PROPOSALS FOR THE FEDERAL BUDGET 2022-23

The Federation of Pakistan Chambers of Commerce & Industry

Preamble

The incumbent regime of FPCCI extends its full support to the government in its fiscal consolidation efforts. As COVID-19 rages its second anniversary, countries across the world have taken aggressive fiscal expansion worth US$ 16 trillion according to the International Monetary Fund (IMF)[1]. The government of Pakistan also announced a fiscal stimulus package worth Rs. 1.24[2] trillion (2.9% of GDP) along with remarkable concessions for the construction and SME sectors. Although the global public finances remained under significant stress; primary, fiscal, and revenue deficits as a percentage of GDP have improved in the case of Pakistan. Even in the backdrop of pandemic-induced miseries, the fiscal deficit has been narrowing since FY2019 and lowered to 6.3 percent of GDP in FY2022. The government's efforts at fiscal consolidation, prudent expenditure management, and effective resource mobilization have helped the economy to resume its growth trajectory.

Despite the welcome developments mentioned above, the economy is confronted with stagflation with an average consumer price inflation of 10.5 percent over July-February of the current fiscal year. In a bid to resume the Extended Fund Facility (EFF) Program of the International Monetary Fund (IMF), the federal government has taken additional revenue measures worth Rs. 350 billion for which around Rs. 343 billion will be collected from sales taxes[3]. A higher weight on indirect taxes will tend to fuel inflation further. The International Monetary Fund (IMF) projected Pakistan's economic growth to be 3.95 percent for the fiscal year 2021-22. The World Bank contends that Pakistan's annual per capita growth has averaged 2 percent in the last two decades which is less than half of South Asia's average. The State Bank of Pakistan (SBP), however, maintained the ambitious growth forecast of 4-5 percent for the fiscal year 2022. The country has been deindustrializing prematurely with the share of industry in GDP has declined from 20 percent in 2017-18 to 18.9 percent in 2020-21.

On the fiscal side, Pakistan relies more on indirect taxes. Direct and indirect taxes accounted for 36.5 percent and 63.5 percent respectively of the total tax revenues in 2020-21. Heavy reliance on indirect taxes such as sales tax pushes inflation up and widens the income inequality due to the regressive nature of these taxes. In addition, a multifaceted income tax regime, distortionary sales tax, and complex custom tariffs have hampered investment inflows. A simplified, consistent and predictable tax regime together with rationalized tax rates will also aid in reducing the cost of doing business, curbing smuggling and illicit trade, mobilizing additional revenues, and accelerating economic growth.

Through the Budget Proposal 2022-23, FPCCI advocates measures for broadening the tax base and improving the tax-to-GDP ratio; rationalization of withholding tax regime; reducing the cost and promoting ease of doing business; rationalization of tax policies for industrialization; bringing simplicity and equitability in tax laws; and simplification of administrative laws. The Federal Budget is an important fiscal policy tool that has a direct

[1] https://blogs.imf.org/2021/07/20/seizing-the-opportunity-for-a-pro-growth-post-pandemic-world/
[2] https://unsdg.un.org/sites/default/files/2020-07/PAK_Socioeconomic-Response-Plan_2020.pdf
[3] https://www.thenews.com.pk/tns/detail/927010-the-mini-budget-is-here

impact on trade and industry and influences the level of investment and economic activities in a country to a great extent. The FPCCI every year submits its recommendations to the Government of Pakistan for incorporation in the Federal Budget by seeking budgetary proposals from member trade bodies and after conducting a series of consultative sessions with trade bodies and relevant stakeholders. The FPCCI's proposal to bring a paradigm shift in the fiscal regime is in line with the incumbent government's Make-in-Pakistan initiative. These recommendations are broadly covering the following proposals:

- Promotion of ease in doing business by enhancing the level of automation.
- Broadening the tax base by aligning sectoral share in revenues with that of GDP.
- Fiscal reforms to optimize deficits by both revenue mobilization and expenditure reduction
- Tariff rationalization by implementing cascading tariff structure to promote local industry and tame inflation.
- Simplification of tax regime by rectifying anomalies and minimizing the number of tax payments.
- Avoidance of unnecessary procedural requirements, ad hoc concessions/exemptions using SROs, and curbing discretionary power of authorities.

The FPCCI's philosophy for the simplification of the tax regime along with fiscal consolidation will help address economic issues better and will foster economic growth. Being an apex body with the representation of 258 trade bodies, FPCCI is optimistic that the business community's opinion will be given due consideration in the decision making.

The FPCCI had submitted proposals on simplification of taxation towards flat, low rate, broad and predictable taxes as the means of a change towards overcoming all the complications being faced by taxation machinery in tax collections, which have remained club of complaints, rightly said by President of Pakistan on different occasions. FPCCI would also like to enclose the letter to Prime Minister in this regard along- with the broad lines of presentation on the simplification of taxation. FPCCI must acknowledge that the Prime Minister of Pakistan responded to ask the FBR to make a presentation in the format of agreed, partially agreed and not agreed position, on the presentation sent to the Prime Minister of Pakistan by FPCCI. FBR due to changes at the top positions of tax collecting machinery and at the level of FM, FBR may not have been able to fully respond to the proposals submitted by FPCCI to the Prime Minister of Pakistan[4].

We are therefore enclosing the simplification of taxation philosophy sent to the Prime Minister along with a letter to the PM and the response of the PM in this respect through direction to FBR. The same merits the consideration for further development in order to make the taxation efforts exclusive to reducing complaints of taxpayers and possibly the customized adoption of our proposals may encompass the broadening of the network. The proposal was also submitted to the President of Pakistan during his recent visit to FPCCI on 26th March 2022, seeking the intervention of his office to promote the already submitted proposals with the FBR in this regard in the larger interest of conducting business in harmony instead of conflicts and contradictions, which presently practically features so.

Irfan Iqbal Sheikh
President - FPCCI

[4]ENCLS: Annexure 1, Annexure 2, Annexure 3,
Annexure 1: Letter to Prime Minister dated February 13, 2021 "Proposal for simplified taxation and accelerated growth
Annexure 2: Presentation on "Simplified Taxation & Accelerated Growth"
Annexure 3: Letter from Prime Minister' Office Islamabad dated 11-03-2021

Message

For the fiscal year 2022-23, the FPCCI Advisory Council on Budget presented its policy recommendations to ensure a stable and consistent tax environment conducive to investment and in conformity with the Government priorities to come out of the pandemic induced crises through our suggested road map of simplification of taxation system ***"Reduced Taxes for Accelerated Growth and Enhanced Tax Revenue"***

Through our philosophy 'Simplification of Taxation System' which is designed after seeking sentiments of the business community and other stakeholders, we discussed strategic and operational issues related to employment, digital transformation, migration, and global value chains. We focused on revenue enhancement by engaging all sectors that have a considerable share in the GDP but with insignificant or zero contribution to the tax net.

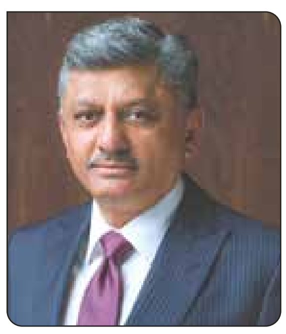
Our Advisory Council is highly motivated to bring all resources to support the government of Pakistan to overcome the damages of COVID-19. The pandemic has gravely impacted the lives of millions, small and large businesses across the world, and the modern global economy as we know it. Through combined efforts to address this pandemic, the FPCCI Advisory Council has taken comprehensive action to present a balanced strategy that will favor the business sector to grow and the exchequer to earn revenue.

I express my heartfelt thanks to Mr. Irfan Iqbal Sheikh, President of the Federation of Pakistan Chambers of Commerce and Industry for his confidence and trust in me for assigning this important task. I am also thankful to all the members of the FPCCI Advisory Council on Budget who have worked tirelessly in the preparation of the FPCCI budget document.

The FPCCI Advisory Council is also of the view that the accelerating trade gap is encroaching upon our efforts to stabilize the economy. The possible approach is import substitution for which we consider the fiscal related policies to be the custodian of striking success in achieving the import substitution. Therefore, the budgetary considerations by FBR should focus on fiscal approaches directly or indirectly for recommendation to TBS / NTC, which efforts together can promote the domestic industrialization becoming the supply of increasing share in import substitution for domestic consumption and surpluses thereof for exports in order to reduce our CAD and as well as the desire of all of us to see the growth of the economy at more than six percent for containing our budget deficit and as well as to meet the essential requirement to address the poverty.

Zakaria Usman
Convener
FPCCI Budget Advisory Council

Message



The FPCCI established the Policy Advisory Board in 2021 with an aim to provide research-based expert input for policy advocacy, ease of doing business initiatives, and formalize the business community's inputs on policies to various government departments, ministries, and institutions. It provides a collective opinion of the private sector for the formulation of business-friendly policies with an objective to foster economic growth and development.

The Policy Advisory Board expresses its gratitude to President FPCCI for involving the board in preparation for FPCCI's Annual Budget Proposals for 2022-23. Federal Budget is one of the most critical policy instruments that impact the economic activities in a country to a great extent. The government has been facing numerous economic challenges aggravated by the pandemic along with a set of policies articulated by the International Monetary Fund (IMF). In addition, higher debt servicing has also eroded the fiscal capacity of the government to a large extent.

Given the moderate economic outlook in the near term along with the deteriorating business environment; the measures proposed that simplify tax administration, broaden the tax net, and mobilize additional revenues are crucial in providing a conducive environment to businesses and assist the government's drive for fiscal consolidation. The policy research team has conducted a series of consultative sessions with relevant stakeholders and sought budget proposals from chambers to get industry perspectives on budget proposals.

We are sure that FPCCI's Budgetary Proposals based on the collective opinion of the business community will be given due weight by the Ministry of Finance in preparing Federal Budget 2022-23.

Mohammad Younus Dagha
Former Federal Secretary
Chairman Policy Advisory Board- FPCCI

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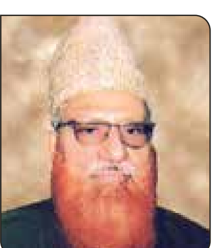

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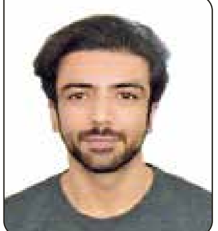

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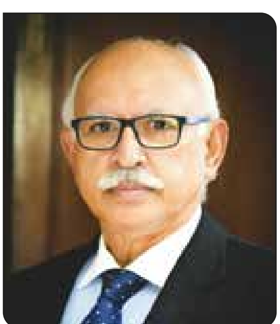

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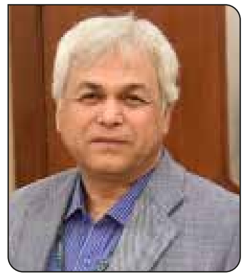

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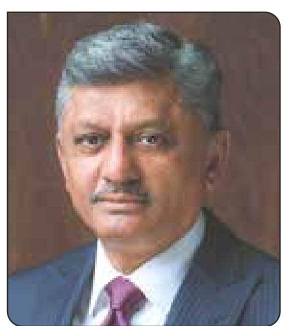

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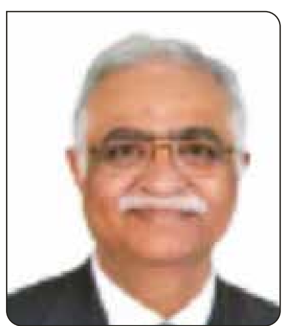

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Table of Contents

Preamble ---------- i

FPCCI Budget Advisory Council ---------- viii

Key Highlights ---------- 1

1. Broadening the Tax Base and Improving Tax to GDP ratio ---------- 7

2. Retail Sector Integration and Tax Rationalization ---------- 14
   - (i) Recommendations in relation to Direct Tax ---------- 15
   - (ii) Recommendations in relation to Indirect Tax ---------- 17

3. Rationalization of Withholding Tax Regime under the Income Tax Ordinance, 2001 21

4. Diminishing the Cost and Promoting Ease of Doing Business ---------- 25
   - (i) General Measures ---------- 26
   - (ii) Recommendations in relation to Direct Tax ---------- 29
   - (iii) Recommendations in relation to Indirect Tax ---------- 35

5. Rationalization of Tax Policies for Industrialization ---------- 37
   - (i) Recommendations in relation to Direct Tax ---------- 38
   - (ii) Recommendations in relation to Indirect Tax ---------- 39

6. Bringing Simplicity and Equitability to the Tax Laws ---------- 54
   - (i) Recommendations in relation to Direct Tax ---------- 55
   - (ii) Recommendations in relation to Indirect Tax ---------- 60

7. Simplifying Administrative Procedures ---------- 63
   - (i) Recommendations in relation to Direct Tax ---------- 64
   - (ii) Recommendations in relation to Indirect Tax ---------- 66

8. Import Substitution ---------- 71

Key Highlights

Proposals for Direct Taxes

1. **Income Tax Proposals for Retailers.**

   - High presumptive income tax should be reduced for Integrated Tier-1Retailers and their suppliers of goods, in line with the withholding tax rate as done for the FMCG sector. A lower rate of turnover tax of 0.25% be prescribed for every integrated retailer to facilitate voluntary compliance of non-integrated retailers.

   - A general immunity be allowed to all retailers from sales tax and income tax assessment and audit proceedings of past tax periods/years who register and integrate with FBR within a given timeframe unless there is definite information available to FBR from third-party sources regarding tax evasion.

   - Except for computer balloting for audit selection and withholding tax monitoring proceedings, there should be a general immunity for integrated retailers from desk audit I amendment of assessment proceedings.

   - Integrated retailers face technical complications relating to FBR POS inter--alia software limitations, lack of technical expertise/ resources, connectivity, and system maintenance. Various technical issues add to the compliance risk. City-specific centralized, dedicated zones be established within the tax offices for integrated retailers. Therefore, all issues of integrated retailers may be resolved through one window for technical and operational matters and an audit-free environment can be ensured.

   - Special reduced Income Tax Rates may please be introduced to encourage the fully integrated retailers who are showing transparent turnover, and resultant profits, as compared with the non-integrated businesses filling their return without being integrated or checked comprehensively. This reduction might be introduced through a 20% to 50% tax credit for 3/5 years. This will boost the confidence and viability of integrated and compliant taxpayers until the entire sector is integrated.

2. **Withholding Tax Regime.**

   - Varying rates of withholding taxes have imposed the biggest challenge for tax filing. Currently, there are different withholding taxes on imports of different goods. Such as raw materials are facing WHT at 2%, plant and machinery (1%), and Supplies (4.5%). Due to multiple rates, businesses are also reluctant to register themselves on the Active Tax Payers List. It is recommended that the withholding tax rates must be in a range of 0-1% and must not exceed 1% in any case.

   - The withholding tax on imports under Part-I, Part-II, and Part-III of the Twelfth Schedule under Section 148 be revised to 0%, 0.5%, and 1% respectively.

   - The number of withholding taxes must also be reduced from 25.

3. **The Multiplicity of Taxes.** Presently due to the multiplicity of taxes for the corporate sector, it goes up to 36% (29% normal tax + 2% Workers' Welfare Fund + 5% Workers Participation Fund). The higher rate of tax is effectively a disincentive for multinational groups for locating their businesses in Pakistan.

- The previous policy of reduction in corporate tax rates should be restored and the corporate tax rate should be gradually reduced to 25%.

- The employer should be given the right to spend Workers Welfare Fund on its employees, being an admissible expenditure.

4. **Advance Ruling (Section 206A).** The Advance Ruling facility should also be made available to the resident taxpayer. The locals cannot be discriminated against foreign-origin goods or investments in terms of the policy facilitation, which also is expressed as part of TRIMs of WTO. It should also be clarified that the Advance Ruling will be valid even where the non-resident taxpayer, after obtaining the ruling, becomes resident.

5. **Minimum Tax.** The minimum turnover tax must be reduced. The current rate of 1.25% of the minimum turnover tax is high and unjustified as the minimum tax needs to be paid regardless of the profitability of the entity.

6. **Inter-Corporate Dividend Tax.** Restore the position prior to Finance Act 2016 in respect of exemption on inter-corporate dividends in sections 59AA and 59B as it was used to be before the Finance Act, 2016. The Finance Act, 2016 excluded entities entitled to group relief under Section 59B from the exemption entirely.

7. **Alternative Dispute Resolution Committee (Section 134A).** Sub-section (4) of Section 134A provides that the committee appointed under sub-section (2) shall make a decision over a dispute through consensus. Generally, in any dispute resolution by the arbitrators, the majority decision is an acceptable norm. It is proposed that the words **"through consensus"** be replaced with the words "**by the majority**".

   It is suggested that the applications in respect of seeking ADRC by FBR may be transferred to FTO, which office can resolve these issues under Section 33 of the FTO Ordinance. Within the provision of Section 33, FTO can arrange to resolve the complaint issues at local office levels and by forming honorary advisory committees to resolve the issues. Further FBR will have still the option to make representation against the decision of FTO before the President of Pakistan.

8. **Audit period for six years (Section 174).** This Section allows the Commissioner to demand the financial documents for the purpose of audit therefore businesses are required to keep records for a period of six years. Such a long period of audit only adds unnecessary cost and burden to the businesses and gives discretionary powers to the assessing officers. It is recommended to reduce the audit period from the existing six years to three years.

9. **Commissioner's Authority to amend Assessment Order (Section 122 5A).** Under Section 122 5A, the Commissioner has the right to amend the assessment order as he deems right. This is causing serious hardships to the taxpayers, as now due to this explanation, the tax authorities are using the explanation as a tax collection avenue instead of a deterrent. It is recommended to withdraw section 122 5A in order to provide ease in doing business.

10. **Notice to Obtain Information or Evidence (Section 176).** Under Section 176, the Commissioner can call for any information from any person. Nowadays the bulk of notices is issued under this section asking for all kinds of information, whether relevant or irrelevant. This provision of law must be reviewed for creating abundant caution while the use of discretionary powers in consideration of required balancing of the rights of taxpayers.

11. **Appellate Tribunal Inland Revenue (ATIR) (Section 132).** The condition of dismissal of appeal should be eliminated from this provision to provide the taxpayer an opportunity to get justice even in the ex parte decision.

12. **Bringing Virtual Assets under Tax Net.** A regulatory framework and national cryptocurrency strategy should be made. Furthermore, virtual assets must come into the tax net. Cryptocurrencies should be defined among securities under Section 37A and be charged at 15%.[5] In addition, 1 percent tax (adjustable) on transactions of cryptocurrencies may be imposed.

13. **Reduce Personal Income Tax Slabs.** Income tax slabs should be reduced from 11 to 5-7 slabs (similar to peer countries) to increase the progressivity of income tax. According to IMF estimates, it would yield additional revenues of around Rs. 200 billion (i.e. 0.3% of GDP) by FY2024 (IMF Article IV, 2022).

14. **Power to enter Search Premises (Section 175).** The Commissioner or any officer authorized in writing by the Commissioner for this section shall, at all times and without prior notice, have full and free access including access to any premises, place, accounts, documents or computer without any prior notice, which does not meet the principle of natural justice. To ensure that before any action under this section is taken by the Commissioner, it is recommended that he should issue a show cause or prior notice which is properly and duly served on the taxpayer whereas the access must not be extended to entering residential premises.

15. **Penalties for Non-Filing of Return of Income and Statement.** The penalties set under Section 182 are very harsh. FBR estimated around Rs. 125 billion collections through penalties on non-filing of the income tax returns and wealth statements from 1 million notices being issued during FY2021[6]. It is urged that these penalties must be rationalized as it has significantly increased cost of doing business.

Proposals for Indirect Taxes

A. Sales Tax and FED

16. Sales Tax Proposals for Retailers

- Abolish categorization of retailers into Tier-I Retailers and other than Tier-1 Retailers' classes and encourage retailers of all sizes regardless of goods supplied to integrate I document their full sales on a real-time basis through the easy-to-use mechanism.

- Sales Tax registration is compulsory for all retailers except where a retailer is exempt from income tax. In which case, the retailer should also be exempt from sales tax and should not be liable to be registered.

- Introduce an option for integrated/documented retailers to pay sales tax as a percentage of turnover regardless of the nature of goods supplied (being exempt or 3rd Schedule or otherwise), for the specified time I period of 3/5 years. The fixed sales tax rate needs to be determined to maintain a difference for integrated retailers that prefer to adjust the output with input vs. those that prefer only to pay sales tax on turnover and bear the input cost. Proposed rates to be worked considering the nature, scope, limitations, and sensitivities of the business model of each sub-sector.

[5]Details are provided in Section I: Broadening the Tax Base. Also 'Prospects of Cryptocurrencies: A Context of Pakistan'.https://fpcci.org.pk/wp-content/uploads/2021/12/Prospects-of-Cryptocurrencies-A-Context-of-Pakistan_compressed.pdf
[6]https://www.thenews.com.pk/print/786070-fbr-estimates-rs125-bln-from-penalties-on-noncompliance#:~:text=The%20penalty%20for%20non%2Dcompliance,non%2Dfiling%20of%20wealth%20statement.

- Documentation / record keeping requirements, albeit simple, be specified for both types of taxation regimes. Mandatory filing of statutory returns by retailers irrespective of the taxation regime they opt for.

- It is proposed to remove the cap for adjustment of Input tax up to 95% of output tax for integrated Tier- 1 Retailers similar to public limited companies listed on the Pakistan Stock Exchange. However, no cash refund is allowed for unadjusted input tax which can only be carried forward.

- Taxpayers, specifically integrated retailers, are facing hardship due to admissible Input already claimed In previous tax periods, u/s Section 21 (2) of the Sales Tax Act, 1990 read with Rule 12(a)(i) and 12(a)(i)(E) for recovery or alleged inadmissible Input. Due to the legal anomaly, field formations issue notices regarding alleged illegal adjustment of input tax on the strength or purchases made from suspended/blacklisted person, without considering the fact that at the time of the transaction the supplier was appearing as an operative/ active on FBR Portal.

- At present, the six-month prior unsubmitted returns cannot be filed and de-blocking of the same by the concerned Commissioner is through a cumbersome process. This process may please be simplified and auto de-blocking provision for un-submitted returns of previous periods may please be introduced, subject to payment of non-filing penalty on submission of such returns.

- Effective Complaint Portal for Integrated Tier-I needs to be established for immediate resolution on a centralized basis especially when the issues have arisen on account of malfunctioning of the FBR portal. Technical issues/ downtime. The issuance of notices without addressing the internal problem should be discouraged by effective use of the Complaint Portal for Integrated Tier-I and for the other taxpayers as well.

- FBR is focusing to tap retailers under the tax economy. Section 33 of Sales Tax provides several penalties for non-integration or non-compliance by Tier-1 retailers empowering the Officer Inland Revenue to seal the business premises if the Tier-1 retailer fails to integrate their business/comply with the POS Standards.

