OVERSEAS INVESTORS CHAMBER OF COMMERCE AND INDUSTRY

TAXATION PROPOSALS 2019 – 2020

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INTRODUCTION

The Overseas Investors Chamber of Commerce and Industry (OICCI), represents the largest bloc of foreign investors in Pakistan. It is the largest Business Chamber in the country based on contribution to the national and provincial exchequers, as well as to the GDP. OICCI members are also the largest foreign investors, year after year and have in the past six years invested over $10 Billion in Pakistan. A brief overview of OICCI members’ position on the current tax regime is given below:

- OICCI members are fully tax compliant and share the concerns of the government on the very low tax to GDP ratio, and poor documentation of the economy.

- Members appreciate the recent initiatives of the government, including the proposals introduced in the Finance Supplementary (Second Amendment) Bill 2019, to facilitate ease of doing business and investment, especially actions on withdrawal of super tax, incentives for greenfield projects, scaling up penalties for non-filers with higher withholding tax rates, and harmonization of the property valuation, besides the actions taken recently for potential access to multiple sources of information on tax evaded assets held locally or overseas. However some of the measures, like reinstatement of group tax relief etc., announced in the parliament on January 23rd were not fully aligned in the subsequent legislation, which is a cause of concern.

- The existing tax legislation, and its enforcement, is very cumbersome and major reforms are needed to meet the high standard set by the government in its Ease of Doing Business initiative. The stakeholders, including OICCI members, are keenly awaiting the outcome of the Tax Reform Commission Implementation committee findings and corresponding action by the Government, so that there is a rapid move towards documentation and creation of a compliant tax culture in the country.
TAX GOVERNANCE, COLLECTION AND EASE OF DOING BUSINESS

The tax environment and tax rates are key considerations for any prospective investors, including foreign investors, and amongst the key influencers in attracting FDI inflow into a country. Therefore, as in the past years, the OICCI members recommend the following points to be considered before finalizing the 2019-20 Budget proposals:

1. **Separation of Tax policy and formation of a Tax Policy Board** – announced but implementation still in process.

2. **Simplify the complex system of determining the tax liability by abolishing ACT (Alternative Corporate Tax) and MTR (Minimum Tax Regime) and do away with undue recurring audit/examinations/reviews and recovery proceedings.** Need to introduce single collection authority using online payment structure and simplifying procedures for filing the sales tax and income tax return forms and processes.

3. **Tax policies should be predictable, transparent and consistent and implemented properly.** Furthermore, these policies should be for timelines with 10 year phasing out period to facilitate and protect longer term investment plans of local and foreign investors.

4. **Targets given by the FBR hierarchy to the LTUs, and operating units should be research based on the economic performance of different business sectors.** There should not be undue pressure for any tax compliant person who are forced to make payments beyond their legitimate liability.

5. **Growth in tax collections, over and above the projected growth from the organized sector, should be based on broadening the tax base and bringing new tax payers into the tax net.**

Measures, which have limited revenue potential, but negatively impact the business confidence of existing and potential new investors, with longer-term negative implications on FDI as well, should be carefully reviewed and analyzed before being made part of policy.

OICCI will continue to emphasize on value creation through transparent and strong enforcement measures designed to facilitate compliant tax payers and punish tax evaders.

OICCI 2019-20 tax proposals are divided in to the following sections.

- Income Tax
- Sales Tax
- Custom Duty
- Export Facilitation Scheme
- Ease of Doing Business
- Documentation and Broadening of Tax Base
- Industry Specific Proposals
A. INCOME TAX

i. Corporate Tax

1. Regionally Competitive “Effective” Tax Rates

In addition to direct corporate taxes, companies also pay other levies like the Workers Profit Participation Fund (WPPF) at 5%, Workers Welfare Fund (WWF) at 2%—as both these levies are related to profit, the effective tax rate goes up significantly. Sindh Development & Maintenance of Infrastructure @ 1.2% of import value and stamp duty on Purchase Orders and contracts up to 0.3% of purchase value, together with many other local levies is increasing overall tax burden to about 40% of profits, which is a significant tax burden with consequential increase in cost of doing business.

Recommendation

- The government has already announced to gradually reduce the corporate tax rate to 25%, over the next five years, which is in line with OICCI recommendations. We would however, recommend that the rate should be aligned to the average “effective” tax rate of countries in Asia which is around 22% by eliminating labor levies which are paid on net profits.

2. Review of Minimum Tax (MTR) Regime and Abolishment of Alternative Corporate Tax (ACT)

Standard rate of Minimum tax under section 113 was enhanced from 1% to 1.25% through Finance Act 2017-18, whereas, reduced rate of minimum tax also prevails for specified sectors. The application of MTR is resulting in an effective tax rate which is even higher than the standard rate for nearly all companies of specialized sectors with high turnover and low margins or regulated prices. Further, Alternate Corporate Tax is a discriminatory regime, which hurts industries with major capital investment.

Recommendation:

- The general rate of Minimum Tax (MTR) under section 113 should be reduced to 0.5%.
- MTR should be reduced to 0.2% for Oil Marketing/ Refineries/ LNG Terminal Operators and Large Chemical Companies with high turnover and low margins.
- The proviso, that allowed exemption from minimum tax in case of a company which has declared gross loss, omitted through Finance Act, 2016, should be re-introduced.
- An explanation should be inserted to include carry forward of minimum tax in case of tax loss, so that interpretational issues may be avoided between taxpayers and tax authorities.
- Alternate Corporate Tax under section 113C should be abolished in presence of Minimum Tax under section 113.

Rationale or Benefit

- Good for tax equity and growth of business and economic activity.
- Abolishing section 113C would simplify determination of tax liability.

3. Incentives for investment be made attractive

Timeline for making investment to avail incentives/benefits was extended through Finance Act 2018-19 which was highly appreciated by the investors’. This initiative should now be further widened by introducing the following additional measures for attracting large new foreign direct investments in line with the potential of the country.
Recommendation:

- The following recommendations are made in respect of tax credit under section 65B
  - The tax credit rate to be enhanced from existing 10% to 25% of the amount of investment.
  - The date for benefit be extended to 2023, for tax credit under section 65B, 65D & 65E, so that industry is given a reasonable timeframe to plan their investments and long term projects.
  - Sub-section 4 of section 65B needs correction as the period for investment mentioned therein is “during first day of July, 2011 and 30th day of June, 2016”.

