



Highlights of OICCI Taxation Proposals 2023-2024

April 2023

OICCI Taxation Proposals 2023-2024

The tax environment and tax rates are key considerations for any prospective investors, including foreign investors. Ease of Doing Business (EODB) and simplification of tax paying processes plays a key role in promotion of FDI.

- Tax policies should be predictable, transparent, and consistent.
- Policies should be implemented for long term (e.g. 10 years).
- Simplifying the procedures and forms for filing the sales tax and income tax return.

Tax compliant sector provides FBR with information of registered/unregistered businesses, which need to be use for broadening tax net.

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- Incentivize long-term investment in manufacturing, employment generation and export potential industries including services (e.g. IT and services) Vs trading etc.
- All sectors should contribute into the national exchequer in proportion to their contribution to GDP including agriculture, real estate and wholesale/retail trade.
- Import data including Afghan Transit Data should be made public

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Details are given in the OICCI Taxation Proposals 2023-24

INCOME TAX

1. Abolishment of Super Tax
 - Corporate tax rate at 29% for 2 years only.
2. Minimum Turnover Tax
 - Minimum tax should be abolished at least for Listed companies
 - General rate of Minimum Tax should be reduced from 1.25% to 0.25%.
 - Adjustment/carry forward of minimum tax credit be allowed for at least 5 years as prior to 2022.
3. Revamping of Withholding Tax Regime – one of the key irritants for compliant taxpayer
 - Withholding tax rate should be categorized for active and non-active taxpayers only.
 - Tax rate on services u/s 153 to be uniform @3% as already provided to 29 services, as a minimum tax.
 - Simplify overall withholding structure by single rate under each section, where possible. For e.g. single rates @15% for section 156 (Prizes and Winnings) and @8% section 233 (Brokerage and Commission).
 - Various WHT sections such as 236C/236K (purchase and sale of immovable property) and 154/154A (exporters of goods and services) can be merged.
3. Exemption against withholding tax u/s 148 should be available on the basis of discharge of advance tax liability as per section 147 of the ITO, 2001, as also in the case of section 153.
4. Tax on Salary Income – [section 149]
 - Minimum taxable limit be increased to Rs 1.2 million Vs Rs 0.6 million
 - Highest slab rate be restricted to 29% – same as corporate rate

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SALES TAX

1. Delay and procedural hassles in Processing of Outstanding Refunds
 - An automated process should be installed for the timely submission/verification and further release of tax refunds.
 - Tax refunds paid by FBR should be published for transparency.
 - Inter-adjustment of Income/Sales tax refunds against income tax/sales tax liability should be allowed as part of law.
 - Tax refunds should be cleared within 45 days and be cleared in an orderly/ prearranged manner.
2. Section 8(i)(h), (i) & (j) should be omitted to allow adjustment of Input sales tax on Civil work, vehicles, equipment & materials and reduced rate services
3. 90% limit for Adjustable Input Tax should be abolished for registered taxpayers [section 8B]

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CUSTOMS

Overall system of Customs is outdated and needs to be revamped to collect revenue as per full potential/international best practice.

1. Import data including Afghan Transit Data should be made public
2. Introduce stringent controls for illicit trade/ duty not paid products
 - Introduce tighter penalties (e.g., criminal liability) for illicit trade across the whole value chain – retailers, distributors, and manufacturers.
 - Special division/ task force to raid retailers and manufacturers to confiscate/ destroy illicit stocks.
3. Custom valuation should be done by using latest method of valuation
4. Unauthorized imports of counterfeit products should be effectively checked through registration of brands in coordination with the original brand owner/ registered in Pakistan.
5. Control the abuse of Afghan Transit Trade Facility
6. Encouraging local manufacturing/import substitution by:
 - Elimination of additional custom/regulatory duty on essential raw materials, which are either not locally available or are in limited supply, (examples can be shared separately)
 - Removing contradiction/anomaly in tariff structure,

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BROADENING OF TAX BASE (BTB)

1. Significant data available for FBR/authorities to increase tax collection
 - For example, data of 'NADRA', 'FBR Malomooat Portal' database, data submitted by banks and utility companies, property registrar, excise, sales tax returns
 - Eliminate culture of Amnesty Schemes as it discourages the honest taxpayers.
2. Digitization of economy/ Demonetization
 - Eliminate/ discourage the circulation of cash in economy
 - Promotion of digital payments through fintech, POS invoices, e-Invoices, mobile wallets etc.
 - To encourage use of POS system
 - Rs 5000 notes should be demonetized
5. Stringent Controls to Curb Illegal Trade
 - Massive Excise duty evasion (Rs. 80 bn) in Tobacco industry, duty-not-paid goods, along with under-invoicing adversely affects tax revenue. Stringent controls should be in place to arrest this huge leakage of revenue.
5. Public Awareness for promotion of Tax Culture in the country
 - Tax culture should be promoted through various communication channels
 - Taxes/levies knowledge should also be included in the curriculum at Higher school education.