  Government must withdraw the current penalty under Section 33 and focus on increasing POS terminals. Also, registered retailers should be provided government support rather than vice versa.

17. **Condition for CNIC.** The condition of providing CNIC by buyers on sale of goods is not logical as nowhere in any economy the identity of the buyer is required before the sale of goods. This condition impedes the production and market sales of the businesses; therefore, it is proposed to withdraw these conditions.

    For meeting the target collection-based budget, the additional sales tax may be considered as a substitute for the CNIC, in which case only those buyers will be charged extra sales tax as a substitute for the non-provision of CNIC by buyers.

    Chairman FBR visiting FPCCI did concede that due to the condition of CNIC, there has been a drop in sales tax collection by Rs. 35 Billion during his visit in the year 2021.

18. **Tax exemption policy of FATA/PATA to be revisited.** The tax exemption of raw materials for industries in FATA/PATA is reportedly being misused which is hampering the competitiveness of industries located in other regions. It is recommended to completely revisit the FATA/PATA policy for providing all the stakeholders equal opportunities under a single fiscal policy with less burden for taxing machinery and other LEAs to involve in difficult assessments.

19. **Increased Turnover for Cottage Industry (Section 2 (5AB)).** Through Finance Supplementary Act 2022, the annual turnover threshold has been reduced from Rupees 10 million to Rupees 8 million. The annual turnover should be increased to Rupees 20 million so that a greater number of manufacturing firms must be included. SMEs and Cottage industry is the backbone of the economy which employs more than 70 percent of the non-agriculture labor.

20. **Withdrawal of Section 8B for Input Refund.** It is recommended that Section 8B be withdrawn. The input refund must be allowed to up to 100 percent (rather than just 90 percent in the first year) against the input tax. Listed companies have already been exempted from this condition. This restrains businesses from filing their legitimate input tax affecting their liquidity.

21. **Federal Excise Duty on Cigarettes.** It is recommended to increase the FED by 70 percent of the retail price of cigarettes across the board in compliance with the WHO's suggestion. Pakistan has been a signatory of the Framework Convention on Tobacco Control (FCTC) - World Health Organization (WHO) since 2005 requires its signatories to have at least 70% tax on the retail price. This would help mobilize additional revenues of around Rs. 240 billion and meet the international obligations of being a signatory too.

Impact on indirect taxes (Billion Rs)	Current Scenario	If FED increases to 70% of Retail Price	% Change
Tax revenue from cigarettes	118.4	239.2	101.93
Revenue from FED on cigarettes	90.1	198.1	119.75
Revenue from GST on cigarettes	28.3	41.0	45.08

B. Custom Duties

22. **Rationalizing Custom Duties.** Taxes on raw materials have different rates whereas taxes on some finished goods are at zero percent under the Free Trade Agreements (FTA) which is violating the principle of cascading tax structure and adversely affects the local industry. The following measures are recommended:

    - Tariff protection differential shall be maintained at 15 – 20 percent between raw material and the finished good.

    - Customs duties on all basic industrial raw materials (not produced locally), should be between 0-3 percent. Locally manufactured raw materials should also be reasonably protected, by the cascading principle.

    - The import of finished products should face a maximum slab of customs duty (20%) and at least a 15% effective protection rate should be available to the local industry against the imported finished product. In addition, regulatory duty within the range of 5% - 10% where necessary for protecting the sustainability of local industrial developments, be levied.

- The customs duty on raw materials which are locally produced should be 11% to 20%.
- Additional customs duties and regulatory duties should also be withdrawn from the raw material.

23. **Removal of SRO Culture.** There should be a shift from SRO culture to research-oriented policy implementation. According to a study by the Pakistan Business Council (2021), Pakistan loses about Rs. 600 billion each year due to tax evasion (smuggling), and misuse of concessionary duties.

24. **Extend the eight-digit Pakistan Custom Tariff (PCT) headings.** The PCT in Pakistan is limited to only eight digits however, globally countries have extended HS Codes up to 16 digits. Malaysia, China, the US, and Turkey have extended National Tariff Lines up to 9, 13, 10, and 12 respectively. It is urged that Pakistan should extend Pakistan Custom Tariff (PCT) headings up to 12 digits to resolve anomalies in the tariff regime to reduce the tariff rates by creating 12 digits to accommodate non-manufactured raw materials, intermediatory products and finish products which are not locally manufactured.

Revenue impact of some of the measures discussed above:

Fiscal Consolidation Measures	Revenue Impact
Increase of FED on Cigarettes to 70% of the retail price	Increase by Rs 120 billion[7]
Reduction in Personal Income Tax (PIT) Slabs	Increase by Rs. 200 billion (0.3% of the GDP) by FY2024
Control misuse of concessionary duties by removing SRO culture & control tax evasion (due to smuggling)	Increase by Rs. 600 billion[8]

[7]Economic Implications of Cigarette Taxation in Pakistan: An Exploration through a CGE Model. SPDC (2021)
[8]Pakistan Business Council. https://www.pbc.org.pk/research/a-brief-analysis-of-import-value-discrepancies-in-pakistans-imports-from-uae/

1

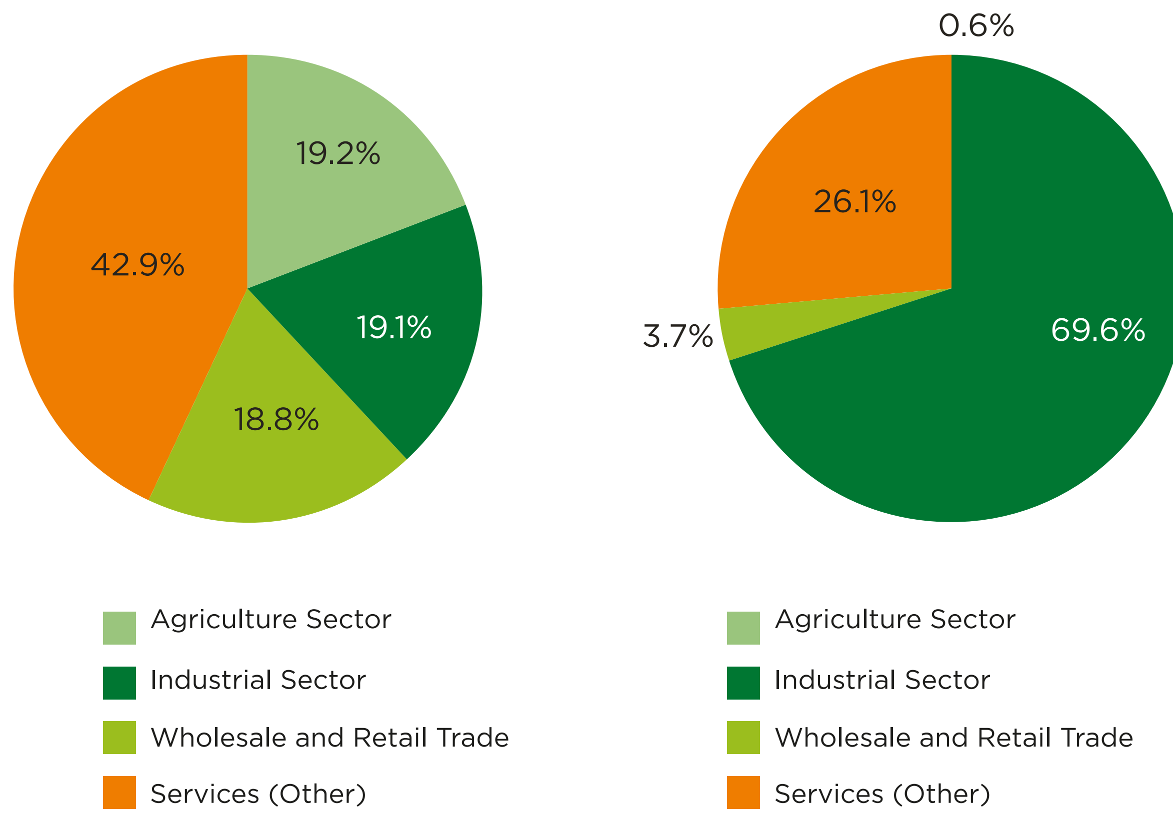
Broadening the Tax Base and Improving Tax to GDP Ratio

1. BROADENING THE TAX BASE AND IMPROVING TAX TO GDP RATIO

1.1. Revenue Measures/Improving Tax to GDP Ratio

Issue

The required increase in tax to GDP ratio is due to non-proportional tax collections against the share in GDP in different sectors of the economy: Industries, Agriculture, Wholesale /Retail, and Transport sectors along with other services have a significant contribution to the country's GDP with required tax collections in proportion to their GDP share. On the other hand, the manufacturing sector is overly burdened in comparison to its contribution to GDP. This leads to unfair taxation of the manufacturing sector and is impeding the growth of the industry. Pakistan has been slowly and gradually becoming a trading country from a manufacturing hub. This is resulting in reducing employment opportunities and burdening the country with heavy import bills.



Sources: *Composition of GDP from State Bank of Pakistan*
Composition of taxes from the Federal Board of Revenue
Share of Wholesale & Retail Sector from FBR Presentation highlights[9]

[9]https://tribune.com.pk/story/2300249/traders-to-be-brought-under-tax-net

Recommendation
It is desirable that FPCCI work with the Government of Pakistan to align the tax to GDP ratio of all sectors fairly and equitably and the tax collection from sectors should be proportional to their contribution to GDP. We also propose that the government should work with provinces to increase their capacity to tax agriculture income.

Rationale
Evenly distributed tax to GDP ratio would result in an increase in tax collection from under-taxed sectors while providing growth opportunities to sectors that are overly burdened.

1.2. Broadening of Tax Base

Issue
Pakistan faces a challenge with regards to widening the current tax base to prevent tax-revenue erosion. Although in the current year number of Active Taxpayers has improved; however, for many years, Pakistan's registered tax base has been more or less stable at less than 1 percent of the total population.

Over the last few years, the concept of filers and non-filers has been introduced to encourage the increased filing of returns of income. However, such amendments have not been able to increase the tax base by many folds as envisaged. On the other hand, it has increased the burden of withholding agents by prescribing different withholding rates based on the Active Taxpayers List without achieving any significant progress inroads on the actual tax compliance rates.

In reality bulk of the increased cost due to higher tax rates for non-filer, has been passed on by the unregistered persons to the end consumer by enhancing the cost of goods /services to gross up the impact of higher withholding.

Recommendations
In our humble view, the government may consider taking the following steps-

1. We are happy to note that the assignment of preparation of a profile of potential taxpayers/registered persons has been outsourced to the NADRA. However, we still recommend that a data mining company be in line with the responsibility of collection of tax on capital gains given to the National Clearing Company of Pakistan. This company should only be allowed to collect the following information regularly and present the potential taxpayer's profile to the FBR's Broadening of Tax Base (BTB) department to take appropriate action by the law.

2. It is also proposed that a new team comprising of young IT experts, Accountants, and Tax experts should be hired for the BTB department only.

3. A task force comprising of independent professionals and top officials be formed to monitor the work assigned to the data mining company and ensure that the BTB department operates efficiently and effectively to ensure the progress in broadening of tax base activity by FBR.

4. Effective enforcement should be made by Section 114 of the ITO. The government and FBR on its part should ensure that the relevant provisions of the law are implemented in letter and spirit without any distinction based on caste, creed, color, and clout to achieve the goal of broadening the tax base.

5. A complete profile consisting of CNIC, Firm/Company registration-wise of the taxpayer may be prepared generated by maintaining a database of all the:

- Owners and holders/allottees of the industrial, commercial, residential, and agriculture properties;
- Commercial and Industrial Consumers have all types of utility connections;
- Private motor vehicles;
- Club membership;
- International travelling;
- Utilities;
- Credit cards;
- Investment in bank deposits;
- Investment in national saving schemes;
- Investments in Capital Market; and
- Major expenditure (i.e.Rs.400,000/- & above) incurred on account of hospitalization, parties at hotels, major marriage lawns, and schooling of dependents.

6. Submission of quarterly statements by the Registrars & Housing Societies for registration/transfer of Immovable Property (Industrial Commercial, Residential & Agricultural), Motor Vehicle Registration Authorities, Clubs (Private & Public), Credit Card issuing authorities, Central Depository Company, National Clearing Company of Pakistan, large scale private hospitals, hotels & schools and Financial Institutions distributing profit more than statutory taxable limit or granted commercial loans, should be made mandatory.

7. Jurisdiction other than Company should, for some time, be reverted strictly to a geographical basis to avoid duplication and slippages of potential tax filers.

8. Tax credit at the rate of 5% is restored and provided to those taxpayers whose 90% of Sales and Purchase of Goods are from persons who are registered as Sales Tax and Income Tax taxpayers.

9. Facilitation to the existing taxpayers should be enhanced; to gain their confidence.

10. There must be some mechanism for accountability of FBR officers should be placed to minimize harassment of existing taxpayers.

Rationale
The proposed amendments would result in increased visibility of potential taxpayers and incentivize registration with the tax authorities without increasing the burden on existing taxpayers.

1.3. Bring Virtual Assets under the tax net

Issue
Investments in cryptocurrencies started with speculative gaming but in recent years have grown into humongous sizes. These assets which reside in digital clouds, need to be landed safely into the economic mainstream. The total trading value of Pakistani investors touched $20 billion in 2020-21 and the country ranked 3rd place in the Global Crypto Adoption Index. (Chainanalysis, Oct 2021). Recently, the Indian Finance minister during her budget speech 2022 proposed to tax Crypto-Assets (cryptocurrencies) by 30% on profits that occurred through transactions and 1% TDS on every transaction of cryptocurrencies.

Recommendations

1. It is recommended that Pakistan must develop a regulatory framework and national cryptocurrency strategy

2. Cryptocurrencies should be defined among securities under Section 37A under which assets are charged at the rate of 15%. It is suggested to impose a 1 percent tax (adjustable) on transactions.

3. A one-time asset declaration scheme must be launched having the following characteristics:

   (i) Encashment of cryptocurrencies in Pakistan and converting the foreign exchange into the Pak rupee may be allowed with no tax.

   (ii) Encashment of cryptocurrencies in Pakistan and held as deposits in foreign exchange accounts in Pakistan may be allowed with a 5% tax.

   (iii) Encashment of cryptocurrencies in Pakistan and held as deposits in Roshan Digital accounts may be allowed with 10% tax for non-resident Pakistani nationals/dual nationals.

   (iv) Holding cryptocurrencies as an asset may be allowed to be declared on payment of 15% tax

Rationale

Virtual assets in countries like India, Thailand, Malaysia, UAE, and many other countries are covered under tax laws which allow them to generate an additional revenue stream. Coverage of these assets under the income tax regime in Pakistan will also help mobilize additional tax revenues.

1.4. Improve Progressivity and Reduce Personal Income Tax (PIT) slabs

Issue

The current structure of personal income tax in Pakistan is relatively less progressive than in most of the peer countries. The total number of income tax slabs in Pakistan is 11 as opposed to 5-7 slabs in peer countries. Pakistan needs to simplify its tax system and reduce its tax slabs and increase its progressivity.

Pakistan	India	China	Turkey	Vietnam	Egypt
Personal Taxation					
11 slabs Maximum rate: 35% Threshold: PKR 600,000	7 slabs Maximum rate: 30% Threshold: INR 250,000	7 slabs Maximum rate: 45% Threshold: CNY 36,000	5 slabs Maximum rate: 40% Threshold: TRY 0	7 slabs Maximum rate: 35% Threshold: VND 0	7 slabs Maximum rate: 25% Threshold: EGP 15000

Recommendation

It is recommended to reduce income tax slabs from 11 to 5-7 slabs to increase the progressivity of income tax and to align with global practices.

Rationale

According to the IMF estimates, this would generate 0.3 percent of GDP as revenue by FY2024.[10] This will help increase the share of personal income tax in total income taxes from the current level of 15 percent.

[10]https://www.imf.org/en/Publications/CR/Issues/2022/02/04/Pkistan-2021-Article-IV-Consultation-Sixth-Review-Under-the-Extended-Arrangement-Under-the-512715

1.5. Unregistered steel units to be brought under the sales tax net

Issues

Tax Evasion

Unregistered units of steel products enjoy higher profit margins as compared to the registered unit and are impeding healthy competition. In addition, furnaces are installed in Re-Rolling Mills (Small or Medium). Most of the re-rolling mills are evading sales tax and paying 5-7 times less in taxes. For example:

300,000 units / 110 kWh	= 2,727 Metric Tons
300,000 units / 810 kWh	= 370 Metric Tons
Excess Production	= 2,357 Metric Tons

Re-rollers are using B-2 electricity connections; however, furnaces cannot be run on these connections.

Unregistered Steel Trader & Scrap Dealers all over Pakistan

Steel traders have been granted relief up to 10 crores per annum in sales tax registration. Despite incentives, these traders and dealers are not yet registered. This is causing difficulty for steel producers to issue the invoices.

Sugar Mills manufacturing Steel with Self Generation of Electricity

Sugar mills that are operating steel melting or steel re-rolling mills using self-generated electricity produced from bagasse or other means are evading taxes in steel manufacturing. The actual production of steel plants in sugar mills and self-generation needs to be determined.

Benchmark of Electricity Consumed for Small & Medium Re-Rolling Mills

The minimum production for re-rollers was fixed at 130 units of electricity for producing one metric ton of steel bars considering small, medium & large scale units involved in the manufacturing of small to large size mild steel products. But this standard has been revised in 2019 to 110 units of electricity for the production of one metric ton of steel bars and other re-rolled items. This act of revision from 130 units to 110 units has caused serious problems to small, medium (manual) re-rolling mills which may consume even more than 130 units for the production of one metric ton of steel products. The products manufactured by these small/medium manually operated re-rollers are quite different from those manufactured by automatic mills. It is suggested that a separate benchmark of 130 units for small-medium re-rolling mills (operated manually) must be established.

Recommendations

- It is recommended to identify the unregistered units/ furnaces and take appropriate measures to get them registered in order to broaden the tax net. Steel Product dealers throughout the country through whom the finished goods are sold still require registration with FBR. The registration procedure may be an easy one based on simplification enabling these steel dealers to take all invoices from Re-Rolling Mills.

- A complete survey/ audit of all the re-rolling mills is suggested to be carried out to control revenue leakage and help the steel melting furnaces to work in peace and dummy furnaces be removed or have separate connections to run them.

- It is urged that the order regarding relief of 10 crores to steel traders be reviewed and all the steel traders and scrap dealers are registered to boost the economy of the country.

- It is recommended that a separate benchmark of 130 units of electricity consumed for small & medium re-rolling mills (operated manually) for manufacturing One Metric Ton of Steel products must be introduced.

Rationale

By bringing unregistered units under the tax net, the ex-chequer would get more revenue which is at present the dire need of the Government. Similarly, the Scrap Dealers working throughout the country for many decades, especially in Khokar Road, Lahore; Misri Shah Lahore & Shershah, Karachi, and are still out of the tax net must be registered.

1.6. Federal Excise Duty on Cigarettes

Issue

The economic cost of diseases and deaths due to smoking in Pakistan is estimated to be around Rs 615.1 billion equivalent to 1.6% of Pakistan's GDP in 2019 (PIDE, 2021). It is found that the economic cost of smoking was about fivefold more than the revenue from the tobacco industry[11]. In Pakistan, Cigarette prices are the lowest, compared to the other countries in the region (low fed rates being one of the reasons). Secondly, taxes on cigarettes are bifurcated into two slabs based on cigarettes prices, that is, low-priced and high-priced brands. The government revenue in 2015-2016 was around Rs. 111 billion however government reduced the excise duty on cigarettes in 2017 which reduced the government revenues by Rs. 89 billion. Despite higher Cigarette volumes in 2017-2018, Government ended up getting lesser Tax revenues as compared to 2015-2016.

In addition, Pakistan has been a signatory Framework Convention on Tobacco Control (FCTC) - World Health Organization (WHO) since 2005 which requires its signatories to have at least 70% tax on the retail price. According to the estimates[12], an increase in FED in line with WHO's recommendation will raise the revenues from Rs. 118 billion to Rs. 240 billion as provided in the table below.

Impact on indirect taxes (Billion Rs)	Current Scenario	If FED increases to 70% of Retail Price	% Change
Tax revenue from cigarettes	118.4	239.2	101.93
Revenue from FED on cigarettes	90.1	198.1	119.75
Revenue from GST on cigarettes	28.3	41.0	45.08

Source: *Social Policy and Development Centre*[13]

Recommendations

It is recommended to revise the FED mechanism to the single tax regime by implementing a FED rate of 70 percent across the board on the retail price of cigarettes in compliance with the WHO's suggestion.

Rationale

This would help mobilize additional revenues of around Rs. 240 billion which reflects a 102 percent increase in the total revenue collected through cigarettes. It is also estimated that the overall consumption of cigarettes will reduce by 32.5 percent.