- As of now, credit under section 65E is limited to the purchase and installation of plant & machinery. It is proposed that the tax credit should be allowed for civil works/factory building and directly attributable expense associated with purchase and installation of plant and machinery.

- Proposals in respect of advance Income Tax collection under section 148 on import of raw materials:
  - PCT Heading 39.01 to 39.12 has been included vide changes in section 148, whereby tax collected under this chapter has been made a “minimum tax”. This addition should be deleted for Public Listed Companies who file their tax returns and pay tax on regular basis, as this amendment has resulted in non-issuance of tax exemption certificate to companies importing raw materials for own consumption, thus adversely affecting the working capital.
  - Newly established industrial undertaking be allowed to import raw material without payment of advance tax u/s 148 in the first year of production in order to minimize cost of production
  - For subsequent years, the industrial undertaking, be allowed exemption against advance tax u/s 148 on import of raw material, as per actual consumption requirement, instead of 125% quantity of previous year.
  - A new provision to be inserted in Section 148 of the Ordinance: Provided that tax paid by manufacturers cum importers dealing in both manufactured and commercial imports shall be adjustable.

- Section 64B provides tax credit for employment generation. Tax credit for employment generation u/S 64B, currently restricted to manufacturers, should also be extended to the service sector which contributes about half of the GDP of the country. Consequently, changes in Section 153 (1)(b) and S 153 (3)(c) shall also be made.

- Tax credit under section 65A, previously allowed @ 3% to manufacturing companies making 90% of its sale to sales tax registered persons should be restored, since it will be an incentive for companies promoting business with tax registered persons and creating opportunities for enhanced documentation of the economy.

- To promote Islamic banking and encourage investment in Sharia based instruments, income tax rebate at 2% was introduced under Clause 18B, Part-II of 2nd Schedule. Current conditions to avail such rebate are very stringent and impractical. The following are recommended:
  - 100% of investment in the Sharia compliant securities should be reduced to 70% of the total investments.
  - The requirement to maintain the free float of the company’s outstanding shares at 30% should be reduced to 15%.
4. Tax on Inter-Corporate Dividends

The Chamber has been proposing for the past two years that amendments made in Finance Act 2016, in Group Taxation laws, which effectively diluted the adequately introduced concept of group taxation earlier inserted through Finance Act 2007 as a result of a detailed study be reviewed.

The Finance Minister in his speech in the Parliament when presenting the Finance Supplementary (Second Amendment) Bill, 2019 on January 23rd, confirmed that the Government will be re-introducing the Group tax benefits as before. However, the Fiscal Bill does not address one of the major impediments in the creation of such group structure which is dual taxation of inter corporate dividends within the group.

In the Finance Bill, a new regime has been introduced to exempt inter corporate dividend in case of companies availing group relief. Resultantly, this exemption will be available only:

(i) where there is a surrender of losses in that Tax Year, and (ii) to the extent of percentage holding of parent company in the subsidiary company.

Recommendation

- Review and re-instate the group dividend facility under Section 59AA/59B to facilitate formation of large entities with resources to promote diverse investment and employment opportunities in the country.
- The law which existed prior to the Finance Act 2016-17 may be restored. [Section 59B, Clause 103A of part 1- second schedule]

5. Alignment of section 97A to section 284 of Companies Act

Section 284 (2) of the Companies Act 2017 has waived-off the requirement of approval of the Scheme of Arrangement and Reconstruction by the High Court for amalgamation of two or more companies, each of which is directly or indirectly wholly owned by the same person. In the absence of corresponding amendments in the Income Tax Ordinance 2001, approval of the High Court or the Securities and Exchange Commission of Pakistan is still required.

Recommendation

- The existing reference to Companies Ordinance 1984 should be replaced with references to the corresponding sections of the Companies Act 2017.
- Furthermore, section 97A should also be amended to the extent of amendment made in section 284(2) of the Companies Act 2017.

ii. Withholding Tax Regime

The withholding tax regime against which business, especially the manufacturing sector has agitated for several years has been further worsened by recent changes in the regime. This is one of the key irritants for most tax payers and contribute negatively in Pakistan’s rating on World Bank’s “Ease of Doing Business”.

6. Revamping of Withholding Tax Regime – one of the key irritant for compliant tax payer

The fact that the ‘Collection and Deduction of Income Tax at Source (Withholding Agents Perspective) (Taxpayer’s Facilitation Guide)’ on the FBR website is of 76 pages highlights the complexity of the withholding tax regime which has more than 30 tax provisions that need to be followed and 50 different tax rates, applicable on nearly all heads of receipts/payments. The rate of withholding/advance also varies depending upon the nature of transaction, legal/tax status of the parties i.e. company or individual and filer or non-filer.
At present FBR has prescribed following categories of withholding tax (WHT) rates under the Income Tax Ordinance, 2001, for various types of payments and it has become extremely difficult for the person processing payments to be precise and accurate in applying WHT rates and ensure compliance:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Section Reference</th>
<th>No. of prescribed rates (for Filers &amp; Non-filers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Section # 150 – Dividend</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Section # 151 – Profit on Debt</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Section # 152 – Payment to non-residents</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Section # 153 – Payment of Goods, Services &amp; Contracts</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>Section # 156 – Prizes and Winnings</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Section # 156A – Petroleum Products</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Section # 233 - Commission and Brokerage</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Section # 236G - Advance Tax on Sales to Distributors, Dealers &amp; Wholesalers</td>
<td>4</td>
</tr>
</tbody>
</table>

The complexity for the withholding agent has further aggravated since the introduction of active taxpayers list and different rates for a filer and non-filer.