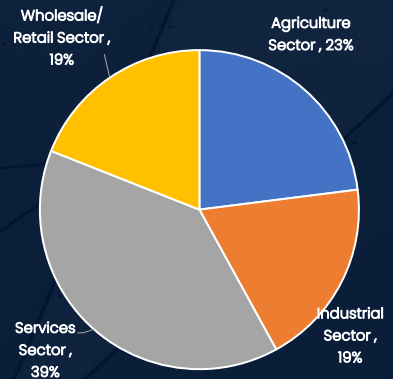
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Details are given in the OICCI Taxation Proposals 2023-24

NEED TO PROPORTIONATE CONTRIBUTION OF ALL SECTORS IN TAX NET

All sectors should contribute to the national exchequer in proportion to their contribution to GDP, including agriculture, real estate and wholesale/retail trade.

1. Tax on Wholesale/Retail Trade
 - Re-introduce CNIC requirement on all cash transactions above 50,000
 - POS system to be made mandatory for Sales tax and integrate it with their traders Income tax returns.
2. Tax on Real Estate
 - POS type integration be made mandatory for all property transactions.
 - NTN to be made mandatory for property sale or purchase.
3. Bring Service Providers in Tax Net by some form of mandatory registration
 - POS integration to be made mandatory for service providers like doctors, private hospitals, lawyers, painters, fashion designers, property dealers, interior designers, educational institutes including private teachers, coaching center, salons etc
4. Tax on Agriculture Income
 - Bring Agriculture Income under Federal government.
 - Exemption should be withdrawn, and appropriate laws should be made in coordination with provincial governments to collect fair taxes



Source: Pakistan Economic Survey FY22

Details are given in the OICCI Taxation Proposals 2023-24

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FACILITATION OF TAXPAYERS AND EASE OF DOING BUSINESS

1. Coordination between Federal and Provincial Legislations:
 - Synchronization of Sales tax rates and policies across all jurisdictions in the country.
 - Single Sales Tax Return for all jurisdictions.
2. Reduce the Number of Tax Returns Filing Frequencies
 - The large number of filing of various returns is a cause of great hardship to compliant taxpayers and perhaps one of the major reasons for tax evasion/non-registration as taxpayer.
3. Tax Audits & Appellate System
 - Audit criteria u/s 177(2) to be made risk based, sample driven and cost-efficient, instead of calling 100% information involving voluminous transactional data.
 - Proviso should be added to section 124 that in case Commissioner fails to issue appeal effect order within stipulated time period, taxpayers' position should be deemed in effect.
 - Stay granted by Appellate Tribunal Inland Revenue should not expire after 180 days but should remain valid until the disposal of appeal.
4. Secrecy of Taxpayers Information on Tax Payments CPR [Rule 42 of the Income Tax Rules. 2002]
 - The right of printing Computerized Printing Receipts (CPR) for tax payments should be restricted to withholding agents only, to maintain the confidentiality of taxpayers.

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1. Pharma Sector
 - Pending sales tax refunds under FASTER Pharma System to be processed within 72 hours of the submission
 - Restoration of zero-rated regime for Pharma Industry as prior to 2022
2. Banking Sector
 - Corporate tax rates for the banking sector should be aligned with other sectors.
 - Alternatively, the corporate tax rate of 35% shall be restored for banking Companies.
3. Tobacco Sector
 - Excise Duty on cigarettes to be increased only after implementation of sufficient measures to control illicit cigarette trade.
4. Automobile Sector
 - Reduce FED on locally manufactured vehicles in consultation with auto industry legitimate representatives.
5. Dairy Sector
 - Exempt "milk" from Withholding Tax

Details are given in the OICCI Industry Specific Taxation Proposals 2023-24



6. Beverage Sector
 - Rationalize high FED rate (20%) on Soft Drinks with other sugar containing beverages
7. Chemical/ Terminals Sector
 - Tax deducted on import stage from Fertilizer manufacturer should be made adjustable.
8. Engineering/ Electrical Sector
 - Restoration of Sales Tax exemption on Local supply/sales of LED or SMD lights and bulbs
9. Telecommunication Sector
 - Withholding Tax on Telecom Services should be rationalized/ abolished as majority of the subscriber's base falls below the taxable limit
10. Energy Sector
 - Oil Exploration and Production Companies
Depletion allowance to be calculated @15% of gross receipts, before royalty deduction.
 - Coal Mining and Exploration
Enhancing the scope of tax exemption (to supply of coal to non-power generation projects) i.e. exclusively available to coal mining projects in Sindh

Details are given in the OICCI Industry Specific Taxation Proposals 2023-24



OICCI is the first port of call for potential foreign investors

March 22, 2023

Thank
You!



March 22, 2023