased to Rs. 100,000 and Rs. 50,000 respectively.</p> <p>Non-taxable salaries should be allowed to be paid in cash.</p>	<p>Due to inflationary reasons the basic threshold to be increased to Rs. 100,000 for goods and Rs. 50,000 for services or the limit should be in line with section 73 of the Sales Tax Act, 1990 i.e. Rs. 50,000.</p> <p>Avoid hassle to clerical staff to operate bank accounts.</p>
<p>8.</p>	<p><u>Monthly/Annual Statements and reconciliations:</u> Section 165, 149, 161 & 205. Rule 44 of Income Tax Rules 2002.</p>	<p>Deadlines for filing of monthly statements u/s 149 & 165 is currently set at 15th of the following month. The deadline should be set at 20th of the following month.</p> <p>Submission of reconciliation statement along with Monthly / Annual Statements.</p>	<p>Deadlines for filing of monthly statements u/s 149 & 165 should be 20th of the following month (as per Finance Act 2008) instead of 15th due to overlapping dates with payment deadline of Sales Tax Returns.</p> <p>Due to online filing and issuance of CPR by NBP and to avoid duplication of work the requirement of filing reconciliation under rule 44 of the income tax rules should be abolished.</p> <p>Also due to online filing of monthly statements the requirement to e-file Annual Statement should be done away with.</p>

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<p>9.</p>	<p><u>Withholding Income Tax Rates on Import of Raw Materials and Capital Goods</u></p> <p>Section 148 ; 5% Income Tax on import vide SRO 140 (I)/2013</p>	<p>Rescind the SRO and revert to pre-SRO phase as this is detrimental to manufacturers.</p>	<p>The said SRO is creating major cash flow issues for manufacturers of zero rated and other raw materials. Therefore revert back to 1% and 3% accordingly and reduce the burden of claiming income tax refunds.</p>
<p>10.</p>	<p><u>Withholding Tax and Advance/Turnover Tax for distributors of Consumer Goods Companies:</u></p> <p>Section 153, 147 & 113</p> <p>It is clearly established that distributors are driven by the volumes and not by margin.</p>	<p>Although FBR has slashed rate of minimum turnover tax (for some) by 80% but the rate of withholding tax still stands at 3.5% (apart from some exemptions/reduction). Therefore, it is suggested that all companies registered as distributors should have withholding tax u/s section 153 in line with the reduction offered in turnover tax minimum liability.</p>	<p>Reduce the cost of doing business for distributors and unnecessary blockage of income tax.</p>