**Recommendation**

- Withholding tax regime should be simplified by reducing the categories of withholding taxes and the rates thereon.
- There should be maximum five rates for all withholding taxes and the differentiation should be on the basis of filer and non-filer only.
- FBR system should be upgraded and all taxes withheld should be auto populated in the portal to the credit of the beneficiary. This will simplify;
  - a) The reconciliations carried out at the taxpayer’s / FBR’s level,
  - b) Simplify the tax return submission process.
  - c) Enhance system based auditing capability of FBR while providing opportunity of self-verification to the beneficiaries and quick tracking of the non-filers.
- The data is already available with FBR and it just needs to be available to taxpayers with an upgradation of the system.
- Final Taxation Regime should be done away with and all withholding taxes should be available for adjustment and the operations wing of FBR should ensure that all persons whose taxes have been deducted file their tax returns.
- Withholding agents should be given incentive in the form of 2% tax credit of the amount collected for facilitating the Government in identifying potential tax evaders.
- In addition to the above administrative/streamlining issues, we strongly suggest that withholding / advance tax rates on below transactions should be reconsidered;
  - o Withholding tax rate be reduced from current rate of 2%/ 2.5% to 1.0% for FMCG distributors in line with the withholding taxes applicable on the distributors of cigarette and pharmaceutical products. Distribution is a high turnover business and such high rate of withholding tax on low margins is, on one hand has increased the cost of doing business for the manufacturers and on the other hand, the distributors are reluctant to get themselves registered for income tax and sales tax purposes and therefore, negatively impacting the broadening of tax base.
Distribution is a high turnover business and the high rate of withholding tax is increasing the cost of doing business of the manufacturers and on the other hand the distributors are reluctant to get themselves registered for income tax and sales tax purposes and therefore, negatively impacting the broadening of tax base.

- Withholding tax rates applicable on services is 8% minimum tax regardless of the actual taxable income of the service provider. The nature of this tax effectively becomes indirect tax and increases the cost of doing business with such service providers, hence, tax on services should be made adjustable.

- Withholding taxes deducted from payments is required to be deposited in the Govt. treasury on weekly basis, the frequency of such payments should be revised to align the same with filing of monthly withholding tax statements while utilizing the IRIS portal which has been designed to prepare PSIDs for withholding tax payments and automatically prepares withholding tax statements. This should be made operational to contribute effectively towards “Ease of doing business” agenda.

- PCT Heading 39.01 to 39.12 has been included vide changes in section 148, whereby tax collected under this chapter has been made a “minimum tax”. This addition should be deleted for Public Listed Companies who file their tax returns and pay tax on regular basis, as this amendment has resulted in non-issuance of tax exemption certificate to companies importing raw materials for own consumption adversely effecting working capital.

- Withholding taxes deducted from payments is required to be deposited in the Govt. treasury on weekly basis, the frequency of such payments should be revised to monthly as present frequency of payments is causing hardship for compliant taxpayers.

Rationale or benefit

- The above suggestions will result in Ease of doing business as well as reforms to support local manufacturing base, widen the tax base and increase documentation of business transactions. This will also improve revenue collection.

7. Withholding Tax on Prizes & Winnings

IT Section 156 of the Ordinance, 2001 requires deduction of withholding tax @ 20% on Prizes and Winnings. The word ‘prize’ has not been defined in the law and therefore, is being interpreted very liberally by the tax authorities.

Recommendation

- The term prize should be defined in Income Tax Ordinance, 2001 and be restricted to where element of chance is involved, and current two WHT rates scrapped and single rate of 10% be prescribed under section 156.

8. Payment to Non-Residents

Section 152(5) requires a person to make a request to the Commissioner when he intends to make payment to a non-resident without deduction of tax.

Section 152(5A) bounds the Commissioner to make a decision on the request within the prescribed time limit of 30 days."

Practically due to the administrative and other organizational issues, no response to exemption applications is being provided to taxpayers within the prescribed time limit. As a result, payments cannot be made on time and the commitment with foreign vendors cannot be fulfilled.

Also, the exemptions granted are valid for a short period of time and lapse till the time approval is granted by the State Bank of Pakistan for the same case. This results in extra efforts and time consumed on revalidation of certificates already issued but expired.
Furthermore, the higher appellate forums have already held that the requirement of filing an application by the taxpayer under section 152(5) is not mandatory and that the provisions of section 152 are not applicable where payments are made to resident of tax treaty countries.

**Recommendation**

- Section 152 and Circular 5 of 2013 should be amended to include that if no response is received from the Commissioner within 30 days, the exemption shall be deemed to have been granted.
- To reduce the workload of the tax department as well as the tax payer, exemptions should be allowed on the basis of agreement with non-resident so that exemption is allowed for all payments under one approval by the Commissioner.
- Exemption should either be provided for a minimum one year period or a fast track process should be introduced for revalidation of exemption certificates already issued but expired.

### iii. Tax Levies on Salaried Class

**9. Provident Fund Contribution By Employers [6th schedule]**

Employer's annual contributions to the employee's provident fund is currently deemed to be income received by employee if it is in excess of one-tenth of the salary or **PKR 150,000**, whichever is lower, and is added to taxable income for determining tax liability of the employee. Consequently, even though the amount added to the provident fund of the concerned employee will be payable to him only on retirement, he/she has to pay tax every year on this contribution, leading in theory to "pay tax now on what you will benefit years later".

**Recommendation**

- Threshold of PKR 150,000 be abolished
**B. SALES TAX**

10. **Reduction in Sales Tax rates**

The Sales tax rate in Pakistan, at 17%, is the highest in Asia. Our analysis shows an average of less than 12% in Asia, with a range of 6% to 17%.

Moreover different Sales Tax regimes and Sales Tax on Services rates within the country lead to a number issues for business organizations operating all over the country.

**Recommendation**

- Different rates of Sales Tax on goods and Services i.e. standard, reduced, specified etc. prevailing in the country lead to a number of issues for business organizations operating all over the country. In order to harmonize and reduce the standard tax rate, it is proposed that all sales tax rates (both federal and provincial), should also be reduced to 13 % and aligned with the Sindh sales tax on services. This should be followed by a study of the rates in the regional countries, with comparable economic parameters, to ensure sales tax rates are competitive. Our analysis shows an average of less than 12% in Asia, with a range of 6% to 17%.

11. **Input sales tax be allowed to Sales Tax Registered Persons on Building Material, Office Equipment, Furniture & Fixtures, Vehicles & their parts, etc. used for taxable activity purposes**

Input sales tax restricted under section 8(1)(h) & (i) and SRO 490(I)/2004 has increased the cost of doing business for all documented sectors, and encourages procurement from un-registered sector whereby 17% sales tax cost is mitigated with only 1% sales tax withholding.

**Recommendation**

- Sub-Section (1)(h) and (i) of section 8 should be deleted.
- SRO 490(I)/2004 which is in contradiction with section 8 should also be rescinded.

12. **Sales Tax be applied at the time of delivery, instead of Earlier of Receipt of Payment or Delivery of Goods**

Prior to amendment made in ST section 2(44) of the Sales Tax Act, 1990, vide Finance Act, 2013, Sales tax was levied at the time of actual delivery of goods regardless of time of payment. Application of sales tax on advances causes serious operational issues and also leads to unnecessary reconciliations resulting in hardships to taxpayers.