[11]https://tobacconomics.org/files/research/677/the-economic-cost-of-tobacco-induced-diseases.pdf
[12]Economic Implications of Cigarette Taxation in Pakistan: An Exploration through a CGE Model. SPDC (2021)
[13]Economic Implications of Cigarette Taxation in Pakistan: An Exploration through a CGE Model. SPDC (2021)

2

Retail Sector Integration and Tax Rationalization

2.1. DIRECT TAXES

2.1.1. Income Tax Proposals

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
1	Section 113 and Clause 24D of Part II of Second Schedule of Income Tax Ordinance, 2001	A lower rate of Turnover tax of 0.25% be prescribed for every to integrated retailer to facilitate voluntary compliance of non-integrated retailers.	High presumptive income tax should be reduced for Integrated Tier-1Retailers and their suppliers of goods, in line with the withholding tax rate as done for the FMCG sector. The minimum/turnover tax rate should be the same as the withholding tax rate so that both liabilities can be offset by suppliers without added cost burden.	Direct Tax
2	Section 236H of Income Tax Ordinance, 2001	Requirement of Income tax withholding under section 236H of the Income Tax Ordinance, 2001 be withdrawn for integrated retailers.	Withholding taxes add excessive cost burden and compliance for Tier-1 retailers as suppliers/vendors pass on the withholding taxes to the cost of goods/services. The current withholding tax rate of 4%/4.5% on goods and 8% / 10% on services from most sectors increases the tax incidence on supplying parties, which ultimately adds an excessive cost burden on integrated retailers. The withholding tax rate should be the same as the turnover tax similar to integrated retailers in the FMCG sector and their suppliers.	Direct Tax
3	Section 153 and Clause 24C of Part II of Second Schedule of Income Tax Ordinance, 2001	Income tax withholding by integrated retailers be reduced to 0.25% for all registered purchases and 1% in case of purchases from persons not appearing on the active taxpayers list.		Direct Tax
4	Section 177 of Income Tax Ordinance, 2001	Immunity for Pre-Integration Tax Periods /Years	A general immunity be allowed to all retailers from sales tax and income tax assessment and audit proceedings of past tax periods/years who register and integrate with FBR within a given timeframe unless there is definite information available to FBR from third party sources regarding tax evasion	Direct Tax
5	Section 214C of Income Tax Ordinance, 2001	Relaxation for Post-Integration Tax Periods/ Years	Except for computer balloting for audit selection and withholding tax monitoring proceedings, there should be a general immunity for integrated retailers from desk audit I amendment of assessment proceedings. This will encourage integration with FBR POS	Direct Tax

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
6	Income Tax Ordinance, 2001	Incentive Scheme for Integrated Retailers	In line with the industrial package announced by the Government, inter-alia providing amnesty scheme to Industrialists, a similar sort of relaxation be allowed to the integrated retailers to enable them to easily incorporate the declared value of inventory, other assets, and capital, for tax purposes, in their balance sheet/wealth statement. Fully declared inventory assets, etc. will result in improved revenue generation and facilitate voluntary compliance for POS integration.	Direct Tax
7	Income Tax Ordinance, 2001and Income Tax Rules 2002	City-specific Centralized Zones for Integrated Retailers	Integrated retailers face technical complications relating to FBR POS inter--alia software limitations, lack of technical expertise/ resources, connectivity, and system maintenance. Various technical issues add to the compliance risk. City-specific centralized, dedicated zones be established within the tax offices for integrated retailers. Therefore, all issues of integrated retailers may be resolved through one window for technical and operational matters and an audit-free environment can be ensured.	Direct and Indirect Tax
8	Reduction in Tax Rates under Income Tax Ordinance, 2001	Reduction in Tax Rates	Special reduced Income Tax Rates may please be introduced to encourage the fully integrated retailers who are showing transparent turnover, and resultant profits, as compared with the non-integrated businesses filling their return without being integrated or checked comprehensively. This reduction might be introduced through a 20% to 50% tax credit for 3/5 years. This will boost the confidence and viability of integrated and compliant taxpayers until the entire sector is integrated.	Direct Tax

2.2. INDIRECT TAXES

2.2.1. Sales Tax Proposals

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
1	Clause 43A of Section 2 and Section 3 of the Sales Tax Act, 1990	Removal of Classes: Tier-1 Retailers and other than Tier-I Retailers	Abolish categorization of retailers into Tier-I Retailers and other than Tier-1 Retailers' classes and encourage retailers of all sizes regardless of goods supplied to integrate I document their full sales on a real-time basis through the easy-to-use mechanism.	Indirect Tax
2	Clause 28 of Section 2 and Section 14 of Sales Tax Act, 1990	Compulsory Registration of all Retailers	Sales Tax registration is compulsory for all retailers except where a retailer is exempt from income tax. In which case, the retailer should also be exempt from sales tax and should not be liable to be registered.	Indirect Tax
3	Section 14 of Sales Tax Act, 1990	Simplified Sales Tax Regime especially for small/medium retailers provided they are integrated	Introduce an option for integrated/documented retailers to pay sales tax as a percentage of turnover regardless of the nature of goods supplied (being exempt or 3rd Schedule or otherwise), for the specified time I period of 3/5 years. The fixed sales tax rate needs to be determined to maintain a difference for integrated- retailers that prefer to adjust the output with input vs. those that prefer only to pay sales tax on turnover and bear the input cost. Proposed rates to be worked considering the nature, scope, limitations, and sensitivities of the business model of each sub-sector.	Indirect Tax
4	Section 22 and Section 24 of Sales Tax Act, 1990	Simplified Documentation Requirements	Documentation I record keeping requirements, albeit simple, be specified for both types of taxation regimes. Mandatory filing of statutory returns by retailers irrespective of the taxation regime they opt for.	Indirect Tax

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
5	Sub-section (7) of Section 3 of Sales Tax Tax Act, 1990	Removal of Sales Tax withholding for integrated retailers that are Companies as defined in the Income Tax Ordinance, 2001	Sales tax withholding by integrated retailers should be removed as this adds to the cost of business, whereas Income Tax withholding and reporting or sales on a real-time basis will serve the purpose of documentation.	Indirect Tax
6	Section 8B of Sales Tax Act, 1990	Restriction for 95% Input adjustment be removed for Integrated retailers but with no cash refund	It is proposed to remove the cap for adjustment of Input tax up to 95% of output tax for integrated Tier-1Retailers similar to public limited companies listed on Pakistan Stock Exchange. However, no cash refund is allowed for unadjusted input tax which can only be carried forward. Integrated retailers are considered to be fully compliant and removing them from the purview of Section 8B of the Sales Tax Act 1990 will improve their liquidity and remove unnecessary carrying forward of their legitimate input.	Indirect Tax
7	Section 25 of Sales Tax Act, 1990	Immunity for Pre-Integration Tax Periods/ Years	A general immunity be allowed to all retailers from sales tax and income tax assessment and audit proceedings of past tax periods/ years who register and integrate with FBR within a given timeframe unless there is definite Information available to FBR from the third party sources regarding tax evasion.	Direct and Indirect Tax
8	Section 25 of Sales Tax Act, 1990	Relaxation for Post-IntegrationTax Periods/ Years	Except for computer balloting for audit selection and withholding tax monitoring proceedings, there should be a general immunity for integrated retailers from desk audit I amendment of assessment proceedings. This will encourage Integration with FBR POS.	Direct and Indirect Tax
9	Section 23 of Sales Tax Act, 1990	Removal of transaction limit for provision of CNIC by end-consumers or Integrated Retailers	With the advent of the POS prize scheme, end-consumers are already incentivized to provide their CNIC/NTN in order to claim their prize against the verified invoice provided by an integrated retailer regardless of the amount of the invoice. Thus, there should be no need to require end-consumers to provide their CNIC/NTN for the purchase of Rs. 100,000 or above, in the case of integrated retailers.	Direct and Indirect Tax

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
10	Section 26(3) of Sales Tax Act, 1990	Revision of Sales Tax time limitation	Bonafide upward revisions of returns shall be allowed without any time limitation or approvals from the Commissioner or Board. This will help in curbing the malpractice amongst taxpayers and the department and also result in an increase in Government revenue as well as encourage the taxpayer to rectify bonafide mistakes.	Indirect Tax
11	Sub-section 7A of Section 3 of Sales Tax Act, 1990	Replacement of Sales Tax Withholding by Online Marketplaces with the requirement to document all sellers and provide their data to FBR through an automated mechanism	The requirement to withhold sales tax by online marketplaces, from unregistered suppliers using online platforms, should also be removed. E-commerce platform owners should not be burdened with the trade of unregistered suppliers. FBR should use its own sources to identify unregistered suppliers and bring them into the tax net.	Indirect Tax
12	Section 8 and Section 21of Sales Tax Act, 1990	Correction of Legal Anomaly for 'Blacklisting' of integrated retailers	Taxpayers, specifically integrated retailers, are facing hardship due to admissible Input already claimed In previous tax periods, u/s Section 21 (2) of the Sales Tax Act, 1990 read with Rule 12(a)(i) and 12(a)(i)(E) for recovery or alleged inadmissible Input. Due to the legal anomaly, field formations issue notices regarding alleged illegal adjustment of input tax on the strength or purchases made from suspended/blacklisted person, without considering the fact that at the time of the transaction the supplier was appearing as an operative/ active on FBR Portal.	Indirect Tax
13	Sales Tax Act, 1990	Speedy Harmonization of Federal and Provincial Sales Tax Laws for all E-commerce Business/ Platforms	Tax authorities should endeavor to provide harmonized provincial sales tax regime through the application of uniform sales tax rates on services, definitions, and avoidance of double taxation, besides simplified filing procedures for online/ e-commerce businesses.	Indirect Tax

S. No.	Section/ Clause/Rule	Proposed Amendment	Rationale/Justification	Revenue
14	Sales Tax Act, 1990	Auto De-blocking of previous periods un-submitted returns subject to payment of a non-filing penalty	At present, the six-month prior Un-submitted returns cannot be filed and de-blocking or the same by the concerned Commissioner is through a cumbersome process. This process may please be simplified and auto de-blocking provision for un-submitted returns of previous periods may please be introduced, subject to payment of non-filing penalty on submission of such returns.	Indirect Tax
15	Sales Tax Act, 1990	Effective Compliant Portal for Integrated Retailers Tier-I should be established	Effective Compliant Portal for Integrated Tier-I needs to be established for immediate resolution on a centralized basis especially when the issues have arisen on account of malfunctioning of the FBR portal. Technical issues/ downtime. The issuance of notices without addressing the internal problem should be discouraged by effective use of the Compliant Portal for Integrated Tier-I and for other taxpayers as well	Indirect Tax
16	Sales Tax Act, 1990	It is proposed that sales tax on restaurants should be at single digit of 5% and be collected by FBR instead of its present collection system by respective provincial authorities.	The restaurant business has been badly affected due to series of COVID-19 waves and strict measures to control over its spread.	Indirect Tax

3

Rationalization of Withholding Tax Regime Under the Income Tax Ordinance, 2001

3. RATIONALIZATION OF WITHHOLDING TAX REGIME UNDER THE INCOME TAX ORDINANCE, 2001

The withholding tax regime significantly impacts the taxpayers and Inland Revenue Officers [the "IRO"] alike. On one hand, the regime increases the cost of doing business for a taxpayer and, on the other hand, it forces IROs to devote numerous resources to the monitoring of withholding taxes. The monitoring of taxes goal can be achieved by outsourcing the professional auditor firm and the ability of the officer may be used for other work. Even with the best efforts of the IROs, it is practically impossible to plug all the leakages of taxes withheld and deposited into the national exchequer.

Currently, in Pakistan, the withholding tax regime has been made applicable to almost all categories of taxpayers and the nature of payment under 25 provisions of law has been weaved into the indirect taxes. Although in the last couple of years FBR has reduced the significant number of withholding provisions, however, we once again would like to place the following proposals for the forthcoming Budget of 2019-20 to revamp and rationalize of Withholding Tax Regime to reduce the cost of doing business, complexity in the taxation laws and leakages in tax collection:

1. Currently, there are different withholding taxes on imports of different goods. Such as raw materials (2%), plant and machinery (1%), and Supplies (4.5%). The withholding rates must range between 0-1% and must not exceed 1% in any case.

2. The imports under Part-I, Part-II, and Part-III of the Twelfth Schedule under Section 148 be revised to 0%, 0.5%, and 1% respectively.

3. The number of withholding taxes must be reduced from 25. As a first step, such provisions of law may be withdrawn for which no substantial revenue is being collected in the last three years. For example, withholding of the tax under section 236I of the Ordinance i.e. collection of advance tax by educational institutions, etc.

4. The penalties for non-filing or late-filing withholding statements should be rationalized and used only for deterrence. Following is the proposal in this regard:

   Minimum/income penalty of Rs.2,000/- shall be levied if any person without reasonable excuse fails in filing the withholding statement under section 165, thereafter, an additional penalty of Rs.200/- per day during which the default continues provided that where it stands established that no tax was required to be deducted or collected during the relevant period, the minimum amount of penalty shall be Rs.2,500/-. However, the maximum penalty should not exceed 25% of the tax withheld/collected or Rs.25,00/-, whichever is higher.

5. Like annual, quarterly withholding statements for deduction of tax from salary and other than salary should also be bifurcated as in most the large organization the payroll is being handled by the HR department.

6. In addition to the aforesaid general proposals, we also place the following suggestions:-

   - Deduction of tax from payment of the dividend is subject to various rates ranging from 7.5% to 25% with specified conditions and the status of the taxpayers is 15% which is quite high as compared to the rate of 10% that prevailed until a few years back. The structure is further complex based on the company paying the divided. It is, therefore, suggested that the uniform rate of 10% should be prescribed and the complexities should be removed.

- Bahbood Saving Certificates and Pensioner's Benefits Accounts can only be maintained by senior citizens aged 60 years or above or widows etc. Instead of exemption from withholding and clubbing the yield or profit from such schemes with the taxable income for the year for taxation, a lower rate of 5% may be prescribed, which should be a final liability for senior citizens or widows.

- **General provisions related to withholding of taxes:**

Clause (47A) of Part IV The provisions of section 153 shall not apply in respect of payments received by a resident person for the supply of such goods as were imported by the same person and on which tax has been paid under section 148. **May be omitted.**	**Section 153(5)(a),** states that a sub-section (1) of Section 153 shall not apply to a sale of goods where the sale is made by the importer of the goods, and tax under section 148 in respect of such goods has been paid and the goods are sold in the same condition as they were imported.

- **Harmonization of provisions related to exempt income and withholding provisions thereof:**

  To remove hardship to the organizations/ class of taxpayers who are exempt from tax on their income from claiming refunds due to collection of tax under various provisions of the Ordinance, it is suggested that instead of allowing them exemption from collection/withholding of the tax under the specific provisions of withholding/collection, they may be allowed blanket exemption from withholding/collection of tax under all the provisions of the Ordinance:

Name of the Institution	Clause of Part I refers to the exemption of income from tax	Clause of Part IV refers to the exemption from withholding of tax	Section under which exemption from withholding is provided
The institutions of Agha Khan Development Network (Pakistan) Limited are listed in Schedule 1 of the Accord and Protocol dated November 13, 1994.	(66) (viii)	(16)	113, 148, 151, 153, 155 and 156
China Overseas Ports Holding Company Limited.	(126A)	(38AA)	150
China Overseas Ports Holding Company Pakistan (Private) Limited.	(126A)	(38AA)	150
Gwadar International Terminal Limited.	(126A)	(38AA)	150
Gwadar Marine Services Limited.	(126A)	(38AA)	150
Gwadar Free Zone Company Limited.	(126A)	(38AA)	150
Islamic Development Bank.	(107A)	(38C)	150, 151, 152, 153, 233
Start-up as defined in Clause (62A) of Section 2.	(143)	(43F)	153
Collective Investment Scheme and REIT Scheme.	(99)	(47B)	150, 151, 233 and Part I, Division VII of the 1st Schedule
National Investment Trust Approved Pension Fund. and approved income payment plan	(57)	(47B)	150, 151, 233 and Part I, Division VII of the First Schedule
Recognized Provident Fund, approved Superannuation Fund.	(57)	(47B)	150, 151, 233 and Part I, Division VII of the First Schedule
International Finance Corporation established under the International Finance Corporation Act, 1956.	(66)(xiv)	(67)	150, 151, 152, 153 and 233
Pakistan Domestic Sukuk Company Limited.	(66)(xv)	(68)	151, 153 and 155
Asian Development Bank established under the Asian Development Bank Ordinance, 1971.	(66)(xxx)	(69)	150, 151, 152, 153 and 233
ECO Trade and Development Bank.	(66)(xvi)	(72)	150, 151, 152, 153 and 233
Second Pakistan International Sukuk Company Limited.	(66)(xxiii)	(96)	147, 150A, 151, 155 and 236K
Third Pakistan International Sukuk Company Limited.	(66)(xxiv)	(96)	147, 150A, 151, 155 and 236K

Rationale
Globally thae withholding tax regime is only applicable to persons whose income is difficult to determine, easier to evade, or more likely to cross national boundaries. Secondly, different withholding tax rates have imposed the biggest challenge for tax filing. Due to different rates, people do not register themselves in the Active Tax Payers List. Most of the provisions are adopted to generate revenues rather than simplifying procedures for businesses such as penalties.

4

Diminishing the Cost and Ease of Doing Business

4. DIMINISHING THE COST AND EASE OF DOING BUSINESS

4.1. GENERAL MEASURES

4.1.1. Energy Sector Proposal

Issue

The Energy Sector's focus is critical due to decreasing gas reserves and increasing population requiring electricity access.

Recommendations

1. Net metering be further incentivized by the pricing of power at a tariff of Rs. 1 above the domestic tariff for 1000 units and DISCOs are obligated to complete approvals in 4 weeks.

2. WAPDA (Water and Alternate Power Development Authority) remained to be the anchor executing agency for hybrid Solar & Wind projects constructed under P3P mode at its hydel sites with federal government initial funding of Rs 1bn for feasibility and SPV structure definition jointly with the Government of Baluchistan for off-grid solutions that facilitate development in the Province.

3. Competitive pricing of energy is essential for industry and GDP growth.

   - Energy should be priced in one unit (Rs/MMBtu) across all fuels and at cost price by the Regulator(s).
   - Measures to deliver focused subsidy be expanded further.
   - It needs to be ensured that energy for the industry is priced at a tariff lower than domestic.
   - Indigenous gas should be produced at the lowest of Take or Pass and limited only to the value-added sector of Petrochemical, Fertilizer, and Chemical.
   - The subsidized energy amount is to be adjustable against performance e.g. export and tax revenue increase equivalent to subsidy % for those opting for the facility
   - Imported coal plants utilize Thar coal only starting June 2023
   - Funds over 3 years should be allocated for reducing losses in gas and electric network
   - Coal to Gas and Liquid project(s) based on Thar coal be incentivized by ensuring offtake by OMCs and gas utilities

4. Improvement in reducing supply chain costs be initiated by allowing OMCs to price products from Jan 2023 by deregulating margins and IFEM with OMCS mandated to develop 40 days of storage in each Province by June 30 2024 equivalent to their June 30, 2022 volume sold or market share. Penalty beyond June 2024 be at Rs. 0.5 per liter of volume short as of June 30, 2024. As a result, frozen shares of PSO be also unfrozen by Dec 2022. Moreover, consortium of SOEs be mandated to take equity in a LNG liquefication facility by March 2023

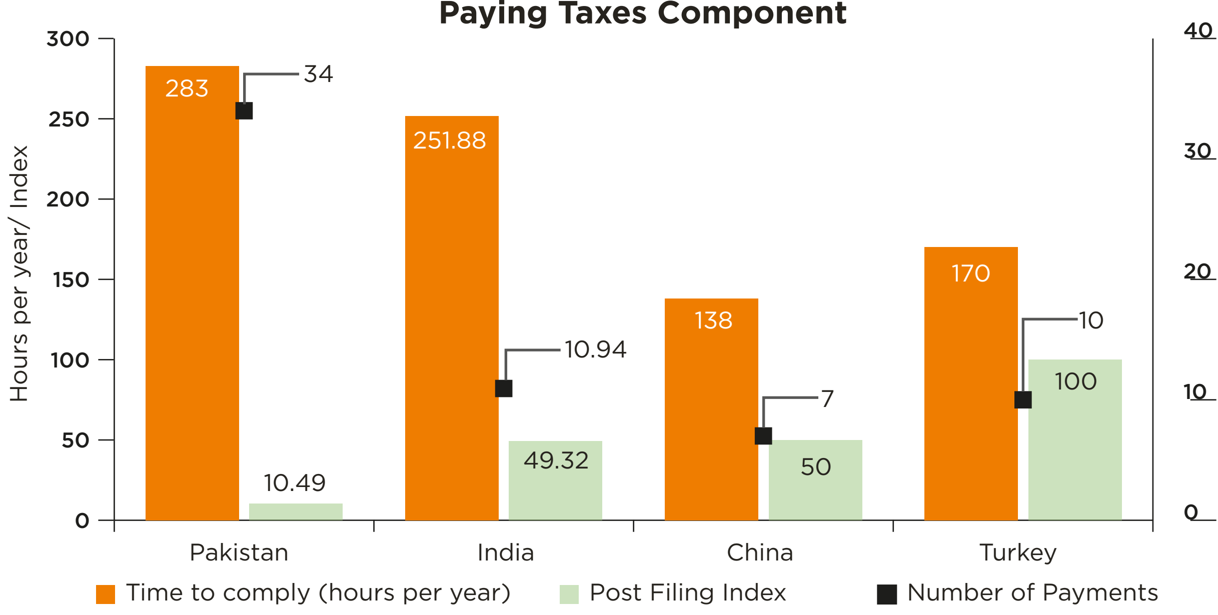
5. Productivity improvement and development of product need to focus on an increase in the minimum wage to 50K Rs in steps by March 2023 and respectively HEC be mandated to produce 20,000 engineers per year for the silicon industry

6. There is an urgent need to encourage conservation on priority by requiring the industry to define guidelines highlighting efficiency in their product literature by Dec 2023 across the industry and violations in marketing be penalized by CCP. Furthermore, mass transit and waste to power in cities be expanded under P3P by developing procedures during the FY for the expansion of the network. And EDB issues energy consumption guidelines starting with the automobile, motor, and consumer goods.

Rationale
Competitive pricing of energy and reduction in supply chain costs will enhance the competitiveness of the industry and foster economic growth. In addition, productivity improvement with conservation measures will assist in reducing energy imports.

4.1.2. The level of automation for tax administrations should be enhanced

Issue
Tax administrations around the world are embracing digital transformations and automation of their systems. In Pakistan, there are only 2.2 million people registered for income tax returns for which only one-third are having a valid National Tax Number (NTN)[14] whereas only 0.3 million businesses are registered under Active Sales Tax Return in 2021, according to the FBR. Pakistan's ranking on Paying Taxes Indicator is poor (161) compared to other countries such as India (115), China (105), and Turkey (26). The following figure further sheds light on components of this Indicator implying that the potential reason behind the low tax filing rate is the higher compliance cost. According to estimates by the Pakistan Institute of Development Economics (PIDE, 2020)[15], businesses bear on average Rs. 250,000 for tax compliance in 2019. Pakistan's position on Post-Filing Index is the worst of the compared countries.



Source: World Bank Doing Business 2020

Recommendation
It is recommended that the number of tax payments should be reduced along with automation of tax administration.

[14]Number of active taxpayers falls 30%
https://tribune.com.pk/story/2286964/number-of-active-taxpayers-falls-30
[15]https://pide.org.pk/pdfpideresearch/rr-036-growth-inclusive-tax-policy-a-reform-proposal.pdf

Rationale

Tax automation not only contributes to revenue generation and reduces tax compliance but also incorporates efficiency and greater accuracy. In South Korea, digitalization has reduced compliance costs by as much as 19% during the 2011-2016 period[16]. Countries like India, China, and Malaysia have been 90% successful in Income Tax automation (ADB, 2020).