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<p>11.</p>	<p><u>Advance tax on distributors / dealers / wholesalers:</u></p> <p>Section 153A / SRO 487(I)/2012</p> <p>Through Finance Act, 2012-13, new section 153A was incorporated, requiring every manufacturer, to collect income tax @ 0.5% on sales from distributor, dealers and wholesalers. Later it was held in abeyance upto 30.06.2013. It will again be applicable from 01.07.2013.</p>	<p>The rationale of this tax is not understandable as 0.5% advance tax on turnover for distributor / dealers / wholesalers is many times higher than their actual income tax liability. It is strongly recommended to withdraw this permanently for registered taxpayers.</p>	<p>Reduce the creation of unnecessary income tax refunds. Also give incentive to distributors / dealers / wholesalers to register themselves as we are recommending that this tax be abolished only for registered taxpayers.</p>																		
<p>12.</p>	<p><u>Corporate Tax Rates</u></p> <p><u>Comparison of corporate tax rates of regional and global countries:</u></p> <table border="1" data-bbox="362 1023 636 1423"> <thead> <tr> <th>Country</th> <th>Tax %</th> </tr> </thead> <tbody> <tr> <td>Brazil</td> <td>34%</td> </tr> <tr> <td>China</td> <td>25%</td> </tr> <tr> <td>India</td> <td>33%</td> </tr> <tr> <td>Russia</td> <td>20%</td> </tr> <tr> <td>Pakistan</td> <td>35%</td> </tr> <tr> <td>Sri Lanka</td> <td>35%</td> </tr> <tr> <td>South Africa</td> <td>28%</td> </tr> <tr> <td>UK</td> <td>28%</td> </tr> </tbody> </table>	Country	Tax %	Brazil	34%	China	25%	India	33%	Russia	20%	Pakistan	35%	Sri Lanka	35%	South Africa	28%	UK	28%	<p>To provide relief to the industry, corporate tax rates should be reduced to 34% as presently this sector is paying 35% Income tax, 2% WWF, and 5% WPPF.</p>	<p>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 Asian 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 rationalised.</p> <p>The corporate tax rate applicable in Pakistan is between 35% - 42%. There is also a reduced rate of tax of 25% for small companies that meet certain criteria provided in the law. In order to promote private sector investment in Pakistan it is proposed that the corporate tax rate should be gradually reduced. We propose a reduction of the corporate tax rate to 34% and that of listed companies to 33%.</p>
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<p>13.</p>	<p><u>Salary Tax Slab, litigations & corrections</u></p>	<p>Salary tax slab to be amended as per directions of FTO.</p>	<p>In the Finance Act 2012 major tax relief was announced to salaried tax class however when the Finance Act was passed major anomaly occurred in last three tax slabs. The fixed component in these slabs did not tally with the maximum tax factor of earlier slab. We suggest the said anomaly should be removed and all salaried class should get tax relief to avoid brain drain of professionals from Pakistan. Federal Tax Ombudsman in Complaint No.88/Isd/Suo Moto (1)1100/2012 dated 17.08.2012 has already directed FBR to resolve the said issue (http://fto.gov.pk/decisiondoc/1100-12-C-suo_moto.doc). Relief to salaried class should be provided from July 1, 2012.</p>
<p>14.</p>	<p><u>Section 236B</u> Advance tax on purchase of air ticket</p>	<p>Advance tax @ 5% in case of domestic air ticket is deducted but gets lost in the system. Either a proper mechanism be developed to support taxpayers in adjusting the liability or abolish this tax altogether.</p>	<p>In case of domestic air ticket, advance tax of 5% is deducted by an airline which is adjustable by the taxpayer. Airlines do not provide CPR to the companies and even to travel agents. Further, FBR system fails to verify this tax, which results in additional burden to taxpayers. We request FBR to either abolish this tax or give a remedy.</p>

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<p>15.</p>	<p><u>Provident Fund Contribution by Employers</u></p> <p>Employer's annual contribution to the employee's provident fund is deemed to be income received by an employee if in excess of one-tenth of the salary or Rs 100,000, whichever is lower. This is added to the taxable income for determining income tax liability of an employee.</p>	<p>Even though the amount is added to the provident fund of an employee and will be payable to him/her on retirement, he/she has to pay tax every year on this contribution. Therefore threshold of Rs. 100,000 be abolished.</p>	<p>The threshold is impractical as employees have to pay income tax annually, whereas the benefit of the employer contribution is only received at the end of their employment tenure.</p>
<p>16.</p>	<p><u>Investment incentives & abolishing FTR:</u></p>	<p>(a) Enterprise zones be set up to encourage the industry especially labour intensive and technology industry.</p> <p>(b) Extra tax exemption to local and FDI should be allowed in the areas:</p> <ul style="list-style-type: none"> • Power and energy • Transportation and storage • Manufacturing / Plant and machinery • Technology • Research <p>(c) Abolish Final Tax Regime</p>	<p>According to the World Bank's Doing Business Project report 2012, Pakistan was ranked 107th in terms of doing business and 162nd in paying taxes, amongst 185 countries. Therefore investment incentives need major attention.</p> <p>Final Tax Regime (FTR) should be used as a short term option for the documentation of the economy, but in a longer run, progress should be made to reinforce the tax system.</p>