**Recommendation**

- Sales tax be applied either at the time of delivery or sale of goods, rather than earlier of receipt or delivery.

**Rationale or Benefit**

The taxpayers are facing hardships with respect to extra documentation, discrepancies in FBR web portal, absence of any mechanism of debit/credit notes for advances and unnecessary reconciliations for tax audits and other practical difficulties.

13. **Zero rating for Milk & Milk Based Products**

Through Finance Act 2015-16, sales tax zero rating status has been abolished on dairy products and exempt/reduced rated regime has been imposed on such goods.
Recommendation

- The tax structure prior to the Finance Act 2015-16, be restored and dairy products be included in the 5th schedule of the Sales Tax Act 1990 for Zero Rating facility for the dairy sector, for continuous growth and availability of good quality products to the consumer at an affordable cost through the tax compliant sector.

14. Withholding sales tax on purchases made by Government departments/ bodies/ authorities or unregistered taxpayers, etc. from registered sales tax persons being active taxpayer should also be exempted.

Recommendation

- After implementation ‘STRIVE‘ from July 2016 onwards, no mismatch arises between input and output tax for transactions with registered sales tax persons. Therefore, withholding sales tax on purchases made by Government departments/ bodies/ authorities or unregistered taxpayers, etc. from registered sales tax persons being active taxpayer is only creating hassles and unnecessary documentation for tax payers.

Rationale or Benefit

The sales tax registered taxpayers dealing with GoP departments / authorities are suffering as GoP departments are not making withholding sales tax payments through FBR web-portal system and FBR does not allow any manual entry of such withholding sales tax. This is only creating hardships for registered persons dealing with Government and Unregistered persons liable to deduct sales tax e.g. Leasing Cos, Modarbas, Govt. autonomous bodies, non-profit organizations.

15. Sales Tax Consolidation of different SRO in the Sales Tax Act

Sales tax SRO’s are issued so frequently that it is very difficult to keep oneself updated with respect of different SRO’s and it’s also difficult to identify the current applicable SRO.s

Recommendation

- All active SRO’s should be made part of the Act. Subsequently in every budget, SRO’s issued during the previous year, should also be made part of the Act.

16. Procedural changes at FBR web-portal for Sales Tax

Recommendation

- To accept input tax uploaded by vendors, taxpayers have to select manually each invoice online and where such invoices are in thousands of number, it takes unnecessary time and effort. As there is an option to download file, an option to upload file to accept input tax should also be made available.

- ATL list of sales tax registered persons shall be made available at web-portal to verify status for claim of input sales tax and withholding.

- A separate category for Advance sales tax invoice be introduced at Strive (FBR web-portal) to bifurcate sales tax on Advances and Sales. Further to allow Credit / Debit notes against Advances, older than 180 days, in accordance with STGO No. 1 of 2006.

- Return and Annexures filed at FBR web-portal shall be available for download in MS Excel format, to ease reference, verification and reconciliation by taxpayers.

In addition to dependency on vendors to pay output tax to claim input tax adjustment, dependency on customers to accept credit notes increases the cost of doing business as most of the customers operating from interior/rural areas are not as responsive to these procedural
changes. Credit notes be allowed without condition of acceptance from customers. Moreover, credit notes are allowed provisionally in the first month are subsequently stands disallowed in the second month if not accepted by customer, and again allowed when it is accepted by customer may be in third month resulting in complex reconciliations specially when number of transactions are huge.

17. **Section 8-B in Sales Tax Act, 1990 should be abolished for registered manufacturers.**

As per section 8-B a company is not allowed to adjust input tax in excess of 90% of the output tax for that period in the Sales Tax Act, 1990.

**Recommendation**

- Section 8B of the Sales Tax Act, 1990 should be abolished for registered manufacturers.

**Rationale or Benefit**

Improve the cash flows of the businesses of sales tax registered manufacturers, avoid sales tax unnecessary refunds and reduce cost of doing business.

18. **Sales Tax Exemption to Hospitals:**

Under clause 52A of 6th Schedule to the Sales Tax Act 1990, Goods supplied to hospitals run by the Federal or Provincial Governments or charitable operating hospitals of fifty beds or more or the teaching hospitals of statutory universities of two hundred or more beds are exempt from sales tax. This clause hurt to the companies who are working under regulated scenario like oil, gas and electricity and prices of their goods are fixed by the Federal Government. The provisions of Sales Tax Act 1990 does not allowed input tax adjustment against exempt supplies as input tax adjustment is only claimable against taxable supplies. Therefore, if supply electricity is made to hospitals exempt from sales tax, the power suppliers have to bear the cost of input tax disallowance which is not commercially viable for the companies working under regulated scenario. Many of the hospitals approach us to supply electricity without charging of sales tax and resist in paying sales tax on supply of electricity.

**Recommendation**

- The following proviso should be added in the above clause:
- Provided that this clause shall not be applicable on supply of goods by sectors whose selling prices are regulated by the government.
- Sales tax on supplies made to aforementioned bodies be made zero-rated so that seller is able to claim input tax adjustment against those supplies to make the sales competitive.
C. CUSTOM DUTY

19. Tariff Rationalization

Recommendation

Elimination of additional custom duty and regulatory duty on essential raw materials, which are either not locally available or in limited supply, used for local manufacturing.

Tax rates and customs duty be rationalized on the attached sector wise list of HS codes. (Annexure I).

20. Bring Illicit Trade into tax ambit

On the basis of survey conducted by OICCI amongst its members, losses to the government exchequer due to Illicit trade (business in products which are either smuggled, counterfeit, under-invoiced imports, sold by unregistered manufacturer/seller, etc.) is estimated at PKR 200 billion (tobacco alone estimated at PKR 63 billion only).

I. Control the Afghan Transit Trade:

- Harmonize duty and tax rates to remove the incentive for evasion.
- Fix quantitative limits for imports based on genuine Afghan needs and size of population.
- Establish a basis of collecting duty/taxes at the point of entry into Pakistan for the account of the Afghanistan Government
- Fix import value in consultation with the brand owner in Pakistan.
- Customs procedures and Cross-border rules should be published for transparency.
- Containers coming back from Afghanistan should be checked by customs.
- There should be a negative list of items which are not utilized in Afghanistan; yet are imported and make their way into Pakistan.
- Streamlining of border crossing procedures on financial guarantee by banks and anti-corruption measures.
- Export to Afghanistan be facilitated with simplified procedure by FBR and border control authorities.