4.1.3. Upgradation of FBR's ICT infrastructure

Issue

The World Bank has attempted twice to bring taxation reforms through Tax Administration and Reform Project (TARP), 2005 and Pakistan Raises Revenue (PRR) in 2019. TARP failed to yield desirable results due to a lack of commitment from the Government and FBR officials. The PRR has been downgraded from satisfactory to moderately satisfactory in the third implementation report 2021 since no progress has been made on indicators including replacement of obsolete ICT equipment, function data warehouse, and reliable connectivity. The table below provides the progress of targets under PRR:

Goals/ Indicators		Starting Point (2018)	Current Status (2021)	Target (2024)
Tax to GDP (percent)		13	12.7	17
Number of Compliant taxpayers (‘000s)		1159	2859	3500
Hours to prepare, file, and pay CIT and GST*		253.5	243.0	130
Hours spent for custom clearance*		97.50	89.0	48.50
Data Sharing Entities		3	80	20
Replace obsolete ICT equipment (%)		0	0	100
Functional Data Warehouse with big capacity		No (2019)	No	Yes
FBR offices with reliable connectivity		6 (2019)	6	42
Resolution of Refunds (% of refund claims resolved within 90 days)		5 (2019)	15	50
E-services for taxpayers		Online payments, ATM payments launched (2019)	Partially achieved as Income tax returns may be filed thru Asaan App	Payments thru mobile phones, debit/credit cards, taxpayers able to review their records
Improvement				
Deterioration				

Source: *World Bank*

**Measured by Doing Business*

[16]https://blogs.worldbank.org/voices/why-tax-administrations-are-embracing-digital-transformation#:~:text=Digitalization%20makes%20life%20easier%20for,the%20compliance%20burden%20on%20taxpayers.

Recommendations

(i) It is recommended that the ICT infrastructure of the FBR must be upgraded and obsolete IT equipment should be replaced.

(ii) It is urged that business and analytical tools should be deployed to identify potential taxpayers and tax evaders.

Rationale

The current systems used by FBR generate loads of data on daily basis, outdated technology leads to delays in income and sales tax refunds every year which increases the time for tax compliance. FBR has also faced a cyber-attack in 2021 as well jeopardizing taxpayers' information. An upgraded ICT would help FBR to manage efficiently the data collected from the different tax agencies for tax simplification purposes.

4.1.4. A shift from SRO culture to research-oriented policy implementation

Issue

The SRO culture in Pakistan has created loopholes in the country's tax administration. The use of SROs should be restricted to framing rules and procedures for implementing a tax law or laws. In addition, it may be used to remove 'hardships' and ambiguities, however, the role of SRO to provide concessions/exemptions must be abandoned.

Recommendation

It is recommended that ad hoc concessionary regimes using SROs should be abolished and the policymakers should take place after thorough research and consultation of relevant stakeholders. According to Pakistan Business Council (PBC) estimates, the country loses about Rs. 600 billion each year due to tax evasion (smuggling), and misuse of concessionary duties[17].

Rationale

The business community has identified misuse of SROs on multiple occasions. For instance, concessions at the import stage given to the export-oriented industries are being misused by importing products more than their production capacity, and surplus is sold to those who are not eligible for concessionary rates.

4.2. DIRECT TAXES

4.2.1. Alternative Corporate Tax (ACT) — Section 113C

Current Legislation

The introduction of ACT, via the Finance Act, 2014, placed an additional burden on the corporate sector. The accounting profits are made as a benchmark for computing ACT and where such tax is determined to be higher than the tax computed under the general scheme of taxation under the Ordinance, the company is expected to pay the differential. The said section also empowers the Commissioner to re-compute the accounting income of the company.

The ACT has been introduced in the world like in the USA and India to take care of substantial accelerated depreciation, percentage of depletion, intangible, drilling costs, or non-tenable income. However, this burdens the taxpayer and disturbs its cash flow by paying taxes even in a taxable loss situation. Further, it also accumulates carryforwards available to the company for adjustment against future tax liability which is also challenged by the tax authorities when such a claim is made. There is

[17] https://www.pbc.org.pk/research/under-invoicing-rampant-on-imports-from-uae/

no concept of levy of such tax even in the big economies of the world like China, Canada, Germany, United Kingdom, etc. This tax in such countries has been made redundant to gain the confidence of investors with the exclusion of some countries such as Austria, India, Italy, Romania, South Korea, Switzerland, and Taiwan. Moreover, some country has abolished the minimum corporate income tax and replaced it with a minimum net worth tax in the USA, it applies particularly to all taxpayers including Insurance, Banking, Exploration & Production of Petroleum, and Exploration & Extraction of mineral deposits.

Issue
It appears that the legislature aims to recover more and more taxes from the existing documented sector even on fictional income. Under these circumstances, the legitimate allowances, concessions, and tax credits have eventually become ineffective where tax is collected. This would mean that where a taxpayer, who may otherwise not pay the tax due to the availability of saying tax depreciation, amortization, and brought forward losses, would still be subject to tax under the Alternative Corporate Tax.

Furthermore, due to the powers are given to the Commissioner, a difference of opinion may arise amongst the stakeholders in respect of the accounting income to be charged to tax.

Recommendations
1. The parallel application of ACT with Minimum Tax under section 113 is inappropriate. Therefore, it is strongly recommended that only one of the two Minimum Tax Regimes should be in force.

2. If notwithstanding the above contentions, the ACT is to be retained, the following practical issues relating to ACT may be taken into consideration:

   (i) Brought forward accounting losses should be accounted for the levy of ACT; and

   (ii) Sub-section (11) of section 113C should be suitably amended to the effect that accounting income, as prepared by International accounting and regulatory standards, would be acceptable for the ACT, and would not be subject to any adjustment by the Tax Authorities.

Rationale
Following the change, the existing documented sector will not be subject to the increased amount of tax and unnecessary litigation. It will also reduce disagreements between the taxpayers and the authorities, which will promote taxpayers' satisfaction.

4.2.2. Minimum Tax on Services — Section 153

Current Legislation
Under the amendments made by the Finance Act, 2015, the tax withheld at source under section 153(1)(b) was a minimum tax for service providers except for companies. However, subsequently, Clause (94) was inserted in Part (IV) of the Second Schedule to the Ordinance; whereby certain service providers were made liable to pay 2% minimum tax, instead of 8% of the gross amount of turnover from all sources:

The Finance Act, 2019 transported this reduction of the tax to Clause (2)(i) of Division (III) of Part III of the First Schedule to the Ordinance and further substituted by the Finance Act, 2014; whereby, the withholding of the tax under section 153(1)(b) on the following services is 3% of the gross amount payable.

"In the case of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services, and IT-enabled services as defined in section 2 tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services,

including architectural services, warehousing services, service rendered by asset management companies, data services provided under the license issued by the Pakistan Telecommunication Authority, telecommunication infrastructure (tower) services, travel, and tour services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited, Pakistan Mercantile Exchange Limited, inspection, certification, testing and training services, oil field services, telecommunication services, collateral management services".

Issue

Before the amendments made by the Finance Act, 2015, the tax withheld at the source of the income of service providers was not a minimum tax for Companies. However, the benefit to the corporate service sector was withdrawn. Presently, if the service sector does not achieve a net profit margin of approximately 25%, they are liable to pay a minimum tax of 8% of their gross receipts. It may be appreciated that a margin of 25% is not practical in several service sectors where there is a high turnover but a low margin. This has resulted in unreasonable tax liabilities for several service providers.

Recommendation

1. It is proposed that the position before Finance Act, 2015 be re-enacted and the tax withheld at source is not a minimum tax for corporate service sector entities, or
2. Alternatively, in order to remove discrimination and instate a level playing field, all service sectors should be allowed to pay minimum tax at the rate of 3% of their gross amount of turnover from all sources.

Rationale

This would help lower the cost of business for service sector entities and allow growth opportunities for them in Pakistan.

4.2.3. The Multiplicity of Taxes and Reduction in Corporate Tax Rate

(i) Multiplicity of Taxes

Current Legislation/Issue

Presently due to the multiplicity of taxes for the corporate sector, it goes up to 36% (29% normal tax + 2% Workers' Welfare Fund + 5% Workers Participation Fund). The higher rate of tax is effectively a disincentive for multinational groups for locating their businesses in Pakistan. Other countries in the region have brought down their corporate rate of tax to promote investment.

Moreover, the taxpayer/registered persons are required to comply with the following Federal and Provincial fiscal laws:

List of Tax Laws in Pakistan

(A) Federal Laws

1. Income Tax Ordinance, 2001;
2. Sales Tax Act, 1990;
3. Customs Act, 1969;
4. Federal Excise Act, 2005;
5. Islamabad Capital Territory (Tax on Services) Ordinance, 2001;
6. Workers Welfare Fund Ordinance, 1971;

7. Companies Profits (Workers Participation) Act, 1968;
8. Gas Infrastructure Development Cess Act, 2015;
9. Stamp Act, 1899;
10. Capital Value Tax (levied through the Finance Act, 2006); and
11. Employees Old-Age Benefits Act, 1976 (EOBI),

(B) Provincial Laws

12. Sindh Sales Tax on Services Act, 2011;
13. Punjab Sales Tax on Services Act, 2012;
14. Khyber Pakhtunkhwa Finance Act, 2013;
15. Balochistan Sales Tax on Services Act, 2015;
16. Sindh Worker Welfare Fund Act, 2014;
17. Punjab Workers Welfare Fund;
18. Sindh Companies Profits (Workers Participation) Act, 2015;
19. Punjab Workers Profit Participation Fund;
20. Professional Tax (at the provincial level);
21. Property Tax (at the provincial level);
22. Infrastructure Cess (at the provincial level);
23. Education Cess (at the provincial level);
24. Motor Vehicle Tax (at the provincial level);
25. Stamp Duty (levied under the schedules of respective provinces);
26. Provincial Employees Social Security Laws (present in some provinces); and
27. Provincial Employees Old-Age Benefits Laws (present in some provinces).

(ii) Corporate Tax Rates

The prevailing standard corporate tax of 29 percent in Pakistan is substantially higher than the peer countries including India, China, Turkey, Vietnam, and Egypt. The global evidence shows that investment flows are towards countries where corporate tax rates are lower. Specifically, there exists a negative relationship between corporate tax rates and FDI (net inflows, % of GDP). Among the selected countries, FDI (% of GDP) for Pakistan was 0.8 percent (lowest) whereas the corporate tax rate was 29 percent in 2019 (highest) however the reverse is true in the case of Hong Kong and Singapore where FDI was 33.9 and 25.7 and the corporate tax rate was 16.5 and 17 percent respectively. The government announced to reduce the corporate tax rates from 29 percent to 25 percent gradually by 2023. However, this amendment was withdrawn through the Finance Act, 2019 and the corporate tax rate has been fixed at 29 percent.

The table below reflects the negative correlation between foreign direct investment (net inflows, % of GDP) and corporate tax rates.

Country	Corporate Tax Rate	FDI (% of GDP)
Pakistan	29.0	0.8
India	25.2	2.4
China	25.0	1.4
Turkey	23.0	1.1
Egypt	22.5	1.6
Vietnam	20.0	5.8
Singapore	17.0	25.7
Hong Kong	16.5	33.9
Correlation between Corporate Tax rate & FDI	**-0.84 (Strongly Negative)**	

Recommendations

(i) The previous policy of reduction in corporate tax rates should be restored and the corporate tax rate should be gradually reduced to 25%;

(ii) Furthermore, to promote the listing of companies, the corporate tax rate for listed companies should be at least 5% less than the rate for non-listed companies;

(iii) The number of Federal and Provincial laws be merged and reduced to conduct business with ease and at lesser cost; and

(iv) The employer should be given the right to spend Workers Welfare Fund on its employees, being an admissible expenditure.

Rationale

The multiplicity of Taxes has increased the cost of compliance for both taxpayers and officials. Different audits and notices have to be issued separately under each law/ tax rule. The suggested change will promote increased investment in Pakistan and corporate conversion.

4.2.4. Minimum Tax — Section 113

Current Legislation

Presently under this section a resident company, the permanent establishment of a non-resident company, an individual (having a turnover of a hundred million rupees or above in the tax year 2017 or any subsequent tax year and an association of persons (having a turnover of hundred million rupees or above in the tax year 2017 or any subsequent tax year) were for any other law or for the time being in force.-

a) loss for the year;

b) the setting off of a loss of an earlier year;

c) exemption from tax;

d) the application of credits or rebates; or

e) the claiming of allowances or deductions (including depreciation and amortization deductions) no tax is payable or paid by the person for a tax year or the tax payable or paid by the person for a tax year is less than the percentage as specified in Column (3) of the table in Division IX of Part I of the First Schedule of the amount representing the person’s turnover from all sources for the year.

Recommendation

In the case of “all other cases”, the rate of tax be reduced from 1.25% to 1.00%.

Rationale

The current rate of 1.25% of the minimum turnover tax is high and unjustified as the minimum tax needs to be paid irrespective of the profitability of the entity.

4.2.5. Exemption to Inter-Corporate dividend & Incentivizing Holding Companies Structure Section 59B read Clause 103A, Part I Second Schedule

Current Legislation

The Supplementary Act, 2019 inserted a new clause in Part I of the Second Schedule, which with effect from 01 July 2019 exempts dividend income derived by a company, if the recipient has availed group relief under section 59B, computed according to the following formula:-

A x B/C

Where-,

A is the amount of dividend;

B is the shareholding of the company receiving the dividend in the company distributing the dividends; and

C is the total ordinary share capital of the company distributing the dividend.

Issue

Under the provisions of clause (103A) of Part I of the Second Schedule, any income derived from inter-corporate dividends was exempt for group companies entitled to group taxation under section 59AA or group relief under section 59B. The Finance Act, 2015 then added a condition, that such exemption would only be available if the consolidated return of the group had been filed. Subsequently, the Finance Act, 2016, excluded entities entitled to group relief under section 59B from the exemption entirely. The relief was reinstated in 2019 but abolished in 2021 again.

The above amendments created significant difficulties for corporate and industrial groups by adding multiple layers of taxation on dividends issued by group entities. This resulted in corporate structures becoming inefficient due to multiple taxations of the same income, on mere distribution within the group, even though no value addition was taking place. This also led to substantial litigation from various groups.

Although to cater to the above problem an exemption has been introduced via the Second Supplementary Act, 2019, it is imperative to note that the newly inserted clause provides relief only in the circumstances where the recipient of the dividend has availed group relief, i.e. loss has been surrendered between the two entities and even then, only to the extent of the shareholding that the parent entity has in its subsidiary. In effect, this means that:-

(i) since the provisions of section 59B require listing within a specified period, the relief would not be available to private groups unless they are willing to list;

(ii) the relief would be available only to the entities surrendering or receiving the losses, and not all companies within the entire corporate structure;

(iii) based on a literal interpretation, the holding company (i.e. the entity receiving the dividend) may not be able to claim the exemption if the losses under group relief are transferred from one subsidiary to another (i.e. between sister concerns);

(iv) since a company cannot surrender its losses for more than three years, this is not an indefinite relief; and

(v) the benefit may practically be availed only in specific cases since a company, both receiving dividends and availing group relief in the same year, is normally only possible in structures where a holding company has several subsidiaries.

Overall, this has significantly watered-down relief compared to the demands of the corporate sector, the benefit of which may likely be availed in very few cases that may comply with all the conditions.

Recommendation
Exempt inter-corporate dividends to both under section 59AA and 59B as it was used to be before the amendments made by the Finance Act, 2016.

Rationale
It would promote group formation & consolidation and strengthen the overall corporate structure in Pakistan. The above proposal is in line with the best international practice. Inter-corporate dividend tax relief is available in other countries as well such as China, India, Vietnam, Thailand, Indonesia, and Singapore.

4.2.6. Taxing supply chain under the garb of prizes and winnings — Section 156

Current Legislation
Section 156 of the Ordinance required a company to deduct tax at the rate of 20 percent on "prize offered by companies for promotion of sale".

Issue
The clear intention of this section is to capture tax through withholding at source from persons who are the recipient of the prizes and winnings; the intention is not to tax any person who belongs to the supply chain of the companies i.e., dealers, distributors, etc.

The performance or early payment discounts paid to the supply chain by the manufacturers or distributors are being unfairly equated to prizes and winnings and being subjected to a tax rate of 20 percent.

Recommendation
To clear any ambiguity in the law regarding the application of this section, it is suggested to amend the section and to add the term "to end consumers" after the term 'prize offered by the company for promotion of sale' to oust any person in the supply chain from the ambit of this section.

Rationale
This would benefit the companies by providing incentives to their distributors and dealers and would reduce the costs of doing business for them.

4.3. INDIRECT TAXES

4.3.1. Withdrawal of Section 8B for Input Refunds

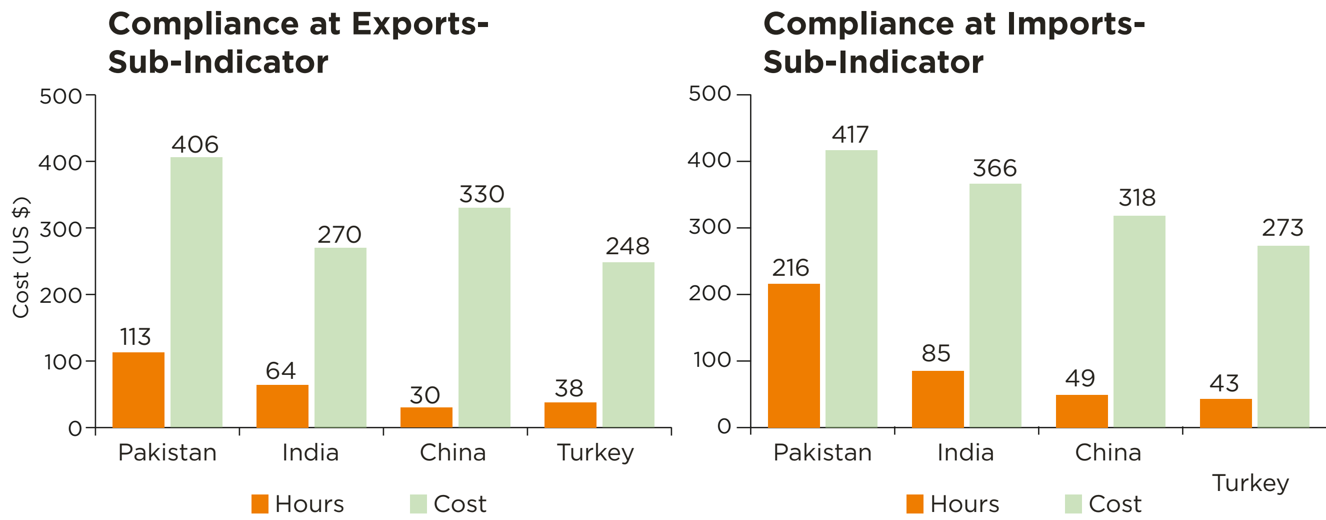
Issue
Section 8B of the Sales Tax Act, 1990 legislates the input refund only up to 90 percent in the first year whereas the remaining could be claimed in the next tax period. Whereas, the listed companies have already been exempted from this condition and are enjoying a complete 100% refund. On the other hand, SMEs and other small units are still entitled to only 90 percent rather than 100 percent.

Recommendations
It is recommended that Section 8B be withdrawn. The input refund must be allowed to up to 100 percent (rather than just 90 percent in the first year) against the input tax.

Rationale
This clause restrains businesses from filing their legitimate input tax and also affects the liquidity of businesses. The delays in the refund process already consume a lot of time, in addition, businesses do not receive their due share. The complete refund would help in ease of doing business.

4.3.2. Customs administration should be improved

Pakistan stands at 111 whereas India (68), China (56), and Malaysia (49) on the Trading Across Borders (Sub-indicator of Doing Business Index). The index measures both the time and cost associated with customs procedures including border compliance, documentary compliance, and domestic transport. The following graph further shows the components of Trading across Borders in Pakistan and other countries.



Source: *World Bank Doing Business, 2020*

Recommendations

(i) It is recommended that the risk-based system within WeBOC should be improved to identify consignments with low risk to reduce the time consumed in physical examination. Currently, around 40 percent of the consignments are selected for physical examination in the presence of WeBOC[18].

(ii) The cases regarding the consignments must be wrapped up within fifteen days. If the decision is not taken within the timeframe, the consignment should be released after the verification of the importer's profile.

Rationale

On average, Pakistani exporters devote 113 hours and pay US$ 406 to comply with the border clearance procedures and documentation for exports. Similarly, the time and cost requirements are even higher while importing goods. On average, it takes 216 hours and US$ 417 to comply with border procedures and documentation while importing goods. Pakistan's border compliance time and cost are far higher than India, China, and Malaysia for both exports and imports. Malaysia has improved its ranking on trading across borders by introducing E-forms and by enhancing its risk-based customs systems.

[18] https://invest.gov.pk/sites/default/files/inline-files/Pakistan%20Doing%20Business%20Reform%20Strategy%202019-2021.pdf

5

Rationalization of Tax Policies for Industrialization

5.1. DIRECT TAXES

5.1.1. Extended Availability of Tax Credits — Sections 65B, 65D & 65E

Current Legislation
Tax credit under sections 65B and 65E was restricted to investment in Plant and Machinery only. Whereas, a tax credit under section 65D was available only at the time of setting up a new industrial undertaking. No tax credit is given on subsequent expansion of such an industrial undertaking since section 65E restricts eligibility to companies formed before 01 July 2011.

The above three provisions of law incentivize industrialization; however, both have been withdrawn directly or indirectly.

Issue
(i) The discontinuation of the tax credit has demotivated genuine investors.

(ii) The rationale by the legislature behind these tax credits was not for the purchase of plant and machinery but for industrial expansion and increased economic activity. In this regard, it may be appreciated that expansion of business (and the consequent increase in economic activity) is not achieved from plant and machinery in isolation and is, for all practical purposes, not possible without an appropriate support structure. Expansion of a plant or undertaking a new project involves investment in factory building and manufacturing-related infrastructure and as such, these types of investments should also be made eligible for tax relief.

Recommendations
(i) Tax credit under the above provisions of law is reintroduced.

(ii) The introduced tax credit under section 65E should also be extended to investment in factory building and manufacturing-related infrastructure.

Rationale
Increased availability of tax credits may act as an incentive to new investment since the investors foresee tax benefits that they may practically be able to utilize. It shall promote industrial expansion and increase economic activity.

5.1.2. Advance Ruling — Section 206A

Current Legislation
The provisions of Advance Ruling under Section 206A only facilitate foreign investors.

Issue
Globally, Advance Rulings facilitate investors in general and foreign investor, in particular, to know their tax liability in advance and to plan their business and investment strategies, for helping the economy. Advance rulings also share the burden of the judiciary and restrict revenue officials from using discretionary and injudicious powers. There are several countries where this practice is being followed successfully. However, in Pakistan, this provision is available only to the non-resident taxpayer.

Recommendations
The Advance Ruling facility should also be made available to the resident taxpayer. It should also be clarified that the Advance Ruling will be valid even where the non-resident taxpayer, after obtaining the ruling, becomes resident.

Rationale
The change proposes to provide comfort to the local & foreign investors and avoid litigation.