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<p>1.</p>	<p><u>SALES TAX</u></p> <p>The general sales tax law applicable in Pakistan.</p>	<ul style="list-style-type: none"> • Sales Tax Act 1990 • Sales Tax Rules 2006 • The Sales Tax Special Procedure (Withholding) Rules • Sales Tax Special Procedure Rules 2007 • 1,129 SROs • Various General Orders, Rulings & Circulars 	<p>During the last two decades significant amendments, distortions, exemptions, fixed rate taxation and special procedures for particular industries have occurred that now require the introduction of reforms in this law.</p>														
<p>2.</p>	<p><u>Reduction in Sales Tax Rate:</u></p> <table border="1" data-bbox="362 963 636 1307"> <thead> <tr> <th>Country</th> <th>Tax %</th> </tr> </thead> <tbody> <tr> <td>Thailand</td> <td>7%</td> </tr> <tr> <td>Malaysia</td> <td>0%</td> </tr> <tr> <td>India</td> <td>5.5-14%</td> </tr> <tr> <td>Philippines</td> <td>12%</td> </tr> <tr> <td>Pakistan</td> <td>16%</td> </tr> <tr> <td>Sri Lanka</td> <td>12%</td> </tr> </tbody> </table>	Country	Tax %	Thailand	7%	Malaysia	0%	India	5.5-14%	Philippines	12%	Pakistan	16%	Sri Lanka	12%	<p>Sales Tax rate should be reduced to 12.5% and should gradually be reduced to 10%.</p>	<p>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.</p>
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<p>3.</p>	<p><u>GST Withholding (small companies)</u> Sales Tax Special Procedure (Withholding) Rules, 2007 through SRO 98(I)/2013 dated 14, February 2013</p>	<p>Small Companies to be exempt from the requirement of withholding General Sales Tax</p>	<p>Give a level playing field to Small Companies when compared to Individuals and AOPs.</p>
<p>4.</p>	<p><u>Filing of Annual Sales Tax Return (companies)</u> Rule 17 of Sales Tax Rules, 2006 and sub-section (1) of section 26 of the Sales Tax Act, 1990</p>	<p>Companies required to file Annual Sales Tax Returns should be done away with</p>	<p>Duplication of data as monthly returns are already e-filed. Reduce procedural disadvantage to a company.</p>
<p>5.</p>	<p><u>Section 8B & SRO 647(I)/2007.</u></p>	<p>100% carry forward without discrimination should be allowed in case of input exceeding output in a tax period through amendment in section 10 & 8B of the Sales Tax Act 1990, presently it is allowed to the extent of 90%.</p>	<p>Avoid creating discriminatory laws, e.g. Distributors are exempt while wholesalers are not. Full adjustment should be allowed for all taxpayers.</p>

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<p>6.</p>	<p><u>Adjustment for bad debts</u></p>	<p>Concept of output adjustment against bad debts should be introduced in line with section 29 of I.T. Ordinance 2001.</p>	<p>Facilitate taxpayers who have paid sales tax but have not been able to recover the same.</p>
<p>7.</p>	<p><u>Sub section 1 of section 7 ; section 66 & section 24 of Sales Tax Act 1990</u> Allowance of input adjustment in six succeeding tax periods.</p>	<p>Input adjustment up to six month should be increased to up to 1 year. Section 66 should allow refund of unclaimed input up to six years (in line with section 24) instead of one year.</p>	<p>Facilitate taxpayers in case of omission of purchases. Allow taxpayers time in order to prepare refund documents and file accordingly.</p>
<p>8.</p>	<p><u>E - filing</u></p>	<p>E-filing should be further simplified and each new change should be communicated to user on timely basis along with guidance and examples that how changes can be incorporated in the respective form(s) in the web portal. Professional and technical support and inquiries with respect to all tax matters should be resolved immediately by setting standard response time.</p>	<p>Separate technical helpline should be introduced for e-intermediaries as queries with regards to weboc, returns, etc are at times more technical than the staff assisting.</p>

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<p>9.</p>	<p><u>Debit/credit notes – section 9</u></p>	<p>In the present era, when technology checks can be carried out, as long as the registered person is able to prove the genuineness of the original and revised transactions, no time limits should be imposed upon him under the rules for issuing credit and debit notes or enjoying related tax credit/adjustment.</p> <p>Moreover, the minimum period must be extended to 365 days.</p>	
<p>10.</p>	<p><u>Joint and Several Liability U/s 8A of Sales Tax and General Order 03/2004 & 35/2012</u></p>	<p>In case of blacklisted, suspended and/or blocked suppliers, it is the supplier in supply chain that should be held accountable for non-compliance rather than the buyer.</p> <p>Buyer dealing in good faith at the time when supplier is not blacklisted should not be held accountable for any previous transaction.</p> <p>Blacklisted parties should be allowed to do business in case higher courts have stayed the orders for 6 months to facilitate the chain of suppliers.</p>	