II. Introduce stringent controls for illicit trade:

- Introduce tighter penalties for illicit trade across categories, including criminal liability across the value chain, including retailers, distributors and manufacturers
- Introduce a special division/ task force to raid retailers and manufacturers to confiscate and destroy illicit stocks
- Launch a media campaign to increase awareness in consumers of the harms of illicit products and discourage them from purchasing such products
III. **Structural Reforms in Customs:**

- Do a thorough review of the custom regime, in consultation with brand owners, to address issues of counterfeiting, smuggling, and rationalization of duty structure and fixing of import Tariff prices.
- Custom valuation should be done on modern lines through online search and matching international and regional pricing and taking local legal importers of items on board.
- IPR (Intellectual Property Rights) laws implementation in Pakistan need to be strengthened. Special IPR tribunals may be formed for speedy trials leading towards IPR compliance at par with international standards of IPR enforceability.
- Unauthorized imports of counterfeit products should be effectively checked through registration of brands with the custom authorities in coordination with the original brand owner/registered in Pakistan.
- Valuation rulings should be issued in consultation with the owner of the brand or its authorized representative.
- The data of import should be public (restrictively) to ensure transparency and this will also help in taking over of goods under section 25A of the Custom Act, 1969.
D. EXPORTERS’ FACILITATION SCHEMES

21. Facility of Duty Free Imports under Duty and Tax Remission on Exports (DTRE)

DTRE scheme is available for exporters under rule 297 of Customs Rules, 2001. This facility has been helpful for different export-oriented sectors since its inception; however, it has not been friendly for exports to Afghanistan and central Asian countries due to some stringent provisions laid down in rule 307 of customs rules, 2001. DTRE facility in case of exports to Afghanistan and central Asian countries is only available against advance receipts or irrevocable LC by importer. These conditions are not applicable for exporters interested in exports to other than aforementioned countries.

Recommendation

The current restriction of DTRE approval based on availability of advance receipts or irrevocable LC in case of exports to Afghanistan and central Asian countries needs to be eliminated to bring uniformity in DTRE rules. Realization of export proceeds should become part of verification stage i.e. Audit, instead of pre approvals.

Rationale or Benefit

Due to weak foreclosure laws in Afghanistan it is impossible to push customers in Afghanistan to import against LC’s or to provide hefty advances for longer time period. The stringent and unique conditions imposed for exports in this region results in a loss of huge potential to boost exports. Our proposal is to bring uniformity in DTRE scheme across all countries thereby providing incentives to exporters to explore potential in neighboring countries where we have competitive advantage.

22. Export Customs Duty-Draw Back

Refund (draw-back) of customs duty is available on export of certain locally manufactured goods out of Pakistan vide SRO 212(I)/2009 dated March 5, 2009. The draw-back is calculated as a percentage of value of the exported goods. Currently the duty-draw back rates provided in this SRO are not sufficient to cover 100% import duty paid on import of corresponding raw materials.

Recommendation

Ideally, duty-draw back rate should be set to off-set 100% of the import duty paid on import of corresponding raw material. It is suggested to review and accordingly revise the rates of custom duty-draw back.

Rationale or Benefit

It will reduce cost of doing business and boost exports while making local exporters more competitive in international markets.

23. 100% Export Rebate for Vegetable Ghee, Margarine etc.

Under SRO 212 (1)/2009 of Customs Act and SRO 993 OF 2006 of S.T Act, duties are repaid to a certain extent on the export of vegetable ghee, edible soft oil and margarine which does not compensate the actual duties paid at import stage. This results in non-competitiveness of Pakistani manufacturers in export markets.

Recommendation

- 100% rebate should be allowed against Custom Duty & FED on exports to help Pakistani product become price competitive with Malaysian and Indonesian products in export market especially in Afghanistan.

Rationale or Benefit

Malaysian & Indonesian Products are imported by Afghanistan using Pakistan port and infrastructure, and they are cheaper than what is produced in Pakistan due to non-availability of 100% duty & taxes rebate. Allowing full rebate will enhance exports to Afghanistan.
The significant drop of Foreign Direct Investment (FDI) into the country in recent years has been alarming. Therefore, in addition to the various other policies which impacts FDI, a review should be made of tax policies impacting perception of foreign investors’ regarding the business environment of Pakistan.

This section includes recommendations on broadening the tax base, rationalization of tax laws and tax rates to improve the existing taxation system and administration. These measures and policies, if appropriately adopted, will help in improving Pakistan’s, otherwise dismal, rating in the World Bank’s “Ease of Doing Business” (147 out of 190 in 2017), improve the business climate and attract new Foreign Direct Investment into the country.

24. Reduce the number of Payments and filing frequencies

The large number of payments and 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 a taxpayer. This is also a key factor in Pakistan’s poor rating in the World Bank – Ease of Doing Business ‘Paying Taxes’ parameter. Frequency of payments and return filings should be reduced as per the recommendations below:

<table>
<thead>
<tr>
<th>Name of authority</th>
<th>Name/Nature of Payment</th>
<th>Frequency of Payment</th>
<th>Total Annual Frequency</th>
<th>Suggested Payment and Frequency</th>
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<tr>
<td>FBR</td>
<td>Income Tax Return</td>
<td>Yearly</td>
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</tr>
<tr>
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<td>Income Tax - withholding payments</td>
<td>Weekly</td>
<td>52</td>
<td>Monthly</td>
</tr>
<tr>
<td>FBR</td>
<td>Income Tax - Advance Tax</td>
<td>Quarterly</td>
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<tr>
<td>FBR</td>
<td>Sales Tax</td>
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<td>Monthly</td>
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<tr>
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<tr>
<td>FBR/ SRB/PRA</td>
<td>WPPF - Undistributed amount</td>
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<tr>
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<td>EOBI</td>
<td>Monthly</td>
<td>12</td>
<td>4</td>
</tr>
</tbody>
</table>

25. Delay and procedural hassles in Processing of Outstanding Refunds

Protracted delays in settlement of tax refunds is one of the biggest contributor in distorting the commercial image of Pakistan in all the Perception and Ease of Doing Business Surveys and, possibly one of the factors negatively impacting inflow of FDI in the country. This has been regularly pointed out at the relevant forums, including to the Prime Minister and Minister of Finance.