5.1.3. Transactions under dealership arrangements — Section 108B

Issue
The requirement of Sales Tax Registration (seeking NTN/CNIC should be sufficient) of the distributor/dealer is causing an unnecessary burden on the manufacturer and the revenue impact is counter-productive.

Recommendation
It is recommended to delete the Section 108B.

Rationale
Companies supplying goods stated in the Third Schedule are already paying the "end consumer tax" or simply the highest tax possible on those goods at the manufacturer stage regardless of the registration status of the other parties involved in the supply chain. The highest tax possible on the goods (tax on retail price) is already paid and received by the Government at the very initial stage. Instead of registering for Sales Tax, the dealers are more inclined to circumvent the system.

This will increase revenue as companies/ persons making supplies of the Third Schedule items will be more inclined to invoice persons without fear of having to pay their customer's presumed income tax. More sales/revenue by companies mean more income for the company which will mean more income tax payable thus revenue increase. In fact, the unregistered buyers not claiming input tax on these transactions save at least 5% of revenue on such transactions for the Government.

5.2. INDIRECT TAXES

Sales Tax and Federal Excise Duty

5.2.1. Sales Tax on Services in Islamabad Capital Territory

Issue
There exists a 16 percent Sales Tax on services of Registered/ Filers (TMCs) Travel/Tour operators in Islamabad Capital Territory (ICT). The level playing field is denied to ICT Travel/Tour Operators. In addition, unregistered TMCs with the Department of Tourist Services (DTS) and FBR are enjoying a tax-free environment and competing with law-abiding and tax-compliant TMCs, causing a loss of business. Whereas, the unregistered TMCs are operating in a tax-free environment.

Recommendation
FBR may be requested to bring this tax for ICT travel and tour operators at par with Punjab & Sindh, that is, 5% on the Service fee.

Rationale
Sales Tax on services, that is 16%, for Registered/ Filers (TMC's) Travel/Tour operators in Islamabad Capital Territory (ICT) is relatively high in comparison to Punjab and Sindh Sales Tax on services.

5.2.2. Turnover Threshold for Cottage Industry — Section 2(5AB)

Issue
To incentivize small manufacturing concerns termed as "Cottage industry", exemption of sales tax has been granted. However, in the Finance (Supplementary) Act 2022, the annual turnover threshold has been reduced from 10 million rupees to 8 million rupees.

Recommendation
It is recommended that the annual turnover should be increased to 20 million rupees to provide relief to a greater number of firms in the cottage industry.

Rationale
SMEs and Cottage industry are the backbone of the economy which employ more than 70 percent of the non-agriculture labor.

5.2.3. Tax at Retail Price — Section 3(2)(a) & Third Schedule

Issue
FBR is now empowered to include or exclude any goods from the "Third Schedule" giving substantive legislation function to executive authority.

Recommendation
This legislative function must exclusively remain with the federal government and FBR's role must be limited to tax collection/implementation only.

Rationale
The FBR is the revenue collecting agency and such discretionary powers will hurt the industry.

5.2.4. Taxes on Water Purification Equipment

Issue
Pakistan is witnessing an acute shortage of clean water; the imposition of general sales tax and additional sales tax further increase the drinking water prices and deteriorates the ability of locals (specifically poor communities) to buy clean water as it increases the overall cost of production. Amid increasing population and climate change, the unavailability of clean water is becoming worrisome. Pakistan has been ranked among the most water-stressed countries in 2021. We must act swiftly and decisively to take care of these major hurdles in providing clean drinking water to the population. With the lower costs, the quality of water will get better at a reasonable cost. Any revenue lost will return many folds due to fewer waterborne diseases.

Recommendations
Water Treatment Association of Pakistan is involved in the manufacturing of Water Filtration plants of all types including RO, UF, and other various Plants. To manufacture these water treatment plants, we have to import components needed for the plants which are NOT manufactured in Pakistan.

Out of three major components of a RO plant that are not locally manufactured i.e., membrane, pressure pumps, and pressure tanks, the most costly item which needs replacement periodically is the membrane. The major manufacturers of RO plants Membranes are in the USA. The technology cannot be transferred due to very high investment, economies of scale, and highly sophisticated and precision machinery involved in the manufacturing process. The technology to manufacture membranes is so sophisticated that even China has not been able to completely develop quality membranes. They are producing some very basic membranes for very small RO plants. The basic ingredient is Film (for osmosis) is manufactured in the USA (Dupont) and Japan (Toray) (Hydranautic). These 2-3 US and Japanese companies have a monopoly.

The cost of a 100,000 gallon RO Plant is Rs. 6,000,000 (six million rupees) whereas the membrane cost is Rs. 3,000,000 (three million rupees). The cost of a membrane varies between 30-50% of the RO Plant's total cost, depending on the capacity of the plant. The present and proposed duty structure of the membrane is as under:

Custom duty structure on Membrane (8421.2100) - Raw materials of water filtration (RO) plant

Present		Proposed	
Customs Duty	16%	Customs Duty	0%
Addl. Customs Duty	4%	Addl. Customs Duty	0%
Sales Tax	17%	Sales Tax	0%
Addl ST	3%	Addl ST	0%
WHT (Income Tax)	5.5%	WHT (Income Tax)	1%

It is also recommended that the general sales tax as well as additional sales tax on the RO technology and the chemicals used in the water treatment be abolished.

Rationale
Pakistan has been ranked among the most water-stressed countries in 2021. Only 20 percent of the population has access to safe drinking water (PCRWR, 2021). We must act swiftly and decisively to take care of these major hurdles in providing clean drinking water to the population. With the lower costs, the quality of water will get better at a reasonable cost. Any revenue lost will return many folds due to fewer waterborne diseases.

5.2.5. Sales Tax on Agricultural inputs

Issue
Agriculture is the primary input provider for the major industries of Pakistan including many export-oriented industries. To further boost exports, the productivity of local crops should be increased. For greater output, many factors play a vital role with seeds and modern & affordable agricultural machinery are crucial ones. The imposition of taxes on seeds (such as cotton, melon, watermelon, and other seeds) will further increase the cost of production in the agriculture sector. Most of the seeds and agricultural inputs were exempt from any sales tax which has been withdrawn in the Finance (Supplementary) Act 2022.

Recommendation
It is recommended to restore exemption on agricultural inputs (such as seeds and agricultural machinery) from sales tax facilitating farmers and agricultural machinery manufacturers as it was before Finance (Supplementary) Act, 2022.

Rationale
Pakistan is under serious threat of food insecurity for which the Government must take all the necessary measures to improve productivity. Expensive seeds and other agricultural inputs adversely affect farmers' productivity.

5.2.6. Sales Tax on Pharmaceutical Industry

Issue
A 17 percent Sales Tax has been imposed on pharmaceutical inputs through Finance (Supplementary) Act, 2022. In addition to Sales tax, advance tax on the pharma industry is 0.5% for filers and 1% for Non-filers. Most of the inputs such as Active Pharmaceutical Ingredients (APIs) are being imported to Pakistan from India and China at higher costs due to a lack of research and development.

Recommendation
It is recommended that the taxes on raw materials used in the manufacturing of medicines must be reduced to the extent that it benefits the end consumers in terms of their prices.

Rationale
Higher taxes on these inputs would affect the supply of medicines resulting in surging prices of life-saving drugs and others in the country. Reduced sales tax rates would also reduce the cost of the inputs imported into Pakistan since Pakistan does not have enough capacity to produce these inputs locally.

5.2.7. Sales Tax for Eco-Friendly Industries

Issue
The government has openly supported the idea of a greener economy by incentivizing Automobile Sector to produce eco-friendlier vehicles i.e. electric vehicles and has taken various other measures. The Government must lead in incentivizing other sectors as well who are/wants to promote eco-friendly measures by protecting their businesses from the potential losses during this transition. For example, the brick industry is adopting eco-friendly technology such as the zig-zag method, but a few suppliers fear that the zig-zag method may disrupt the coal supply and hurt their business hesitating the transition.

Recommendation
It is recommended that government may reduce the sales taxes of the industries promoting eco-friendly measures.

Rationale
It would incentivize industries to further strive for eco-friendlier measures without fearing the temporary losses of the transition.

5.2.8. Sales Tax on Local Petroleum

Issue
FBR has followed a discriminatory tax regime for the local LPG production and imported LPG. The local LPG producers are subjected to 17 percent Sales Tax while the importers only pay 10 percent Sales Tax on LPG.

Recommendation
Sales Tax on local LPG should be brought down to the same rate as importers i.e. 10% to provide a level playing field for local production.

Rationale
Discriminatory rates provide an undue advantage to the imported LPG in comparison to local LPG. Promotion of Local production will not only boost local business but assist to manage trade deficit more efficiently.

5.2.9. Sales Tax on imported Dry and Fresh fruits from Afghanistan

Issue
The Dry, Fresh fruits are freely importable under Import Policy Order, 2020 against 10 percent customs duty of the first schedule of Customs Tariff 2021-22, Whereas, 17% Sales Tax is leviable on all above imports from Afghanistan.

Recommendation
It is proposed that the Sales Tax may be charged 0 percent on all imported dry, fresh fruits, including Cumin Seed and Anar Dana under the sixth schedule of Sales Tax Act 1990 from Afghanistan.

Rationale
The reduced tax would help reduce the price of dry fruits in Pakistan.

5.2.10. Protection of the Fishing Industry

Issue
The fish feed industry is one of the emerging industries in Pakistan which needs government support to establish its ground. However, the imposition of sales tax will increase the cost of production which may fail this project, and investment in the sector may go to waste.

Recommendation
Therefore, it is strongly recommenced to abolish the sales tax on fish feeds.

Rationale
This will help domestic fishing industries and help boost exports.

5.2.11. Sales Tax and Customs Duties on Renewable Energy Equipment/ Technology

Issue
In the wake of the energy crisis, many businesses are shifting toward Renewable Energy Projects. However, these projects in Pakistan are facing higher costs due to the 17% General Sales Tax Rate and customs duties on imports of all the technology and equipment related to renewable energy. Especially SMEs which are in this business are facing hardships amid Covid.

Recommendation
It is proposed that the government should exempt all the taxes applied to the renewable energy sector.

Rationale
Sufficient growth will be observed in the energy sector and it is beneficial for the sustainable growth of the SMEs in Pakistan. Moreover, the Energy sector is already suffering from a crisis as local demand is unmet, the sector needs significant measures on an immediate basis.

5.2.12. Federal Excise Duty on Services

Issue
Under the Federal Excise Act 2005, the federal government has imposed Federal Excise Duties on various Services such as Travel, Advertisement, Insurance services, etc. The Table II of the Third Schedule lists the Excisable Services as well. There is a special clause inserted stating that services subject to sales tax are exempted from Federal Excise Duty.

Table II of the Third Schedule of Federal Excise Duty Act 2005 provides exemptions to Marine insurance for export, life insurance, crop insurance, and livestock insurance. To encourage the insurance culture among low and middle-income groups, the exclusion must cover microinsurance products as well.

Recommendations
(i) It is proposed to revise Schedule III by removing the list of excisable services of those who pay Sales Tax.

(ii) In addition, the following insurance companies must be included in the exemption: Health insurance, Personal Accident Insurance, Travel Insurance, and Home property/ Household Insurance.

Rationale
The recommended action would remove the anomaly. It will help avoid the double taxation risk. As sales tax on the services has already been collected by the Provinces, to promote Services Sector, the Federal Excise duty proves to be a burden on the services sector.

5.2.13. Double Taxation through Input Tax — Section 8(m)

Issue
The supplier is already paying the end-user level tax to the Government at the manufacturing stage i.e. the highest tax possible tax on such goods.

Recommendation
It is recommended to add the following proviso: "Provided that the items listed under the classification of 'cosmetics, toiletries and personal care goods' shall be exempted from this provision."

Rationale
In this situation, a rationale is created to bypass the tax invoice system and thus the entire sales tax avoidance is possible to save the already paid "input" and save the remaining tax amount. This clause does not help the Government with revenue generation. Instead, it creates a perfect opportunity to bypass the system.

As an incentive to bypass the system will be removed the transaction to unregistered persons will also be recorded as it will allow the taxpayer to utilize their "input" and also record the transaction. By encouraging documenting the transaction and removing all hurdles and incentives to avoid recording the transaction, the revenue impact will be positive.

Customs Duties

5.2.14. Rationalization of Duty Structure on E-Liquids (2403.1900)

Issue
Through Finance Act, 2020 federal excise duty @ Rs 10,000 per kg (Rs 10/ml) was imposed on e-liquids by inserting clause 8a in the First Schedule to the Federal Excise Act, 2005. In fact, our cost to acquire the e-liquids has been increased to Rs. 15,000 per kg. Due to excessively higher tariffs, the e-liquid is now being smuggled. It was shifted in baggage at airports and then people started to smuggle it through Afghan Transit. The smuggled e-liquid acquisition cost is Rs 3000 / kg including freight. pick up/delivery charges.

This is discouraging documentation of the economy. Due to smuggling the importers/suppliers conducting legal business are going out of the market and creating unemployment. The smuggled and mis-declared e-liquids remain completely out of the tax net and the government loses not only import revenues but income tax and sales tax at the wholesale and retail stage.

Recommendations

In view of the above, it is requested to rationalize the duty and taxes by abolishing federal excise duty on e-liquids.

Present		Proposed	
Customs Duty	20%	Customs Duty	20%
Sales Tax	17%	Sales Tax	17%
Additional Sales Tax	3%	Additional Sales Tax	3%
Regulatory Duty	20%	Regulatory Duty	20%
Income Tax	5.5%	Income Tax	5.5%
Additional Custom Duty	6%	Additional Custom Duty	6%
Federal Excise Duty	10,000 /KG	Federal Excise Duty	Nil

Rationale

The e-cigarettes are significantly less harmful to health than tobacco and have the potential to help smokers quit smoking. Medical researchers have recommended people vape because it is safer than smoking . Furthermore, growing evidence supports the use of e-liquid in smoking cessation, Public Health England says, with an estimated 50,000 smokers quitting a year in England with the help of vaping.

In the health sector, one of the government's missions is to provide preventive measures. This will improve the health coverage base for the community at large besides benefitting the common man in quitting smoking and avoiding lung and heart diseases.

5.2.15. Rationalizing duties on Raw Materials and Machinery

Issue

Taxes on raw materials have different rates whereas taxes on some finished goods are at zero percent under the Free Trade Agreements (FTA) which is violating the principle of cascading tax structure and adversely affects the local industry.

Recommendations

(i) It is recommended that tariff protection differential shall be maintained at 15 – 20 percent between raw material and the finished good.

(ii) Customs duties on all basic industrial raw materials (not produced locally), should be between 0-3 percent. Locally manufactured raw materials should also be reasonably protected by implementing the principle of cascading.

(iii) The import of finished products should face a maximum slab of customs duty (20%) and at least a 15% effective protection rate should be available to the local industry against the imported finished product. In addition, regulatory duty within the range of 5% - 10%, where necessary, be levied.

(iv) The customs duty on raw materials which are locally produced should be 11% to 20%.

(v) Additional customs duties and regulatory duties should also be withdrawn from the raw material.

Rationale

The aforementioned measures will promote localization, protect domestic industries, and improve export competitiveness.

5.2.16. Rationalizing the over-protection of the industries

Issue
Over-protection of the industries is equivalently harmful to the economy as under-protected infant industries. For example, the imported tiles have very high import and regulatory duties creating a very beneficial environment for the local industries. Furthermore, raw material's import duty for tile manufacturing is at zero percent. This heavy incentivizing of the local manufacturers is leading to great exploitation of the consumers.

Recommendation
Therefore, it is recommended that regulatory duties on the finished goods be rationalized as the import duty is already providing enough protection to the local manufacturers.

Rationale
Over-protection of the industry leads to the formation of cartels and reduces competition.

5.2.17. Imposition of Regulatory Duties

Issue
Along with customs duties, regulatory duties are being imposed on certain items. The National Tariff Policy slashed the custom duties on raw materials while regulatory duties were increased which has made the overall impact insignificant. The imposition of regulatory duties should aim at the protection of local industries rather than as a revenue maximization tool.

Recommendation
It is urged that the decision on regulatory duties should be given under the purview of the Ministry of Commerce.

Rationale
Regulatory duties should aim to protect local industries rather than generate revenues. As the Ministry of Commerce is mandated to draft National Tariff Policy, likewise, imposition of regulatory duties is also better suited under the purview of the Ministry of Commerce.

5.2.18. Import Tariffs on Tyres

Issue
The existing rate of duty has caused a tremendous increase in smuggling which could not be checked despite the deployment of various government agencies due to the desperate desire for smuggling to keep these items available in the market which have in great demand. In addition, it is anticipated that the government is likely to raise the customs duties on some tyres and spare parts.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1	4011.1000 4011.2011 4011.2019	Tyres used in Motor Car including Station wagons and racing cars	CD=16 ACD=04 RD=20	CD=10 ACD=2 RD=0
	4011.2091 4011.2099	Tyres used in buses, lorries, and others	CD=03 ACD=02 RD=25	CD=3 ACD=2 RD=0
	4011.7000 4011.8000	of a kind used on agricultural or forestry vehicles and machines.	CD=20 ACD=7 RD=0	CD=10 ACD=2 RD=0
		Of a kind used on construction, mining, or industrial handling vehicles and machines.	CD=10 ACD=2 RD=15	CD=10 ACD=2 RD=0

Recommendation

The duty structure provided in the table above is recommended for HS codes related to tyres for various purposes. In addition, tyres that are locally manufactured may face customs duty of 20 percent whereas other than locally manufactured tyres may face customs duty of 15 percent.

Rationale

The tyres are not a luxury commodity and it is necessary for transport. An increase in customs duty will reflect the increase in transportation costs and fuel inflation. Secondly, the increased duties pave way for smuggling and illegal measures, decreasing legitimate imports. Therefore, the tariffs should be reduced to encourage legal importers.

5.2.19. Import Tariffs for Paper and Packaging

Issue

Paper is the basic raw material used for printing books and other related finished products. Despite this, the customs duties on paper are on the higher side. The adverse policy of the government only benefits the handful of capital-intensive paper mills but restricts the growth of a highly labor-intensive value-added sector.

This anomaly has induced the stakeholders to get their material printed outside Pakistan; the most striking example of this distorted policy is Oxford University Press Pakistan, which now gets its books prescribed in Pakistan's schools and colleges, including Urdu books, printed in Malaysia and China. Taxing raw materials and allowing duty-free import of finished goods is contrary to the basic principles. Pakistan is far cheaper than those countries in every aspect but heavy duties and taxes on raw materials are the major factors, which do not allow us to enter the $900 billion market. Following proposals are therefore formulated for consideration.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
		Paper & Paper Board		
1	4802.5510, 4802.5600, 4802.5700, 4802.6100, 4802.6200, 4802.6990;	Paper & Paper Board	CD=16 ACD=4 RD=10	CD=15
2	4802.5810 -4802.5890	Paper & Paper Board	CD=16 ACD=4	CD=15
3	4810.1310 - 4810.9900; 4804.1100- 4804. 1900, 4804.4100 - 4804.5900;	Paper & Paper Board	CD=20 ACD=6	CD=15
4	4810.2900 4810.1310 4810.1390 4810.1300	Coated Art Board Coated Art Paper	CD+ACD=20	CD=15
5	4805.2400	Virgin Kraft Testliner (recycled liner board)	CD=20 ACD=6	CD=15
6	3919.9090	BOPP Self-Adhesive Tapes	CD = 20	CD = 16

Recommendations

(i) It is proposed that custom duties should be 15% for all paper-related products as presented in the table above whereas 16% is proposed for BOFF Self-Adhesive Tapes.

(ii) It is recommended that Government should allow a 50% rebate on the import of OCC HS Codes 4707, NCC under HS Codes 9010, and Pulp under HS Codes 4818.9010 for one year to manufacturers.

Rationale

Since most of the products in the above table are not available locally, therefore, the duties must be revised downward. The existing capacity of paper mills caters small portion of local demand, therefore, aforesaid goods need to be imported to fulfill the demand of the local printing industry.

5.2.20. Anomalies in Duty and Tariff Structure on Packaging Material of the Pharmaceutical Industry

Issue

Pharmaceutical Industry has been facing an anomaly in the duty structure and other taxes as well. The finished products (i.e. injectable medicine) under HS Codes 3004.1090/ 3004.9099/ 3004.200 are being imported at lower tariff rates as compared to the Primary Packaging Materials (without medicine i.e. glass ampoules/ vials/ bottles) under HS Code 7010.1000. For example, the above-mentioned finished goods are imported at Customs duty (11%) with no additional customs or regulatory duty. It is pertinent to mention that the Empty Ampoules are imported only by Pharmaceutical Industries, thus, they must not be considered an intermediate product. Similarly, a 17 percent Sales Tax and 3 percent additional sales tax have been imposed on packaging material for the pharmaceutical industry whereas the rates for the finished goods are exempted from any kind of sales tax.

S. No.	HS Code/SRO	Existing Duty Structure		Proposed Duty Structure	
		Finished Product with medicine	Primary Packaging Material (Empty Ampoules)	Finished Product with medicine	Primary Packaging Material (Empty Ampoules)
	HS Code (s)	3004.1090/ 3004.9099/ 3004.200	7010.1000	3004.1090/ 3004.9099/ 3004.200	7010.1000
1	Customs Duty	11%	20%	15%	10%
2	Additional Customs Duty	0%	7%	7%	0%
3	Regulatory Duty	0%	20%	20%	0%
4	Sales Tax	0%	17%	17%	0%
5	Additional Sales Tax	0%	3%	3%	0%
6	Income Tax	5.5%	5.5%	5.5%	5.5%

Recommendations

(i) The custom duties provided in the table above are recommended for HS codes related to packaging material for the pharmaceutical industry. The rates for local manufacturers must be set on the lower side to promote localization.

(ii) It is recommended that the packaging material for the Pharmaceutical industry must be exempted from Sales Tax and Additional Sales Tax.

(iii) It is also suggested that the duties and taxes on finished goods must be raised as given in the table.

Rationale
The existing anomaly raises the price of the local finished goods relative to the imported finished goods impacting the competitiveness of the Pharmaceutical Industry. This also urges the local manufacturers to shift from manufacturing to importing the finished product. It will help bring down the cost of pharmaceutical products in the market.