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<p>11.</p>	<p><u>Sales Tax Registration</u></p>	<p>Currently the registration for sales tax is being processed by FBR with directions to the local office for visit or verification of the person.</p> <p>It is taking a lot more time and delay is making hardship for the businesses.</p> <p>When local office has to make a visit and verification of the person, then registration for sales tax should be authorized to local offices and eventually filing and submission of returns to be monitored by the Board online.</p>	
<p>12.</p>	<p><u>Revision of Sales Tax Return</u></p>	<p>Currently for every return, approval of commissioner is required and even for a clerical mistake; it takes a whole process of not less than audit to get the permission for revision.</p> <p>Revision of return be made easy in those cases where no refund is enhanced or no liability is decreased to avoid hardship for the registered person to go through an ordeal to correct clerical error or omission.</p>	

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<p>13.</p>	<p><u>Clause 52-A of Sales Tax Act, 1990 (Act)</u></p> <p>Goods supplied to hospitals run by the Federal or provincial Government or charitable operating hospitals of fifty beds or more or the teaching hospitals of statutory universities of two hundred or more beds are exempt from sales tax.</p>	<p>Amendment is required in the said clause of the Sixth Schedule to the Sales Tax Act 1990 in order to release the burden of tax from the supplier as no adjustment of input sales tax is allowed against these supplies as the same are exempt from tax.</p>	<p>Unnecessary burden of tax to the supplier who in turn passes on the cost to these institutions thereby nullifying the effects of exemption. It is recommended to remove this anomaly which results in being a burden rather than a benefit for the institutions.</p>
<p>14.</p>	<p><u>Provincial vs. Federal</u></p> <p>(a) FBR has not withdrawn the rights for recovery of FED as yet. This has affected the Bank with the double liability on account of FED & Sales tax on services.</p> <p>(b) Input tax adjustment issues are not resolved as e-fbr is not integrated between federal and provincial.</p>	<p>FBR, SRB AND PRA should resolve their issues and create harmony for taxpayers in order to cater for input tax adjustments.</p>	

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	<p><u>CUSTOMS</u></p> <p>1.</p> <p><u>Rationalisation</u></p>	<p>There is a need to review and rationalise the entire customs structure in order to:</p> <ul style="list-style-type: none">(a) make the importation of raw material and machinery reasonable for local manufacturers(b) promote local industry(c) create fair competition in the market, which will result in better availability of products for the consumer	
<p>2.</p>	<p><u>Valuation disputes and lack of provisions in the law</u></p>	<p>Introduction of provision/law in terms of reporting of duties and sales tax paid by importers on higher post scrutiny valuation by Customs department. Separate GD should be issued to allow proper reporting in the sales tax return.</p>	<p>Facilitate taxpayers in recording extra duties and taxes. Section 7 already exists and allows taxpayers to record purchases in any six succeeding months.</p>

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3.	<p><u>Under invoicing and mis-declaration of imports (e.g.) auto parts</u></p> <p>Valuation under Custom Act, 1969</p>	<p>Although all mis-declared and under invoiced goods should be dealt with as per law but an examples is quoted below for understanding:</p> <p>Increase of valuation of Auto Parts to at least 80 % of Invoice price of equivalent Genuine Auto Part (Ruling 329 should be re-visited).</p> <p>High Tech Parts to be removed from Ruling 329, be valued as per unit basis with value pegged to similar OEM Part.</p>	<p>Rationalisation is required in the import regime for all taxpayers. Auto Parts example is quoted. Mis-declaration and under invoicing gives undue advantage to commercial importers due to much lower valuation consequently lower tax is collected.</p>
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DISCLAIMER

This document consists of suggestions and recommendations for the Federal Budget 2013-14. All opinions, recommendations and suggestions expressed in this document are based on the input from the Taxation subcommittee of the ACCA Pakistan – Members Network Panel.