Recommendation:

- Currently pending tax refund be cleared within next six months in an orderly/prearranged manner. All subsequent tax refunds be cleared within 45 days.
- Inter adjustment of Income tax and Sales tax refunds should be made part of the law.
Federal Tax Ombudsman should be entrusted to settle all the disputed claims of taxpayers.

A timely settlement of the determined refunds should be made, and if there is a liquidity issue then issuing marketable Government bonds/securities.

**Rationale or Benefit**

It may be noted that foreign investors have identified long delays in refund processing amongst the major irritants in aspects of doing business in Pakistan in the last three consecutive Perception surveys of OICCI done in 2011, 2013, 2015 and 2017. This matter has also contributed to the very poor ranking of Pakistan in the World Bank Survey Report on “Ease of Doing Business”.

If Pakistan has to attract the FDI in Pakistan, then ease of doing business should be its priority and undue holding of refunds is a major contributor to the negative perception.

### 26. Coordination between Federal and Provincial Legislations:

- Synchronization of Sales tax rates and policies need to be harmonized across all jurisdiction and sectors and should be closely aligned with the regional benchmark of 12% sales tax rate.

- The Federal WWF & WPPF law should be updated based on the recent apex court’s judgements, provincial enactments and current minimum wage levels. Currently neither the FBR nor the provincial revenue authorities, like PRA, SRB, are receiving the complete revenue stream under these heads.

- One authority to collect all types of federal and provincial taxes for onward transmission to respected revenue authorities within the country without burdening the respective business entities. Single sales tax return should be filed with FBR instead of separate sales tax returns for each Province.

- The provincial taxes should be consolidated specially the labor levies e.g. E Obi/SESSI/WPPF/WWF as mentioned above.

- Controversies arising as to jurisdiction of authority to charge and collect tax on certain services should be resolved.

- Special attention be given to tax implication arising on emerging e-business models and asset-free web service providers who acts as coordinator between supplier and buyer. Mechanism for sales tax and income tax application for such models should be in place to promote the industry.

### 27. Integration of tax authorities

Presently tax collection / administration has been split between various authorities at Federal/ Provincial level and even small size taxpayers have to deal with more than one tax collecting authority. Tax compliances for businesses has increased after 18th amendment which has also deteriorated Pakistan’s rating in terms of paying taxes over the years. While the tax policies will be developed at provincial and Federal level separately, steps should be taken to ensure tax administration and collection through one authority. This will provide a holistic view to the tax authority on the tax matters whereas simplify the compliance process for taxpayers as well, we suggest below recommendations to achieve this objective;

- Integration of tax data should be ensured at all levels through one return including Federal and Provincial, STRIVE should be implemented at provincial level also and FBR should allow integration with Federal return.

- Departure from VAT mode of taxation should be extremely discouraged at all levels.
• FBR system should be upgraded and all taxes withheld should be auto populated in the portal to the credit of the beneficiary. This will simplify:
  a) The reconciliations carried out at the taxpayer’s / FBR’s level,
  b) Simplify the tax return submission process.
  c) Enhance system based auditing capability of FBR while providing opportunity of self-verification to the beneficiaries and quick tracking of the non-filers.

The data is already available with FBR and it just needs to be available to taxpayers with an upgradation of the system.

28. Tax appellate system

There is an immediate need of independent tax appellate system to boost taxpayer’s confidence and discourage irrational assessments by the tax authority driven by revenue collection targets. Due to immense delays in conclusion of disputes by the appellate authorities and fear of financial exposure arising from recovery proceedings by FBR, taxpayers have to resort to the High court to cover their financial exposure. The first appellate authority Commissioner Appeals come under the direct administrative control of FBR whereas the second appellate authority Appellate Tribunal Inland Revenue comes under the administrative control of the Ministry of Law.

There is a need of major reforms in the tax appellate process to expedite resolution and ensure fairness in the process which can be initiated by following the below recommendations;

• Tax appellate forums should come under the direct supervision of High courts and should be independent of FBR.
• Professional Tax adjudicators should be appointed in the process with clear tasks of rapid disposal of cases.
• Recovery proceedings should not be initiated until tax assessments have passed at least one independent forum.

29. Restructuring of FBR as an Independent Governing Body

• FBR should be made an autonomous body on similar lines as State Bank of Pakistan, SECP, and Internal Revenue Services (IRS) of United States.

• FBR should operate and work in a corporate governance structure with a Board of Directors, vested with powers like that of the Boards of Public listed companies. The Chairman of FBR and fifty percent of the Board members may be nominated by the government (Ministries of Finance, Law, and Commerce) and, the remaining fifty percent Board members should be nominated by bodies like OICCI, PBC and ICAP.

• A transparent accountability system in tax administration should be introduced, and reasonable independence and empowerment given to various operational positions.

• The external audit of FBR should be done annually, by an independent international audit firm whose report should be presented and fully discussed in in the Tax Policy Board meeting. There should also an Internal Audit function within the FBR for an effective ongoing internal audit reporting directly to the independent members of the Board nominated by the Trade bodies.

• Apart from revenue collection a key function of the FBR should be to address coordination issues between federal and provincial revenue authorities, with monthly meetings to ensure ease of doing business for tax payers.
30. Computerized Payment Receipts [CPRs] of withholding tax under section 153(1) (a) for sales made to Government Organizations, Institutions and NPOs.

- It is recommended that FBR should allow such manual challans as sufficient proof of tax withheld at source. Alternatively, a proper mechanism may be devised by FBR to be followed by such withholding agents to avoid problem on taxpayer's part for claiming such taxes or to get such taxes 'verified' from FBR's end.
F. DOCUMENTATION AND BROADENING OF TAX BASE

Legislation should be designed to ensure that all income earners pay taxes equitably, including on income from agriculture related activities and all kinds of government and banks saving schemes.