5.2.21. Import Tariffs for Food and Agriculture Industry

Issue
The Finance Act, 2021 had reduced the duty on basic food items, however, some food items still face additional customs duties such as oilseeds and tea having an ACD of 2%. Food items must not be considered luxury items. Similarly, fisheries have been excluded from the rebate orders of 2017 and 2018 which have negative effects on exports.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1		Oil Seeds	ACD=2	ACD=0
2	1502.1000	Inedible Tallow	CD=11 (General), ACD=5 (under FTA)	CD=0
	3823.1910	Palm Fatty Acid Distillate	CD=16	CD=5
	3823.1990	Mixture of Fatty Acids	CD=16 (General) ACD=5 (under FTA with Malaysia), and CD=9 (under PTA with Indonesia)	CD=5
	1513.1900	RBD Coconut Oil	Rs. 10800 PMT, Rs. 9720/- (Malaysia)	CD=5
	1513.2900	RBD Palm Kernel Oil	Rs. 10800 PMT, and Rs. 9180 (Malaysia & Indonesia)	CD=5
	3823.1920	Palm Acid Oil	CD=11 (General), CD=0 (Malaysia), CD=5 (Indonesia)	CD=11
	3823.1920	Palm Acid Oil (Other Origins)	CD=11	CD=11
	3823.1990	Palm Kernel Acid Oil	CD=16 CD=5 (Malaysia), CD=9 (Indonesia)	CD=11
	3823.1990	Palm Kernel Fatty Acid Distillate	CD=16	CD=11
	3823.1930	Coconut Fatty Acid Distillate, Coconut Acid Oil	CD=16	CD=11
	3302.9090	Mixture of Odoriferous Substance/ Fragrance	CD=11 (General), CD=5 (SAARC)	CD=11
3	1703.1000 1703.9000	Molasses resulting from the extraction or refining of sugar	RD (on Exports) =10	RD (on Exports) =15+

Recommendations

(i) It is proposed that ACD on oilseeds may be abolished.

(ii) The customs duty on items that are primary raw-material for Soap Industry and are not locally produced such as Inedible Tallow and Coconut Oil should be reduced to 5%. On items other than the primary raw material such as Acid Oils and Odoriferous Substances, the customs duty should be set at 11%.

(iii) The rebate @ 4% under SRO No. 711 (I)/ 2018 to be continued for the year 2021-22 (DLTL NON-TEXTILE)

(iv) It is recommended to increase RD on exports of Molasses (HS-1703.1000 & HS-1703.9000) from 10% to at least 15%.

Rationale

Customs duties on food-related items only fuel inflation. ACD on food items seeds is not justified as domestic industry cannot produce these items. In addition to this, restoration of the rebate will help to revive exports of fisheries, and RD on exports of molasses will help boost exports of value-added products such as ethanol.

5.2.22. Import Tariffs for Leather Industry

Issue

Some items of the leather industry are being classified under the same HS Code despite the difference in their nature. The raw materials are then charged with the same customs duties as intermediate/ finished goods. Such anomaly is also found in the leather industry. The table below lists these items.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1	8208.9090	Splitting/Shaving/Fleshing Blades	CD=20	CD=11
	6805.2000	Buffing Papers	CD=20	CD=11
	41.01, 41.04, 41.07 (All respective Headings)	Different Raw hides and skins of bovine (including buffalo)...	CD=0	CD=0
	Respective heading	Samples	Different duty rates	Free of duty and taxes

Recommendations

(i) It is also recommended that the Government must establish a committee in collaboration with FPCCI to remove the anomalies in HS codes. In addition, the HS Codes should be extended to at least 12 digits to better distinguish between locally produced and non-locally produced goods.

(ii) The customs duties on leather industries must be reduced to 11% from the existing rate of 20%.

Rationale

It would help remove the anomalies between the classification of the raw materials and intermediate/ finished goods.

5.2.23. Import Tariffs on Metal Industry

Issue

Under Finance Act 2021, Custom Duties for all those producing Cold Rolled Steel, Galvanized Steel, and other coated steel items from imported Hot Rolled Steel (HS codes 7225.3000 & 7208) have been reduced to 0%, therefore some companies enjoy more benefits and reduce their cost to make and sell, though there has been no reduction in customs duties, regulatory duties, ACDs for cold-rolled steel items (HS/HS codes 7209 & 7210) for both manufacturing-based importers and commercial importers, which remains at 11% for primes and 6% for secondaries.

Importers	Custom Duty	Additional Custom Duty	Regulatory Duty
Aisha Steel Mills Limited. International Steels Limited. Hadeed Pakistan Limited. AHN Steel Pvt. Ltd	0%	0%	0%
Manufacturing-based and Commercial importers	11% (Primary) 20% (Secondary)	02% (Primary) 06% (Secondary)	5% (Primary and Secondary)

Recommendations

(i) FPCCI being an apex industry and trade body recommends that the incidence of tax should be the same for all importers of the same goods/ items (irrespective of their nature either commercial or industrial importers) across the board.

(ii) Therefore, in line with this recommendation, it is proposed that uniform duties be set for importers of the Steel/ Metal Industry and the anomaly among mentioned importers must be eliminated.

Rationale

An anomaly in custom duties is proposed to be removed to provide a level playing field for all stake-holders. The companies with no duties earn abnormally high profits than others than those who pay duties. The uniformity of rates will bring healthy competition.

5.2.24. Import Tariffs for Plastic Industry

Issue

Present levy of Customs Duty at 20% and Additional Regularly Duty of 7% may please be reduced to 10% to bring it at par with the import of other plastics, considering imported recycled plastics as basic raw material. It will further lower the cost of production and give direct benefit to end consumers of construction, agriculture, domestic consumer, etc.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1	3915.1000, 3915.2000, 3915.3000 3915.9000	Waste, Parings, and Scrap of Plastics, excluding hospital waste of all kinds, used sewerage pipes and used chemical containers falling under their respective HS codes	CD=20 ACD=7	CD=11
2	3904.1090	PVC not mixed with other substances	CD=11 ACD=2	CD=0-3
	3915-1000, 3915-2000, 3912-3000, 3015-9000	Wastes, Pairings, and scrap of plastic	CD=20 ACD=7	CD=3 ACD=0
	8477.8000, 8477.9000	Auxiliary Machinery (other machinery)	ACD=2	ACD=2

Recommendations

Plastic is the basic raw material that complements the local manufacturing industry. It is therefore suggested to reduce customs duties.

Rationale

It will reduce the cost of production and bought the consumers, The SMEs sector of the country shall flourish, and employment opportunities will be generated.

5.2.25. Import Tariffs for Motorcycle/Automobile Spare Parts

Issue

(i) M/ Cycle's parts face the impact of the customs duty of 35%, the additional customs duty of 11%, Sales Tax of 17%, Income tax of 5.5% due to which smuggling and corruption are being flourished. There is no justification for additional duty on motorcycle parts at the import stage when a higher rate of duty of 35% is already in place. The raw material of Auto parts is subjected to a 1% duty. Finished goods should be 20% duty without any additional duty. The SRO was issued for the localization of the motorcycle industry in 2006.

(ii) Due to unjustified high tariffs, the price of spare parts has gone too high and beyond the reach of the common man, thus providing an incentive to counterfeit and bad quality parts. The proposals are therefore as under.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1	8301.2010 8409.9110 8413.3040 8421.3110 8483.1013 8484.8020 8544.4221 8536.5021 8511.2010 8511.3010 8511.8030 8512.3010 8714.1020 8714.1030 8714.1040	Motorcycle Parts 87.11	CD=35 ACD=11 RD=0	CD=25 ACD=0 RD=0
2	4008.1110; 7320.9020 8483.4011; 9026.1010;	Autoparts; Control spring for hydraulic lift; Oil level indicator, dipstick/gauge level for engines; Temperature gauges and sensors	CD=35	CD=25
	3536.5022 4009.1110 4009.2130 4016.9940 8421.3190 8483.1011 8483.1019 8484.1022 8512.2090 8512.9010; 8544.3011; 8708.1090; 8708.2931; 8708.8010; 8708.8090; 8708.9310; 8708.9390	Autoparts; Windscreen defrosters and demisters; Wiring sets and cable seats; Bumpers and parts; Air outlet assembly, anchor of the spare tyre; Suspension shock absorbers; Suspension system and parts; Upper and lower plates for clutch housing; clutches and parts	CD=35	CD=25

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
	4010.3110 4010.3510 4010.3610 6813.2020 7009.1090 7318.2210 8301.2090 8409.9910 8409.9930 8413.3010 8413.3020 8413.3050 8413.6090 8413.9150 8414.8051 8421.2390 8483.6091 8483.6099 8484.1029 8487.9010; 8511.3020; 8511.8020; 8512.3090; 3536.4900; 8536.5029; 8539.1000; 8539.2110; 8708.2939; 8708.3039; 8708.3090; 8708.4090; 8708.8010; 8708.9990	Autoparts; Distributors, ignition coils; Heater/glow plugs; Sound signaling equipment; Relays; Switches; Sealed beam lamp units; Bulbs for automotive vehicles; Parts and accessories; Brakes and servo-brakes; Brake plates; Gearboxes and parts; Suspension system and parts; Clutches and parts	CD=35	CD=25

Recommendations

(i) It is recommended that a 25% duty should be levied on items produced locally where they can fulfill the production. However, for items that are produced locally but unable to cater to the local demand, the customs duties should not be more than 10%.

(ii) Items that are not even produced in Pakistan and are not viable to produce due to market demand should be 5% to bring the illegal business into the mainstream.

(iii) For the classification of localized and non-localized parts, SRO 693(I)/2006 is considered. SRO 693 is proposed to be rescinded and SRO 484 for 11% additional duty on motorcycle parts should be abolished.

Rationale

High tariff rates are posing difficulties in conducting lawful import business. The auto parts importers are facing difficulties due to smuggling of auto parts, import in baggage, the high unaffordable cost for consumers, low quality of local auto parts, un-availability of parts in several categories, and therefore consumer welfare is being compromised. However, even though the local industry is producing a very limited range, but still, they are overprotected and exorbitant import levies have created a monopolistic trend in the local industry. Smuggling in Afghan Transit, through baggage (carry items), through borders has taken away a major share of lawful imports from auto spare parts traders. In addition, Motorcycles are used by low-income classes including labor, therefore, it is proposed that duties on these parts should be reduced. The manufacturer claimed that 90% localization was achieved under SRO 693 and after that, they are out of this SRO while importers are still facing the consequences of the high tariff.

5.2.26. Import Tariffs for Tea Industry

Issue

The tea industry has been charged customs duty of 11 percent and 2 percent additional customs duty. Tea is an essential item used as a drink in Pakistan, therefore, must not be considered a luxury item. Higher customs duties and additional customs duties on food items such as tea (raw material) are not justified as a domestic industry cannot produce this commodity.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1		Tea	CD = 11% ACD = 2%	CD= 5% ACD= 0%

Recommendations

It is therefore proposed that customs duty on tea must be reduced to 5% and Additional custom duties of 2% may be abolished completely.

Rationale

This structure not only encourages the smuggling of the item but also impacts the lower income group who form the bulk of the population of this country.

5.2.27. Import Tariffs on Filter Cartridges

Issue

Local manufacturing is more than the country's demand for PCT Codes 5911-9090 i.e. String Wound Filter Cartridges (US Patent No. 6942106, European Patent No. 1153641). It is used by chemical and allied industries for liquid purification.

S. No.	HS Code/SRO	Description	Existing Rate of duty 2021-22. (%)	Proposed Rate of Duty 2022-23 (%)
1	5911.9090	String Wound Filter Cartridges US Patent No. 6,942,106 European Patent No. 1153641	CD= 5 RD= 0	CD=16 RD= 10

Recommendations

It is suggested that the imports duty on this item must be increased from 5 to 11%.

Rationale

Government must protect the local industries willing to produce value-added items in Pakistan. It would increase domestic manufacturing and create employment opportunities.

Bringing Simplicity and Equitability in the Tax Laws

6.1. DIRECT TAXES

6.1.1. Stock-in-Trade — Section 35

Current Legislation
Section 35 introduced the concept of determination of the cost of stock in trade disposed of.

Issue
Generally, in the cases of companies, the valuation has to be mandatorily made based on International Accounting Standards.

Recommendation
It is, therefore, proposed that in Section 35, wherever the word "person" has been used, the words "other than companies" may be inserted.

Rationale
The amendment may help achieve alignment for the provisions of Section 35 with International Accounting Standards and reduce confusion in this respect.

6.1.2. Mode of recovery of tax and problems in a refund of tax — Section 170

Current Legislation
Various provisions of the Ordinance have empowered the Commissioner to proceed to recover the tax due from the taxpayer by one or more of the modes provided therein. The modes operandi for recovery of tax include recovering the tax through attachment and sale of property, rights to arrest of taxpayers and taxpayer detention in prison for a maximum period of six months, seizure of bank accounts, imposition of penalties, additional tax, etc.

The mechanism of obtaining a refund of tax paid more than the amount of tax payable is not adequately taken care of by the department.

In the recent past, hundreds of orders have been passed under section 221 of the Ordinance disallowing adjustment of refunds claimed for the excess amount paid in the previous tax years without making any effort to verify the tax withheld collected/paid.

Issue
This leads to a perceived unjustness in the law where underpayment is aggressively pursued but the interests of the taxpayers are not adequately taken care of and accommodated.

Recommendations
(i) Section 170(4) may suitably be amended, particularly substituting the 60 days with 15 days within which the Commissioner shall pass the order, and in case he fails to pass the order within the stipulated period of 15 days, the refund application is deemed to have been accepted by him / department.

(ii) A provision may be inserted in section 170 (2)(c), whereby the Commissioner may be authorized to admit an application made after the expiry of the stipulated period of 2 years on genuine reason.

Rationale
Ease in obtaining refunds or adjustments against tax demand would assist in combating the negative perception that taxpayers have towards the tax authorities. The number of taxpayers would substantially increase if they are assured that any excess tax paid would be duly refunded to them or adjusted against further liabilities. Furthermore, previous losses/claims must be refunded on a priority basis.

6.1.3. Threshold for withholding of tax — Section 153

Current Legislation
Currently withholding tax obligations are not attracted on payments limited to:

(i) Rs.75,000/- on account of supply of goods in aggregate during the financial year; and

(ii) Rs.30,000/- on account of services rendered in aggregate during the financial year.

Issue
The above limits of Rs.75,000/- and Rs.30,000/- require to be further enhanced.

Recommendation
The amount of Rs.75,000/- on account of supply of goods and Rs.30,000/- on account of services rendered the contract may be increased to Rs.250,000/- and Rs.100,000/- respectively.

Rationale
This will simplify the tax administration and improve the ease of doing business.

6.1.4. Taxability of Provident Fund Contribution — Rule 3 of the Sixth Schedule

Current Legislation
As per sub-rule (a) of Rule 3 of the Sixth Schedule, any contribution made by an employer to a provident fund more than 10% of the salary or Rupees 150,000/-, whichever is low, shall be deemed to be the income of the employee.

Issue
The limit of Rs. 150,000/- is considerably low in today's economy.

Recommendation
We suggest that the deeming of income of an employee may be restricted to 10% of salary only and the restriction of the monetary amount of Rs.150, 000/- per annum may be removed.

Rationale
The change would result in the facilitation and easement of bonafide middle-class taxpayers.

6.1.5. Default Surcharge — Section 205

Current Legislation
Sub-Sections (1A) and (1B) read with Section 147 (4A) of (6) provide that **"Where in respect of any tax year, any taxpayer fails to pay tax or tax paid is less than 90% of the tax chargeable for the relevant tax year, he shall be liable to pay default surcharge @ 12% of the amount of tax so chargeable for the year or the amount by which tax paid by him falls below the 90%".**

The default surcharge is charged from 1 April of the particular tax year, instead of the actual advance payment date of 15 June.

Issue
The basic intent of the law is to impose a default surcharge from the date of default and not from the retrospective date. Such a treatment is unfair and unjust and unnecessarily enhances the cost of default surcharge which will simultaneously enhance the cost of doing business.

Recommendation
It is recommended that the Default surcharge may be levied from June 16 every year, the date where the actual default takes place. Therefore, the change of date for calculating the Default Surcharge be changed from April 1 to June 16.

Rationale
The proposed amendment seeks to address the inequality in the law.

6.1.6. Revision by the Commissioner — Section 122A

Current Legislation
Section 122A provides that the Commissioner may suo moto revise any proceeding under the Ordinance in which an order has been passed by any officer of Inland Revenue.

Issue
In this connection, the taxpayer should also be given a right to approach the Commissioner for the revision of assessment to seek a redress of his grievance by the Commissioner as was available under Section 138 of the Repealed Ordinance.

Recommendation
We propose that such an option may also be allowed to the taxpayer upon his request to the Commissioner.

Rational
The proposed amendment seeks to address the inequality in the law.

6.1.7. Appellate Tribunal Inland Revenue — Section 132

Current Legislation
Sub-Section 2 of Section 132 states as under:

"(2) The Appellate Tribunal shall afford an opportunity of being heard to the parties to the appeal and, ***in case of default by any of the party on the date of hearing, the Tribunal may proceed ex parte*** to decide the appeal on the basis of the available record".

(Underline is ours)

Issue
Given the above, we understand that the power to dismiss the appeal is unjustified because ATIR is the last fact-finding authority and accordingly the decision of ATIR in respect of the facts is final.

In our considered opinion, the language used in Sub-section (2) is not by the judicial norms and requires suitable amendments as it cannot be presumed that the legislature intended to cause injustice.

Recommendation
It is, therefore, proposed that the said Sub-section (2) may accordingly be amended as under:-

"The Appellate Tribunal shall afford an opportunity of being heard to the parties and in case of failure to attend the appeal by the person filing the appeal; the Tribunal, if it deems fit, dismiss the appeal in default and decide the appeal on the basis of the available records".

Rationale
The condition of dismissal of appeal should be eliminated from the above provision to provide the taxpayer with an opportunity to get justice even in the ex parte decision.

6.1.8. Collection of Tax In The Case of Private Companies and AOP — Section 139

Current Legislation
Sub-Section (1) of Section 139 of the Ordinance provides that notwithstanding anything in the Companies Ordinance, 1984 (XLVII of 1984), where any tax payable by a private Company (including a private Company that has been wound-up or gone into liquidation) in respect of any tax year cannot be recovered from the Company, every person who was, at any time in that tax year:-

(a) a director of the Company, other than an employed director; or

(b) a shareholder in the Company owning not less than ten percent of the paid-up capital of the Company shall be jointly and severally liable for payment of the tax due by the Company.

Issue
We feel that in the case of limited liability companies the above provision of law is neither in line with the provisions of the Companies Act, 2017 (Formerly Companies Ordinance, 1984) nor the international norms in this regard.

Recommendation
We propose that every shareholder should be made responsible to pay the tax payable by his/her percentage of shareholding in the Company and to the maximum of his share capital in the Company.

Rationale
The proposed amendment seeks to address the inequity afforded by the law.

6.1.9. Power to Enter and Search Premises — Section 175

Current Legislation
Section 175 provides that to enforce any provision of this Ordinance (including to make an audit of a taxpayer or a survey of persons liable to tax), the Commissioner or any officer authorized in writing by the Commissioner for this section shall, at all times and without prior notice, have full and free access including real-time electronic access to any premises, place, accounts, documents or computer.

Issue
The provision is very harsh. It also provides for action to be initiated by the Commissioner without prior notice, which does not meet the principle of natural justice.

Recommendation
The appropriate amendment is made in this section to ensure that before any action under this section is taken by the Commissioner, he should issue a show cause or prior notice which is properly and duly served on the taxpayer and the access does not extend to entering residential premises.

Rationale
The proposed amendment seeks to address the inequality in the law.

6.1.10. Penalties for Non-Filling of Return of Income and Statements — Section 182 read with Section114 116, 116A and 165 & 182

Current Legislation
Penalties for non/late filing of return of income, statement of final tax, wealth statement its reconciliation, and withholding statement specified under section 182(1) are very harsh and excessive. It is also unjustifiable and illogical to impose such huge penalties; which may create harassment among the existing taxpayers rather than facilitate them.

Via the Finance Act, 2011, an explanation has been inserted whereby for this entry, it has been declared that the expression "tax payable" means the tax chargeable on the taxable income based on the assessment made or treated to have been made under section 120, 121, 122 or 122C of the Ordinance.

Issue
At the outset, the prescription of the above penalty for default in the submission of the withholding tax statement is not relevant as the same is not related to tax on taxable income.

Generally, the main reason for levying penalties on the commitment of offenses is only to ensure voluntary compliance is made effectively and to create deterrence; so that they may file the return/statement within the stipulated time. The intention of the legislature has never been to create huge demands or to achieve revenue targets through such penalties.

Consequent to the insertion of the said explanation, it has been noted that the tax authorities have invariably started levying penalties for a single day of default based on tax payable in the return without taking into account the taxes already paid/ deducted. Further, the tax authorities are now imposing this penalty for prior years/ periods as well, which is against the established principle that any amendments putting an additional burden can operate only prospectively. This situation is causing serious hardship to the taxpayers, as now due to this explanation, the tax authorities are using the explanation as a tax collection avenue instead of a deterrent. FBR estimated around Rs. 125 billion collections through penalties on non-filing of the income tax returns and wealth statements from 1 million notices being issued during FY2021[19].

Recommendations
It is, therefore proposed that:

(i) A minimum penalty of Rs.2,000/- shall be levied if any person without reasonable excuse fails in filing the return of income under Section 114 and statement under Section 115(4), thereafter an additional penalty higher than 0.1% per day of tax payable under Section137(1) of the Ordinance or Rs.500/- per day during which the default continues. The maximum penalty should not exceed 25% of tax payable along with the return/statement.

(ii) A minimum penalty of Rs.2,000/- shall be levied if any person without reasonable excuse fails in filing the wealth statement/reconciliation under section 116 or withholding statement under Section165, thereafter an additional penalty of Rs.100/- per day during which the default continues. The maximum penalty should not exceed 25% of tax withheld/collected, whichever is higher.

Rationale
Logically, imposing of penalty should be restricted to the extent of short tax paid with the return, as was held by the appellate authorities before insertion of the said explanation, and if there was no tax payable then the token amount of penalty should be imposed, as was the cause before substitution of section 182 of the Ordinance.

6.1.11. Notice to Obtain Information or Evidence — Section 176

Current Legislation
Under section 176 the Commissioner can call for any information from any person. Now a day bulk of notices are issued under this section asking for all kinds of information, whether relevant or irrelevant.

Issue
By this section, where a hard copy or computer disk of information stored on a computer is not made available to the Commissioner, he has the power to require the production of the computer on which the information is stored and impound and retain the computer for as long as is necessary to copy the information required. We are afraid of misuse of such powers in their application, in reality.

Recommendation
This provision of law may be reviewed for the reduction of discretionary powers.

Rationale
The proposed amendments would make the law more equitable.

6.1.12. Audit Period of six years to be reduced to three years — Section 174

Issue
Section 174 states that the Commissioner has the authority to demand the financial documents for audit which must be maintained for six years which is quite a long period.

Recommendation
It is recommended to reduce the audit period from the existing six years to three years.