31. All income earners should get themselves registered and obtain proper NTN

- FBR should urgently implement the recommendations of the Tax Reforms Commission (TRC) and also hold regular round table conferences with leading tax and legal experts to review existing laws for increasing the number of tax payers and taxable entities.
- Tax authorities should make better/effective utilization of NADRA database and other documented sources to ensure that all income earners are NTN holders and “Filers”, with submission of annual income tax/ wealth returns and wealth reconciliation statements.
- Adjustable 1% annual tax be levied on all asset holders, whether filers or non-filers, irrespective of source of income.
- FBR and SBP to devise a framework to ensure all customers of financial institutions whose account shows turnover in excess of PKR two million or more during the year, have filed a tax return and wealth statement. This could be done by the financial institutions simply notifying names/CNIC numbers of such customers to FBR without giving access to bank accounts.
- Art exhibition halls, hospitals where doctors practice, hotels and other public places holding large receptions for fashion houses & designers, sale of branded/designer dresses, airlines, travel agencies, etc should provide names and addresses of the respective persons involved in these business activities to the FBR on a quarterly basis.
- Once the FBR receives the above information, it should be pro-active and pursue potential tax payers by sending them income tax return forms requiring them to file tax returns – rather than waiting for the tax returns to be filed.
- ‘The Protection of Economic Reforms Act’, 1992, which has been amended in 2018, should be further reviewed to curb the practice of remitting undeclared income through unofficial channels outside Pakistan and the same being brought into Pakistan through banking channels in Foreign Exchange, thereby “whitening” the unexplained money at a minimal cost.
- Section 111(4) of the Income Tax Ordinance, which has also been amended in 2018, should be further reviewed to restrict tax free inward foreign remittances to immediate family members only.
- Eliminate culture of Amnesty Schemes as it discourages the honest tax payers.
- Severe, and visible, penalties should be levied to punish tax evaders, starting with evasions of over Rs one million.
- As Pakistan is a signatory to the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, which became operational from September 2018, regular coordination should be done with relevant authorities of countries, considered as tax heavens for stashing away illegal wealth, for information sharing.
- Appropriate laws should be made to enable the government to seize local assets, in equivalent value, or levy appropriate taxes, if any person holds any kind of assets outside the country for which source of income could not be established.
32. Introduction of books of account and cash registers

The FBR does not have any proper shop-wise record of approximately 35 million SMEs, which are mostly sole proprietorship or partnerships, despite the fact that jurisdictions within the tax offices are location centric, especially for small and medium sized businesses.

- It should be made mandatory for all businesses to maintain books of account and taxes should be levied on ‘net income’ basis only.
- Registration of all retail outlets and electronic cash registers should be made mandatory without any turnover thresholds, which gives rise to tax evasion. The installation of these registers should be inspected regularly by tax inspectors.
- FBR should engage with representatives of small manufacturers, wholesalers and retailers and ensure their buy-in for introduction of these documentation measures so that the previous back-tracking on these actions is not repeated.
- The book keeping requirements /outline be regularly upgraded considering the best practices learnt from other neighboring countries in the region with similar business infra-structure.

33. Eliminate legally permissible ‘Parking Lots’ for Untaxed Funds:

- Defective mode and manner of valuation of immovable properties to be addressed. Registration of sale and purchase of real estate should only be on fair market value at the time of the transaction. Necessary information on market value of real estate can be easily obtained.
- Sale of all kinds of bearer securities, prize bonds, and other such items should be stopped.
- Appropriate restrictions should be imposed on the hoarding of foreign currencies.
- High denomination currency notes should be demonetized.

34. Introduce accountability in tax administration

- Taking strong action and making a few examples through strong accountability should address issue of corruption in tax administration.
- Effectiveness of internal control processes in FBR should be ensured by the establishment of an internal monitoring board comprising of professionals and business executives to oversee the transparency in FBR, which should report to the FBR Board of Directors.
- The performance of the tax collectors should not be judged solely on the basis of tax collected, but their efforts on documentation and broadening side should be appreciated and rewarded.

35. Filers and Non-Filers

- With respect to broadening of tax net, we understand that different treatments for filers and non-filers are helping in increasing return filers. This treatment should be extended further e.g. Lower taxes should be charged to filers on plane tickets, vehicle taxes and utility bills etc. and, correspondingly, higher withholding taxes should be levied on non-filers.
- Additional preferential treatments to filers may also help – e.g. filers should be given early utility connections etc.
Currently Fertilizer manufacturers collect Advance withholding tax from their dealers @ 1.4% for Non-filers and 0.7% for filers, of the price of fertilizers supplied to these dealers. At current prices this difference is approximately Rs.12 per bag. Rate differential should be further widened to encourage more dealers to get themselves registered.

36. Exemption on Agriculture income and others should be withdrawn [IT section 41 be amended]

The GDP includes some sectors which are exempt from Income Tax. The biggest exempted sector is agriculture which does not make any contribution to the national exchequer, despite the fact that over 65% of Pakistan’s population is directly or indirectly linked with the agricultural sector. The original rationale of keeping agriculture out of tax net was to facilitate the small agriculturists. However due to non-implementation of land reforms the benefit of the tax exemption is being availed by big landowners earning huge incomes. Unscrupulous elements also transfer their income and wealth to businesses fronting as agriculture sector.

Recommendations

- Exemption given to agriculture income should be withdrawn and agriculturists should file income tax returns and wealth statements.
- Suitable provisions should be incorporated in the Income Tax Ordinance to enable tax authorities to implement the requirement of filing of income tax returns and wealth statements, effectively.
- All incomes should be taxed and as a general rule exemptions be given only for attracting FDI and for under privileged and poor sections of society or, in exceptional circumstances, as motivation to encourage the registration of individuals and all legal entities.

Rationale or Benefit

i. This will ensure a level playing field for all income earners

ii. It will eliminate the incidence of income earners from other sectors parking their wealth and income in agriculture sector to avoid taxes.

iii. Documentation of all financial transactions will substantially reduce the size of the black economy and consequentially expand the documented economy leading to improved decision making for economic planning.

37. Incentive for Timely Filing of Tax Returns by Individuals including non-salaried class [a new clause under part III of the 2nd schedule]

- Tax rebate @2% of tax liability should be given to all persons for filing return of Income with Wealth statement within the due date, given in the IT Ordinance, to encourage and promote return filing culture.
- The salary class should be given rebate of 5% on medical expenses if paid to tax registered persons through normal banking channels, to enhance documentation of economy.
INDUSTRY SPECIFIC PROPOSALS

This section comprises of sector specific proposals identifying issues faced by different industrial sectors. These recommendations have important ramifications for OICCI members in the respective industries and require urgent attention of Federal Board of Revenue, Ministry of Finance and Ministry of Commerce and Industries for improvement.