[19]https://www.thenews.com.pk/print/786070-fbr-estimates-rs125-bln-from-penalties-on-noncompliance#:~:text=The%20penalty%20for%20non%2Dcompliance,non%2Dfiling%20of%20wealth%20statement

Rationale
The extended period of audit only adds an unnecessary burden to the businesses and gives discretionary powers to the assessing officers. It also increases the cost of maintaining those records for such a long period.

6.1.13. Commissioner's Authority to amend Assessment Order — Section 122 5A

Issue
Under Section 122 5A, the Commissioner has the right to amend the assessment order as he deems right. This situation is causing serious hardship to the taxpayers, as now due to this explanation, the tax authorities are using the explanation as a tax collection avenue instead of a deterrent.

Recommendation
It is recommended to withdraw such provision.

Rationale
It will reduce the discretionary power of the commissioner.

6.1.14. Foreign tax credit — Section 103(7)

Current Legislation
A credit is allowed under Section 103(7) only if the foreign income tax is paid within two years after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer.

Issue
Where a taxpayer adopts the accrual basis of accounting, the foreign source income is offered to tax in the year in which it becomes due. However, receipt of income in some cases is extraordinarily delayed beyond the period of two years.

In such a case, the taxpayer is unable to claim a foreign tax credit (usually withheld by the remitting country in the year of payment) on the income already taxed two years ago.

Recommendation
It is suggested that subsection 103(7) may be deleted.

Rationale
It would promote bringing foreign source money to Pakistan as the availability of tax credits would be made easy.

6.2. INDIRECT TAXES

6.2.1. Penalties on Tier-I Retailers — Section 33 –Serial No. 24 & 25A

Issue
FBR is focusing to tap retailers under the tax economy. Section 33 of Sales Tax provides several penalties for non-integration or non-compliance by Tier-1 retailers empowering the Officer Inland Revenue to seal the business premises if the Tier-1 retailer fails to integrate their business/comply with the POS Standards.

Recommendation
Government should withdraw the current penalty under section 33 and focus on increasing POS terminals. Registered Retailers should be provided government support rather than vice versa.

Rationale
It will promote ease of doing business and facilitate Tier-I retailers to comply with POS standards.

6.2.2. Issues related to Tea Industry

Issue#1

- Tea has been classified in table three of the Twelfth Schedule making it fall under the domain of finished goods and thus have to pay higher withholding taxes. On the other hand, exemption of withholding tax is given to FATA and Azad Kashmir as it is put under table two of the twelfth schedule. These areas also enjoy exemption on sales tax, withholding tax, and other duties. Whereas Tea in other areas has been charged at a 17 percent rate of GST which is quite higher. Furthermore, Tea is also allowed to be re-exported under the SRO 450, which is a major cause of smuggling.

Recommendation

- It is recommended to harmonize the classification of Black Tea to eliminate any discrimination. In addition, tea should be excluded from this SRO, with withholding taxes to be at 2 percent and the sales tax should be brought down to 12%.

Issue#2

- The Tea is freely importable in the country under the IPO, 2020 and freely exportable under the EPO, 2020. The Customs appraisement assesses all the imported teas under import trade price (ITP) contrary to section 25 of the customs Act, 1969. The Pakistan Tea Association provides import trade prices (ITP) to the customs appraisement lower than the actual import prices and all the importers except a few companies import on lower than actual prices on the values of Pakistan tea association for the evasion of customs duty and taxes.

Recommendation

- The differential amount between actual purchased value and declared value is transferred to unauthorized channels to the shipper account. This under-invoicing in imports of tea is causing billions of rupees loss to the country. It is proposed that imported teas must be assessed on actual imports value under Section 25A of the Customs Act, 1969.

Rationale

Tea is the common drink used in Pakistan and falls under the category of food items. Any additional tax on any food item would force the prices to go up. The higher rates encourage smuggling and inflict losses to the national revenues. Thirdly, the tea imported is further processed, therefore, must be considered a raw material.

6.2.3. Simplification of Sales Tax Regime

Issue

(i) Multiple taxes on sales and frequency of audits are a burden for the industry.

(ii) Deregistration from Sales Tax is not doing that particular business for the last five / ten years

(iii) Section 73 of the Sales Tax Act, 1990, regarding the inadmissibility of certain transactions, and Section 21 provides for de-registration, blacklisting, and suspensions of registration, are redundant in the light of the latest amended form of Section 7 of the Sales Tax Act.

Recommendation

Sales tax audits should be held once every four years. Furthermore, Multi taxes (Extra tax, additional Sales tax, further tax) should be simplified for a better understanding of the common businessman. Furthermore, there should be zero tax on the recycling industry. In addition, entities that are not doing particular business for which they are entitled to sales should be allowed to deregister from Sales Tax without any kind of audit in an Easy Exit scheme. It is also recommended to remove redundant sections from the Sales Tax Act.

Rationale
Simplification of taxes will help improve the ease of doing business. Easy entry and exit will foster competition.

6.2.4. CNIC Requirement on Sales

Issue

(i) The condition of providing CNIC of the unregistered buyer on sales tax invoice has been relaxed for transactions through debit credit cards. The onus of proof of CNIC of the buyer is now on the supplier, and in case of default penal provisions may be invoked against him. In addition, a further tax of 3% is already being charged on all supplies made to unregistered persons.

(ii) The condition of providing CNIC on sales for the industry is not logical rather it should be on distribution. It is a critical issue among manufacturers and distributors.

Recommendation
The FBR must draw immediate attention to the long-awaited amendment regarding the use of CNIC as NTN and tax payments should be made through a centralized system. This condition impedes the production and market sales of the businesses; therefore, it is proposed to withdraw these conditions.

Rationale
The condition of providing CNIC on sale for the industry is not logical rather it should be on distributors whereas it creates a conflict between manufacturers and distributors. In addition, the issue for traders all over Pakistan is that the foreign traders (Afghan mostly) have no CNIC, and thus have access to all businesses. Tougher requirements for sales over Rs. 50,000/- highlights the FBR's incapability of tax collection.

6.2.5. Changes in Duty and Tax Remission for Exports (DTRE)

Issue
Re-export of the imported goods (which are in the same state) is allowed with no procedure which enables the process of refund of duties and the taxes paid thereof. Neither such imports are covered under the DTRE or any other export facilitation scheme.

Recommendation
The government should allow import for re-exportation of the goods which are in the same state under the DTRE rules, subject to the value addition. Regardless of the imports by industrial or commercial importers. Secondly, the DTRE should be processed without prior waiting for the earlier DTRE to be exhausted.

Rationale
This amendment in DTRE would enhance the exports as value-added items contribute a meager share of the national exports. This would also help in the up-gradation and advancement of technology leading to product enhancement.

6.2.6. Extend the eight-digit Pakistan Customs Tariff (PCT) headings

Issue
The PCT in Pakistan is limited to only eight digits however, globally countries have extended HS Codes up to 16 digits. Malaysia, China, the US, and Turkey have extended up to 9, 13, 10, and 12 respectively. Due to limited HS Codes, raw materials face high duties since they fall under the same code as finished goods.

Recommendation
Pakistan should extend HS Codes up to 12 digits to resolve anomalies and rectify anomalies in the tariff regime.

Rationale
This would resolve several anomalies related to imports of raw materials and finished goods.

7

Simplifying Administrative Procedures

7.1. DIRECT TAXES

7.1.1. Payment of tax Collected or Deducted — Section 160

Current Legislation
Clause (b) of Rule 43 provides that where the tax has been collected or deducted by a person other than the Federal Government or a Provincial Government, the same shall be paid to the Commissioner by way of credit to the Federal Government by remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within Seven days from the end of each week ending on every Sunday.

Issue
This provision of law has enhanced the workload of tax collecting agents many folds who are working for the Government without any remuneration.

Recommendation
It is proposed that the taxpayers be allowed to deposit all withholding taxes collected within seven days of the following month instead of each week.

Rationale
This would help lessen the burden on withholding tax agents.

7.1.2. Revision by Chief Commissioner — Section 122B

Current Legislation
The law provides the right to the Commissioner to call (on his own or taxpayers' request) for the record in case of any exemption or lower rate certificates. No such provision is available for Chief Commissioner to call for revision of audit cases on an application filed by the taxpayers.

Issue
This creates undue administrative hassles for taxpayers.

Recommendation
Section 122-B should be revised to give powers to the Chief Commissioner for the revision of cases selected for Audit under Section 177.

Rationale
This would assist in simplifying the administrative procedures.

7.1.3. Alternative Dispute Resolution Committee — Section 134A

Current Legislation
Sub-section (4) of Section 134A provides that "the committee appointed under sub-section (2) shall examine the issue and may, if it deemed necessary, conduct inquiry, seek expert opinion, direct any officer of the Inland Revenue or any other person to conduct an audit and shall decide the dispute through consensus, within sixty days of the appointment extendable by another thirty days for the reasons to be recorded in writing."

Issue
Generally, in any dispute resolution by the arbitrators, the majority decision is an acceptable norm. In such cases, it is hardly a possibility that a consensus by all the arbitrators to be reached.

Recommendation
Therefore, it is proposed that the words **"through consensus"** be replaced with the words **"by the majority"**.

Rationale
The recommendation will help in the disposal of disputes, reduction of pending appeals, and collection of due tax.

7.1.4. Deduction of tax from payment of salary — Section 149

Current Legislation
The employer is entitled to make certain adjustments from the average rate of tax to deduct tax from the payment of salary, which includes tax credits under sections 61, 62, 63, and 64.

Issue
To align the provisions of Section 149 with newly inserted sections, the scope of adjustments needs to be expanded to: **"Deductible allowances"** i.e., **'Zakat'** under Section 60, **'Educational expenses'** under Section 60D, and **"Tax credits"** under Section 62A (Health insurance).

Recommendations
Section 149 should be amended appropriately to provide adjustments for –
(i) All **"Deductible allowances"** under Part IX of Chapter III of the ITO; and
(ii) All **"Tax credits"** under Part X of Chapter III of the ITO.

Rationale
It would bring about the changes in the relevant section to collect only due tax from the salaried person and to avoid unnecessary creation of refund.

7.1.5. Rectification of Individual Taxpayer Returns

Issue
- Wealth Tax returns can be undertaken within five years of filing return
- Return of Income Tax can be undertaken within six years of filing of return

Recommendations
- Revision of Wealth Tax be within five years of the filing of return or from Audit whichever is later.
- Revisions of Income Tax be within six years of the filing of return or from Audit whichever is later.

Rationale
Revision due to mistakes in filing returns, misunderstanding of law or entry in the wrong section be allowed and without appeasement of penalty during the period.

7.1.6. Issues and recommendations about the Retail Sector

Issue#1
As per Section 150ZEO of the SRO 252/2022, FBR field officers now have the right to seal an integrated retailer's premises at their discretion. Instead of resolving the technical and operational issues faced by the POS integrated retailers, FBR has authorized its field officers to seal the integrated retailers, "while could not be de-sealed without paying fines".

Recommendation
It is recommended that retailers must be provided proper room to justify any anomaly before any action is taken against them.

Issue#2
Due to living monitoring amidst sub-sector-wise variance in timings and seasonal periods, notices and calls are being received by integrated retailers from field formations regarding POS being disconnected or sales being lower than before for which justifications need to be given daily.

Recommendation
It is recommended that a fresh start must be taken with the integrated retailers by halting the continuing audits and notices. Furthermore, it is urged to withdraw all notices sent to already integrated retailers for the previous 5-6 tax years before integration and for 2-3 tax years

post-integration under Sections120, 121, 122, 175, 176, 177, 214C of the Income Tax Ordinance, 2001 and Section Nos. 32A, 37, 38, 38A, 38B, 40B, Rule 4 of Special procedure for Withholding Rules 2007, Eleventh Schedule of ST Act, and others.

Issue#3
There is a huge potential for documentation of the supply chain through the Tier-1 retailers which will be only possible if a gradual transition policy is followed. However, the current high presumptive income tax and restriction of purchases from the unregistered taxpayers including cottage industry and traders have become a major obstacle

Recommendations
(i) It is recommended that high presumptive income tax should be reduced for the Tier-1 Retailers who have integrated with the POS.

(ii) Deduction of purchases/expenses must be permitted to the Integrated Tier-I Retailers. Having said that it is recommended that some space must be given to the Integrated Tier-1 retailers to purchase from unregistered taxpayers e.g. Cottage Industry and Traders.

(iii) The Audit Policy should be amended to provide a simplified and system-based audit of POS-integrated retailers.

Rationale
Documentation of the supply chain can be significantly improved through the Tier-1 retailers.

7.2. INDIRECT TAXES

Customs Procedures

7.2.1. Procedures related to Shipping Industry

Issue
According to Section 156, Clause 24 (i), Local Agents are being considered ship-owners, and are liable for both shortages or excesses based on the outturn reports.

Recommendation
It is proposed that the ship-owners must be made accountable for any shortages or excesses of the imported goods rather than the agents who are at receiving the goods.

Rationale
Ship-owners must be made accountable for the shortages or excesses thereof rather than the local agents.

7.2.2. Procedures related to the Paper and Packaging Industry

Issue#1
Duty & Tax Remission for Exporters (DTRE) scheme (Rules. 296-307 of SRO 450(I)/2001) requires seeking time-consuming approvals and documentation.

Recommendation
It is recommended to establish One Window Online operation like PSW clearance, which will enable simplified procedures and systems consequently, assisting in ease of doing business.

Rationale
DTRE is an excellent scheme but the lengthy procedure may hamper the targeted success. Therefore, relevant rules are to be revisited for simplification.

Issue#2
Section 25 Valuation and Section 81 Provisional Assessment take a lengthy process which slows down the overall process thus escalating the cost of doing business.

Recommendation
It is recommended that Section 25 Valuation and Section 81 needs to be simplified as the reduction in time to import will facilitate businesses.

Rationale
The proposal if enforced will reduce litigation drastically enabling the stakeholders to do business efficiently.

Issue#3
Long intervals of revision of custom values. No Valuation Ruling has been issued for the last two years, however, the international prices and the freight cost have been increased.

Recommendation
It is recommended that the Government should direct the concerned departments to fix the custom values of the imported commodities every quarter.

Rationale
Revision of values should be based on the current market conditions and input from stakeholders.

Issue#4
Misuse of SRO 492(1)2009

Recommendation
It is recommended that the government should introduce a stronger monitoring & surveillance mechanism in respect of enforcing the provision of SRO 492(1)/2009. In addition, research-based policy implementation should be made rather than ad hoc exemptions under SROs. However, another proposal is to cancel this SRO of the repayment of taxes on commodities under this SRO to be claimed import/export basis GD wise.

Rationale
Some importers are misusing this SRO by importing duty-free paper and selling it in the local market at cheap rates which causes unhealthy competition in local markets. Under this SRO following HS codes are misused: 4805.2400 4804.1900

7.2.3. Procedures related to Polymer waste and Recycling Industry

Issue#1
In terms of the said S.R.O. 902(1)/2020 Import Policy Order 2020 dated 25-9-2020, the Importers /Recyclers of Waste, Paring, and Scrap of Plastics for its import, are required to obtain the following from respective Federal /Provincial Environmental Protection Agencies (EPAs).

- Environmental approval of Plastic Scrap recycling facility by the respective Federal or Provincial Environmental Protection Agencies (EPAs), indicating the annual recycling capacity. Respective EPAs shall give a final decision within 30 days of submission of the application.
- Annual Environmental Audit Report duly approved by the respective EPAs. This condition shall however not apply in the case of units importing plastic scrap for the first time.
- Pre-Shipment Inspection in exporting country by any of the companies mentioned in this order vide Appendix-H. The companies shall certify that the consignment being exported to Pakistan does not contain any hazardous substance as defined in the Basel Convention. Customs authorities, in case of doubt, may randomly get any consignment tested through PCSIR or any other government-certified laboratory.

- The imported consignment of the registered recycling plant shall be cleared from one customs station only.

The cumbersome systems, procedures, and malpractices of the Environmental Protection Agencies (EPAs) have practically hindered the import of the product, which is the basic raw material of the recycling industry in Pakistan.

Recommendation
It is recommended that the complicated systems and procedures, and formalities to obtain the required environmental approval from Provincial EPAs be simplified so that the Plastic Recyclers are encouraged to get environmental approvals. Provincial EPA should provide the list to the MOCC of the plastic recyclers who have valid Environmental Approval because a simplified procedure will enhance the industry's capability for greater environmental approvals while encouraging the different channels which will improve the ease of doing business.

Rationale
The complicated systems and procedures, and enormous formalities in the EPAs are very difficult to be completed, resultantly only a few Importers / Recyclers throughout Pakistan have been able to get approval. The import of Plastic Scrap has been restricted to a few importers/recyclers. The plastic recycling industry is compelled in obtaining the basic raw material through the informal channel of smuggling. Due to the terrible lesser import of plastic scrap, there are huge financial losses to the government exchequer and closure of most of the recycling units thereby increasing the unemployment of the direct/indirect workforce.

Issue#2
Unfair customs regime for commercial importers for importing industrial raw material as compared to industrial importers.

Recommendation
It is recommended that the levy of taxes should be based on the product type rather than the classification of importers as they have similar usage to eliminate discrimination between different types of taxpayers.

Rationale
Commercial importers are taxed at a much higher rate as compared to industrial importers & resulting in high input costs for the industry. It will curtail the menace of evasion taxes and the government will be able to save billions of rupees on this account.

7.2.4. General Customs Issues (Forwarded by Karachi Customs Agent Association)

Issue#1 - Existing section/ clause of the Act or Rules/procedure
The Customs Act, 1969 Section 127. Transit of Goods in the same Conveyance: - (1) Subject to the provisions of section 15 and the rules any goods imported in a conveyance and mentioned in the import manifest as for transit in the same conveyance to customs- station in Pakistan or any destination outside Pakistan may be allowed to be so transited without payment of duty, if any, livable on such goods at the customs-station of Transit.

Suggested Amendment/Change
Delete: Subject to the provisions of section 15 and the rules any goods imported in a conveyance and mentioned in the import manifest

Recommendation
The Customs Act, 1969 Section 127. Transit of Goods in the same Conveyance: - (1) Goods imported for transit in the same conveyance to customs-station in Pakistan or to any destination outside Pakistan may be allowed to be so transited without payment of duty & Taxes.

Brief Justification / Rationale for proposed amendment/change
In the examination of transit trade consignments, Afghan importers are facing painful problems regarding excess weight, excess quantity, and misdeclaration (other than banned items). They go through the Pakistan Customs process of adjudication, fine, and penalties both on the importer and Customs Agent. Goods get delayed at port/terminals which creates hurdles in port/terminals working.

The goods which are not meant for Pakistan thus won't be consumed in Pakistan. Furthermore, these goods do not involve the foreign exchange of the State Bank of Pakistan also the goods do not involve the duty and taxes of Pakistan customs.

The goods have the status of in-transit to Afghanistan only.

The Importers are Afghan nationals and they should not be penalized by Pakistan customs, they will get scared and divert consignments through the Iran route.

It is requested to conduct a 100% examination of such consignment and endorse the excess finding of weight, the excess finding of a quantity, or excess items other than declared (if found banned item, detain only such items and let pass the rest) in Goods declaration as well as an online system (WeBOC) and release the consignment without Adjudication/fines/penalties on Afghan importer and Customs Agent because if anything found wrong in consignment, only Afghan importer is responsible for such conduct and only their Afghan Government has right to penalize their national, not us.

Issue#2 - Existing section/ clause of the Act or Rules/procedure
Customs Rule 472 (5) The Original invoice, packing list, bill of lading, jawaznama, and other relevant documents shall be submitted to the customs by the importer on demand.

Suggested Amendment/Recommendation
Delete Customs Rule 472 (5) which requires the original invoice and other relevant documents to be submitted to the customs by the importer on demand.

Brief Justification / Rationale for proposed amendment/change
The goods are transit to Afghanistan and not consumed in Pakistan therefore, we do not need unnecessary documents for transit trade, only Afghan Customs have the right to call any further documents to the Afghan Government at the time of collection of Duty & Taxes.

Issue#3 - Existing section/ clause of the Act or Rules/procedure
Customs Rule 473(3) (b) the PCT heading is as per the declaration of the goods, (c) correct value is determined under the Act, to deposit financial security, and (d) the goods allowed for transit are in accordance with the prevalent law and prescribed procedure, Provided that he may request for more information/ documents form the trader through "call documents" utility if the information submitted by him is insufficient for the correct assessment of the transit goods.

Suggested Amendment/Change
Customs Rule 473 (3) b should be amended: (b) the PCT heading is as per the declaration of the goods, if found wrong Appraising office shall correct the PCT accordingly and the last paragraph should be deleted. Provided that he may request more information/ documents from the trader through the "call documents" utility if the information submitted by him is insufficient for the correct assessment of the transit goods.

Recommendation
Customs Rule 473(3) (b) The PCT heading is as per the declaration of the goods, if found wrong Appraising office shall correct the PCT accordingly. (c) correct value is determined under the Act, to deposit financial security and (d) the goods allowed for transit are in accordance with the prevalent law and prescribed procedure,

Brief Justification / Rationale for proposed amendment/change
It has been observed that an Afghan importer or his Custom Agent has been harassed on the wrong PCT and calling for extra information.

Issue#4 - Existing section/ clause of the Act or Rules/procedure
Inflexibility during Assessment

Suggested Amendment/Change
Customs Rule 473. In cases where financial security is required to be furnished by the trader, the system shall calculate the amount of the security required and mark the GD to the concerned designated office/ official for securing the financial security and feeding the relevant information in the system through his user ID. If no discrepancy is found/ reported in the AT GD, the Appraising Officer may complete the assessment and allow it out of Customs charge electronically. (6) Provided that in the case where some discrepancy has been found, the AT GD shall be marked to the concerned Principal Appraiser for further necessary action under the law including initiation of legal proceedings.

Recommendation
The importer shall have the right to file 1st and 2nd reviews in the system against the findings of the officer concerned. The security officer shall detach the financial security and enter particulars into the system.

Brief Justification / Rationale for proposed amendment/change
Corporation by the Appraising officer is a must to improve the business environment.

Issue#5 - Existing section/ clause of the Act or Rules/procedure
484-Q. Penalty under the Act: - Whosoever commits any contravention of the provisions of this subchapter shall be liable to be proceeded against under Serial No. 64 and the entries relating thereto, in the table of sub-section (1) of section 156 of the Act.

Suggested Amendment/Change & Recommendation
Customs rule 484 – Q should be deleted.

Brief Justification / Rationale for proposed amendment/change
It will further invigorate ease of doing business.

7.2.5. Amendment in Customs Tariff- Reclassification of Filters[20]

Issue:
Improper classification of filters, which requires re-clarification of different application of filters under HS appropriate HS Codes.

Rationale
To avoid import misdeclaration and cover the local manufacturing of automotive filters under the AIDEP 2021-26 and SRO 693 for the tariff protection

Recommendation

- The filters for vehicles of chapter 87 are appropriately placed under 8421, therefore the Fuel filters mentioned in 8708.2932 possibly by mistake are proposed to be shifted to 8421 where the filters for the vehicles of chapter 87 are already mentioned and locally manufactured filters for the purpose of taxes will read / apply to SRO 693(I)/2006 dated 05.06.2006 for the purpose of levy of duties and taxes.
- Accordingly, it is proposed that the HS Code 8421.2900 may be bifurcated, to prescribe separate tariff rates for locally and non-locally manufactured Oil and Fuel Filters for "Compression-Ignition Internal Combustion Piston Engines i.e. Diesel or Semi-Diesel Engines". Corresponding changes in SRO 693(I)/2006 dated 05.06.2006 are also proposed to be made.
- In view of above and to protect the locally made Filters following amendments are proposed in the First Schedule to the Customs Act, 1969. Corresponding changes in SRO 693(I)/2006 dated 05.06.2006 are also proposed to be made.

[20]See Annexure 4 for details.

8

Import Substitution

8.1. Local Manufacturing of Engineering /Capital Goods

Local manufacturing of capital goods means plant, machinery, equipment, spares, accessories, and apparatus for various industries and sectors as are mentioned in part-I of the Fifth Schedule of Customs Act 1969.

- The government has initiated several projects through local as well as foreign funding in different sectors like energy and infrastructure to strengthen the economy. Most of these projects are allowed to import required machinery and equipment, including input materials, which are duty and tax-free. On the other hand, the local engineering/ capital goods industry pays duties and taxes on imports of their raw materials, sub-components, and components; putting the local industry in a severely disadvantaged position.
- Several types of machinery, equipment, and components for the above-mentioned projects are allowed concessionary imports, which can be manufactured and procured locally.
- Several engineering /capital goods manufacturers have approached EDB requesting to provide an even playing field, as different other factors such as electricity cost, technology transfer cost, etc. have already affected their business.

Recommendation
To provide a level playing field and promote the local manufacturing of engineering/capital goods following is proposed under the Fifth Schedule of Customs Act, new Sr. No. 148, Table of Part III.

S. No.	Description	PCT Code	Customs Duty (%)	Condition
148	Raw Materials, Sub-Components, Components, Sub-Assemblies, and equipment for the manufacturing of the following goods: i) Plant, machinery, equipment, and apparatus including capital goods for various industries sectors mentioned in Part-I of the Fifth Schedule with explanations thereof to include manufacturing of spares, accessories, etc. ii) Supplies against International Tenders either for local or abroad; iii) Supplies to projects or sectors entitled to import or purchase such goods free of duties and taxes; like Export processing zones, CPEC, Gwadar free zone, SEZs iv) Goods imported under concessionary SROs. v) Any other goods as recommended by EDB.	Respective headings	0%	If imported by the manufacturers of Engineering/ capital goods or **as determined/ approved by EDB)** having the requisite manufacturing & testing facilities and are registered under the Sales Tax Act, 1990, subject to annual quota determination by the IOCO.

8.2. Local Manufacturing of Filters other than Automotive[21]

Issue: Non-level playing field for local manufacturing of filters other than automotive

- Filters are considered as an essential part of every kind of machinery used by any of the sectors including the automotive sector, power generation sector, Oil & Gas sector, construction sector, earthmoving machinery, industrial machinery including as per the annexed list but not limited to.

- The local manufacturers have the capability and capacity in producing filters in the category of Oil, Air, Fuel, Transmission, Hydraulic, Water Fuel Separators and other liquid and gas filtration. The industry has undergone tremendous progress during the recent years, and has attained the capability and acquired technology to manufacture almost all types of including the aforementioned Filters but not limited to. Besides filter industry can cater for the local demand and substitute imports for the made and make in Pakistan strategy. The local industry has huge potential to also contribute to exports of filters.

- The local filter manufacturing industry, however, has not flourished, as the majority of the filters other than those used in the automotive sector, are allowed at concessionary rates, especially under the head of several projects like energy, infrastructure, etc. Most of these imports are made under the Fifth Schedule of Customs Act without duties and taxes and under other concessionary regimes and special concessions given on imports from time to time.

Recommendation

- In order to promote domestic manufacturing of filters other than automobiles for supply towards the need of concessionary imported projects and for other applications needs to provide a level playing field. It is proposed to allow the following raw materials under the Fifth Schedule of Customs Act, Part III, for manufacturing of filters by only to those manufacturers registered/documented having in house facilities;

Description	PCT Code	Customs Duty (%)	Condition
Following Raw Materials for the manufacturing of every type of Filters other than automotive applications; i) Steel plates/sheets ii) Filter media/ paper iii) Non Woven Fabric iv) Adhesives v) PVC Molding Compound / Polypropylene / PU Molding Compound. vi) Epoxide Resins	Respective headings	0%	If imported by the manufacturers of Filters or **as determined/ approved by EDB)** having the requisite manufacturing & testing facilities and are registered under the Sales Tax Act, 1990, subject to annual quota determination by the IOCO.

Rationale

To promote import substitution for the make and made in Pakistan strategy to contribute to reduction of trade imbalance.

8.3. Introduction of Cosmetic Industry as an Export Oriented / Import Substitution Industry

Issue#01

Cosmetic Industry should be classified as an Import Substitution Industry. Thus working on making local industry locally and internationally competitive.

[21]See Annexure 4 for details.

Recommendation
All regulatory and additional customs duties on cosmetics raw materials and packing materials (unfinished products) shall be reduced to zero. ITPs and value assessment on imported finished products should be re-evaluated on a quarterly basis and skewed to higher ranges in order to discourage imported products and encourage import substation in Pakistan

Rationale

Reducing RD and ACDs on raw and packing materials will allow local manufacturers to import top quality raw and packing materials for making high-end and internationally competitive products. These products will not only be effective in competing with imported products locally (and help reduce pressure on foreign exchange from luxury imports) but also help the local manufacturers produce quality products to compete internationally.

Both proposed steps would help reduce costly imports and increase local industry's competitiveness locally and internationally. The potential for the export rise and therefore, additional FX revenue for Pakistan

Issue#02
Identify "Cosmetics and Personal Care goods" as potential export industry.

Recommendation
Allow duty-free import of raw and packing material intended to be used for exports. Introduce a Final Tax Regime for Goods exported. Furthermore, reduce paperwork for export and identify potential trade partner countries for favourable tariffs for Pakistani products.

Rationale

Allow for price competitiveness compared to China, Thailand, India and Turkey which source most raw and packing materials locally and offer highly competitive prices to customers.

Encourages local industry to adopt official export channels rather than grey channels to save taxes. If the exporter has to pay a final tax at the export stage of say 1 or 2%, there is no benefit for the exporter to conceal income and support the grey channel exporters. This problem is mainly faced in Afghanistan where huge shipments are not documented due to cumbersome taxation procedures in both countries. Pakistan can book huge trade with Afghanistan alone if this issue is given serious consideration.

Pakistani Products have a huge appeal in several countries. If export documentation, taxation and potential trade countries are correctly identified and taken on board for trade expansion, not only will a lot of current trade be documented but capitalizing on the appeal of Pakistani goods in these countries become easier. We propose Afghanistan, Bangladesh, Nepal, Sri Lanka, United Arab Emirates, Bahrain, Yemen, Saudi Arabia, Sudan, Kenyan countries in East Africa and the Central Asian Republics.

Issue#03
Local taxation policies should be easy and more adaptable to the culture easing the working environment consequently creating a conducive business environment

Recommendation
It is recommended to introduce Final Tax Regime for cosmetics/third schedule items' distributors.

Rationale
This will increase revenue as companies/persons making supplies of Third Schedule items will be more inclined to invoice persons without **fear of having to pay their customer's presumed income tax**. More sales/revenue by companies mean more income for the company which will mean more income tax payable thus **revenue increase**.

In fact, the unregistered buyer does not claim input tax on these transactions to save at least 5% revenue on such transactions for the Government. Distributors having no pressure of cumbersome documentation and tax compliance will not only be encouraged to register and comply under the FTR regime but the incentive of tax evasion will be minimized by offering low final tax rates.

The overall impact will be documentation and confidence in the taxation system of the country.

ANNEXURE

Annexure 1:

Letter to Prime Minister dated February 13, 2021 "Proposals for simplified taxation and accelerated growth"

The Federation of Pakistan
Chambers of Commerce & Industry
وفاق ایوان ہائے تجارت وصنعت، پاکستان

Mian Nasser Hyatt Maggo
President

FPCCI/ Prime Minister Secretariat/2021
February 13, 2021

Honorable Prime Minister of Pakistan
Prime Minister Secretariat
Constitutional Avenue
Islamabad.

Assalam o Alaikum,

FPCCI— Proposals for simplified taxation and accelerated growth

Dear Prime Minister,
FPCCI representing the Trade, Industry and Service sector of the private sector was licensed by the Government of Pakistan in 1960 for creating a bridge between the private sector and public sector and to provide a platform for consolidating the suggestions of private sector businesses for policy decisions.

On behalf of Federation of Pakistan Chambers of Commerce & Industry (FPCCI), I express our gratitude for your appreciating the role of taxpayers for contributing substantially towards national exchequer and directing the Federal Board of Revenue (FBR) to take all measures to facilitate all the businesses during the most difficult time in the wake of Covid-19 endemic, lockouts and now its deadly second wave.

We highly appreciate your prudent policies during the challenging times. We are fully cognizant of the fact of our individual and collective obligation under Article 5 of the Constitution of Islamic Republic of Pakistan [the Constitution] to pay taxes honestly and diligently.

We are observing and I am sure you will be aware about continued unsettled issues on site in taxation which surely also include the non-resolved issues with the small businessmen, in specific retailers who are agents of economy performing as outlets for the production economy. These hundreds of thousands of small businessmen in several thousand markets need to be integrated to the taxation system so that the supply chain from the producer to seller becomes documented. The small and medium enterprises which are in a fairly large number have to be facilitated to provide self-employment and add to further employment.

Page 1 of 3

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The fundamental element of tax reforms is to provide a simple tax system that is manned by an efficient, accountable and competent administration. Tax administrations, both at federal and provincial levels, lack the requisite level of digitization, professionalism, and human skills. Tax administration has become source of developing complicated tax statutes, rules, SROS, Customs, Sales Tax and Income Tax General Orders and engaged in issuance of clarifications round the year, which are discretionary and influence based orders, adversely affecting the conducting of smooth and predictable business in the country. The business must be conducted in harmony instead of conflicts and contradictions created by tax administration, in which they most of the time mislead the governments and place the allegation of all odds on businessmen to the exclusion of tax administration officials.

Dear Prime Minister,
We need a simple, fair, and predictable tax system: 10% income tax on individuals and AoPs, 20% income tax for companies, 5% sales tax (for exporters 0% tax). Low-rate customs duty (One Chapter, One Rate, 5%) on all items and federal excise duties on luxury items and on health-hazard products like cigarettes, beverages etc.

A brief explanation follows.

1. According to the research done by the country's leading tax experts like Dr. Ikram ul Haq and Huzaima Bukhari, the number of income tax returns with tax paid can be doubled to more than 4 million in 2021-22, from 2.19 million currently out of which almost 1 million paid no tax. This includes businesses, non-salaried individuals, and professionals, many of them are currently not filing income tax returns for various reasons. This will double the income tax collected from Rs. 1.5 trillion to Rs. 3.0 trillion in 2021-22 without reliance on withholding taxes, advance tax, or minimum tax.

2. Presently, collection of sales tax is related to a few commodities. This is confirmed by the fact that petroleum products alone contribute around 44 percent of the total domestic sales tax collection. Against the prescribed rate of 17%, if we introduce simplified and single stage sales tax at the rate of 5%, based on the size of retail market of Rs. 22.8 trillion (source: Planet Retail), import of 6.6 trillion and manufacturing of Rs. 8.58 trillion, this can yield Rs. 1.915 trillion, up from Rs. 1.596 trillion currently. We believe that entities paying Sales Tax can be easily doubled from 41,000 to 80,000 once a single stage tax is introduced.

3. We are of the opinion that a cascading tariff structure since decades as has been discussed needs to be reviewed while supporting the efforts for industrial sector promotion by rationalizing the customs duties. The rationalization of customs revenue is not possible through narrow bases (10 items contribute more than 80% receipts). A single rate of 5% for all items will eliminate the menace of smuggling, arbitrary and/or favorable valuations, complicated registration processes as well as the SRO-ridden system. This will bring the customs revenue down from Rs. 626 billion to Rs. 346 billion. We believe that this reduction is necessary as over-reliance on import stage taxation has proven harmful for industrial development and has fueled inflation.

Page 2 of 3

4. We believe that by levying FED on cigarettes, carbonated drinks and on luxury items alone and through better enforcement, the collection can go up from Rs. 250 billion currently to Rs. 333 billion. FED on all other items should be removed.

5. In sum, we believe that the total taxes collected under the new system can go up from Rs. 3.9 trillion (which includes refunds) to Rs. 5.6 trillion (without any refunds) in 2021-22, of which direct taxes will be 54%, up from 38% currently, thus realizing a critical manifesto promise of your government to move towards progressive taxes, a goal which the present system has failed to achieve.

We also believe that a substantial addition in the income tax can be achieved by levying a 10% income tax on large land holders for which provincial governments should be taken on board.
Kindly consider our proposal for simplification of tax system to ensure payment of tax by all through our representative efforts as apex body representing all the CCIs and Associations of trade and industry of Pakistan with overseas bilateral councils and counterpart federation of chambers in respective countries.
Dear Prime Minister, we once again thank you for your goodwill gesture towards taxpayers and hope that a meaningful dialogue will be initiated on our proposals. We also request you to grant an audience so that we can elaborate our proposal further.

Sincerely yours,

Mian Nasser Hyatt Maggo

Page 3 of 3

Annexure 2:

Presentation on
"Simplified Taxation & Accelerated Growth"

The Presentation can be found at the following link:
https://docs.google.com/presentation/d/12IV1SvKt-TeGKCXXrxD-JTWTfE5sfla4/edit?usp=sharin
g&ouid=100945970107597054002&rtpof=true&sd=true

Annexure 3:

Letter from Prime Minister's Office Islamabad dated March 11, 2021

PRIME MINISTER'S OFFICE
ISLAMABAD
*****

Subject: PROPOSALS FOR SIMPLIFIED TAXATION AND ACCELERATED GROWTH

The Prime Minister has been pleased to direct that Minister for Finance, Minister for Industries & Production, Advisor to the Prime Minister on Commerce & Investment, Special Assistant to the Prime Minister on Revenue, Secretary Finance, Chairman Federal Board of Revenue and Mr. Shaukat Tareen will hold meeting(s) with FPCCI to discuss and finalize taxation reforms/changes in light of suggestions mentioned in the attached letter.

2. Presentation shall be made by Chairman, Federal Board of Revenue.

3. Secretary Finance shall coordinate the meeting(s).

4. Final decision/options in this regard will be presented to the Prime Minister within ten (10) days.

5. The presentation shall be on the following format:

Suggestions given by FPCCI	Agreed/ Not Agreed/ Partially Agreed	Reasons	Recommended Option(s)

6. Date, time and venue for the presentation would be communicated by Military Secretary to the Prime Minister.

(Muhammad Azam Khan)
Secretary to the Prime Minister
11-03-2021

Distribution: All concerned
No. 949/M/SPM/2021

Annexure 4:

(a) Filters used in the following equipment

Import of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors mentioned in the table of part 1 of Fifth Schedule of Customs Act 1969 with Explanation. - Capital Goods mean any plant, machinery, equipment, spares and accessories, classified in Chapters 84, 85 or any other chapter of the Pakistan Customs
Tariff, required for-

- Power generating sets and equipment quality control, pollution control, mining, agriculture, fisheries, infrastructure development of SEZs by Zone Developer.
- Agricultural Machinery and equipment for initial installation, balancing, modernization, replacement or expansion of desalination plants, coal firing systems, gas processing plants and oil and gas field prospecting.
- Machinery, equipment, materials, capital goods, specialized vehicles (4x4 non-luxury) i.e. single or double cabin pickups, accessories, spares, chemicals and consumables meant for mineral exploration phase.
- Coal mining machinery, equipment, spares, including vehicles for site use i.e. single or double cabin pickups imported for Thar Coal Field Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through oil, gas, coal, wind and wave energy including under construction projects, which entered into an implementation agreement with the Government of Pakistan.
- Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through gas, coal, hydel and oil including under construction projects.
- Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through nuclear and renewable energy sources like solar, wind, micro-hydel, bio-energy, ocean, waste-to-energy and hydrogen cell etc
- Machinery, equipment and other capital goods meant for initial installation, balancing, modernization, replacement or expansion of oil refining (mineral oil and other value added petroleum products), petrochemical and petrochemical downstream products including fibers and heavy chemical industry, cryogenic facility for ethylene storage and handling.
- Machinery and equipment imported by an industrial concern.
- Following machinery and equipment for marble, granite and gem stone extraction and processing industries. Machinery, equipment and other project related items including capital goods, for setting up of power generation plants, water treatment plants and other infrastructure related projects located in an area of 30 km around the zero point in Gwadar
- Effluent treatment plants, plant, machinery and equipment used in production of bio-diesel. Plant machinery and equipment imported during the period commencing on 1st July, 2014 and ending on 30th June, 2023 for setting up of industries in erstwhile FATA Areas.

(b) Amendment in Customs Tariff- Reclassification of Filters

The local manufacturers of Air & Fuel Filters have undergone tremendous progress during the recent years, and the industry has attained the capability and acquired technology to manufacture almost all types of Air & Fuel Filters, besides can cater for the entire local demand. However, the present tariff classification does not cover all types of Air & Fuel Filters that are being manufactured locally and hence not only likely to lead to mis-declaration and loss of revenue but is also hurting the local industry otherwise required to increase the economy of the scale / production in the available market as import substitution.

Accordingly, following amendments are proposed in the First Schedule to the Customs Act, 1969 to provide appropriate classification of all types of Air & Fuel Filters, as are manufactured locally.

i) Currently, the **"two digits heading 8421.2300"** under HS Code 84.21 covers "Oil or Petrol Filters for Internal Combustion Engines i.e. Petrol Engines", but not the Oil or Fuel Filters for Diesel or Semi-Diesel Engines, which are classified under **HS Code 8421.2900 --- OTHER**, chargeable to customs duty @ 20%, without any additional duty under SRO 693(I)/2006, despite that the Oil or Fuel Filters for the vehicles fitted with Diesel or Semi-Diesel Engines are being manufactured locally.

ii) Moreover, HS code 8421.2320 covers Oil or Petrol Filters for vehicles of sub-heading 8701.9020 (Agricultural Tractors), which in fact operate with Diesel or Semi-Diesel Engines". Hence, logically HS code 8421.2320 should not appear under the heading which covers Oil or Petrol Filters for Internal Combustion Engines and shall be shifted to a new entry under HS Code 8421.2900.

Accordingly, it is proposed that the HS Code 8421.2900 may be bifurcated, to prescribe separate tariff rates for locally and non-locally manufactured Oil and Fuel Filters for "Compression-Ignition Internal Combustion Piston Engines i.e. Diesel or Semi-Diesel Engines". Corresponding changes in SRO 693(I)/2006 dated 05.06.2006 are also proposed to be made.

iii) Currently, HS code 8421.3110 covers Air Filters for motorcars of heading 87.03 (not exceeding 800 CC) only, whereas Air filters for motorcars of heading 87.03 exceeding 800 CC are also being manufactured locally.

In view of above and to protect the locally made Filters following amendments are proposed in the First Schedule to the Customs Act, 1969. Corresponding changes in SRO 693(I)/2006 dated 05.06.2006 are also proposed to be made.

EXISTING			PROPOSED		
HS Code	Description	Tariff	HS Code	Description	Tariff
	-Filtering or purifying machinery and apparatus for liquids:				
	- - Oil or petrol-filters for internal combustion engines:				
8421.2310	- - - For motor cars of heading 87.03, and vehicles of sub- headings 8703.2113, 8704.3190, 8703.3225 and vehicles of heading 87.11 (other than foam type)	35+ Addl. CD. Ref. SRO 693 (App-I)		---For motor cars of heading 87.03, and vehicles of sub-headings 8703.2113, 8703.2115, 8703.2195, 8703.2240, 8704.3110, 8704.3030, 8704.3130, 8704.3190, 8703.3225 and vehicles of heading 87.11 (other than foam type).	35+ Addl. CD. Ref. SRO 693
8421.2320	- - - For vehicles of sub-heading 8701.9020	35+ Addl. CD. Ref. SRO 693 (App-II)		Entry to be deleted for the reasons explained above; and may be shifted under the proposed HS Code 8421.2920.	
8421.2390	- - - Other	35		NO CHANGE	
8421.2900	- - Other	20	8421.2900	- - Other	
			8421.2910	- - - Oil and Fuel filters for motor cars of heading 87.03, and vehicles of sub-headings 8703.2193, 8703.3223, 8703.3225 and 8704.2190.	35
			8421.2920	- - - Oil and Fuel filters for vehicles of sub-heading 8701.9020	35
			8421.2930	- - - Oil and Fuel filters for other vehicles of Chapter 87.	35
			8421.2990	- - - Others	20
	-Filtering or purifying machinery and apparatus for gases:				
	- - Intake air filters for internal combustion engines:				
8421.3110	- - - For motor cars of heading 8703 (not exceeding 800cc), vehicles of sub-headings 8703.2113, 8703.2115, 8703.2193, 8703.3225, 8704.2190, 8704.3190 and vehicles of heading 87.11 (other than foam type)	35		--- For motor cars of heading 87.03, vehicles of sub-headings 8703.2113, 8703.2115, 8703.2193, 8703.2195, 8703.2240, 8703.3225, 8704.2190, 8704.3110, 8704.3130, 8703.3150, 8704.3190 and vehicles of heading 87.11 (other than foam type)	35+ Addl. CD. Ref. SRO 693 (App-I)
			8421.3120	- - - For vehicles of sub-heading 8701.9020	35+ Addl. CD. Ref. SRO 693 (App-II)
8421.3190	- - - Other	35			

In addition, in HS Code 8708.2932, (reproduced as under) Fuel Filters are mentioned whereas all the filters are classified under Heading 84.21.

8708.2932	------ (A) Following components for motor cars of sub-heading 8703.2119 and 8703.3112: (1) Sash front door rear R/L (excl. door windows) (2) Sash rear door center (excl. door windows) (B) Following components for motor cars: (1) knuckle steering (2) Water pump (3) Fuel filter (4) Seal recliner (5) Air cleaner assembly (6) Steering (Manual) (7) Engines (8) Transmissions (manual)

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