A. AUTOMOBILES

38. Reduction in Minimum tax u/s 113 for Authorized Dealers of vehicle manufacturers and Exemption of Withholding tax u/s 231B on sale to dealers

Turnover Tax @ 1.25% u/s 113 and withholding tax @ 4%/4.5% u/s 153 hampers efforts to pioneer automotive industry towards wholesale-retail mechanism, as applied internationally, in sale of vehicles through its authorized dealers. Under existing mechanism, dealers are normally earning commission of around 2% of sales price, which is subject to withholding income tax @ 12% falling under final tax regime (i.e. Effective tax rate up to 0.24% of the sales price).

Recommendation

- Reduce Minimum tax u/s 113 of the Income Tax Ordinance, 2001, from 1.25% to 0.25% on turnover of authorized dealers of vehicle manufacturers, as being allowed to Motorcycle dealers, distributors of FMCG, Pharmaceutical, Fertilizers, etc.;
- Withholding income tax u/s 231B be exempted on sale of vehicles by manufacturers to their authorized dealers to effectively implement wholesale-retail mechanism.

Rationale or Benefit

Wholesale-retail mechanism may be implemented, as applicable internationally, which will improve volumes on account of stock availability and healthy competition. Further, contribution to the Government will also increase with increased volume.

Income of dealers will be subject to normal taxation that will be subject to return filing and tax audits. This will also enhance documentation and increase tax base. Value addition by authorized dealers will be subject to taxation and tax to income ratio will increase.

39. Withholding income tax under section 231B by Motor Registration Authorities

Recommendation

- Withholding income tax u/s 231B on locally manufactured vehicles should be collected by the motor registration authorities, instead of vehicle manufacturers, as being collected for imported vehicles, to reduce procedural hassles to consumers.
- Additional advance income tax be collected at Rs 100,000, for all types of private motor vehicles categories, in case the vehicle is purchased by a person and sold before registration.
- Secondly, in case any vehicle is transferred within 6 months from date of first registration, advance income tax currently being collected at the time of transfer of registration or ownership under sub-section (2) of section 231B, shall be increased to the rates applicable for new vehicles under sub-section (1) of section 231B.

Rationale or Benefit

Collection of withholding income tax u/s 231B be streamlined and data will be reconciled at one level, on collection at registration stage by Excise and Taxation department of respective Provinces. Additional Advance tax will discourage sale and purchase of vehicles in market at premium before and after certain period of registration stage.
40. Effective Tax of Banking Sector

The banking sector tax rates have not been reduced in line with the general corporate tax rates. Furthermore, Finance Supplementary (Second Amendment) Bill 2019, proposes to again amend the First Schedule to the Income Tax Ordinance 2001, whereby, Super Tax of 4% is applicable on banks from tax year 2018 to tax year 2021. The Banks, in compliance with the prevailing taxation regime have already closed the tax year 2018 (accounting year 2017) and income tax returns have already been duly filed/assessed. As a result of the proposed abovementioned retrospective application from tax year 2018 (Accounting year 2017), banks would now have to effectively pay super tax for two years or 8% instead of 4% in tax year 2019 i.e. 4% already paid in advance for tax year 2019 along with retrospective charge of 4% now being proposed for tax year 2018.

Recommendation

- The tax rates of the banking sector should be aligned with other sectors.
- It is recommended, application of super tax on tax year 2018 should be removed to avoid the double charge of super tax in tax year 2019. Furthermore, it is requested that the same overall relief on super tax, granted to other industries, is also provided to the banking sector as well.

41. Restoration of the Original Provisions Related To Bad Debts – Rule (1)(d) of Seventh Schedule

As per Seventh Schedule of Income Tax Ordinance, 2001 the amount of “bad debts” classified as “sub-standard” under the prudential regulations issued by the State Bank of Pakistan shall not be allowed as expense.

Recommendation

- The original provision of the Seventh Schedule should be restored whereby provision for bad debts falling under all three categories i.e. “sub-standard”, “doubtful” and “loss” as per the Prudential Regulations of SBP was allowable as a tax deduction to the banks.

Rationale or Benefit

- All bad debts are recognized as per prudential regulations and part of the banking business and therefore, should be allowed as expense.

42. Increase In Threshold For Bad Debts Allowance For Banks – Seventh Schedule:

Schedule 7 of the Income Tax Ordinance, 2001 restricts the allowability of advances other than consumer and SMEs up to a maximum of 1% of total advances.

The threshold and applicability needs to be revisited with respect to:

- Clarification whether the application of above threshold be applied on gross advances or net advances.
- Capping to 1% threshold, which is very low considering the size, mix and type of advances portfolio

Recommendation

- Explanation in law should be provided that 1% threshold is applicable on gross advances
- Threshold to be increased to 2% of the total advances as compared to 1%.

Rationale or Benefit

This will standardize bad debt treatment in returns and assessments thereby reducing the need to appeal/litigate or have difference of opinions.
OICCI TAXATION PROPOSALS (2019 – 2020)

43. Deductible Allowance For Profit On Debt Under Section 60C:
As per Section 60C of Income Tax Ordinance, 2001 an individual can claim deductible allowance up to two million rupees on Mark-up paid against a house loan.

Recommendation

- To commensurate with increase in mark-up rates due to increase in discount rates, increase in housing prices in recent years and to promote mortgage loans, this threshold limit of two million rupees should be increased to at least three million rupees.

Rationale or Benefit

- A higher deductible allowance will encourage availing of mortgage loans and promote the housing sector of Pakistan.

44. Payment Of Tax Collected Or Deducted Under Section 160 Of Income Tax Ordinance, 2001:
As per section 160 of Income Tax Ordinance, 2001 read with Rule 43 of the Income Tax Rules, 2002, whereby, withholding tax amount is required to be deposited within 7 days from the end of each week ending on every Sunday.

Recommendation

- The timeline for the deposit of withholding tax should be restored to 7 days from the end of each fortnight as per earlier SRO 641(I)(2005).

Rationale or Benefit

This increase in time will allow a withholding agent to better manage the end to end administrative process and bring operational efficiencies thereby promoting ease of doing business for a withholding agent.

45. Provisions of Ordinance to apply [7th Schedule Rule (9)]
According to Rule 9 of Seventh Schedule to the ITO, 2001, “the provisions of the Ordinance not specifically dealt with in the aforesaid rules shall apply, mutatis mutandis, to the banking company”. For computation of tax liability, adjustments should only be made under Rule 1(a) to 1(h) and beyond that no addition should be made. Under cover of Rule 9, the tax department make adjustments beyond scope of 7th Schedule.

Recommendation

- This rule should be deleted as no such rule exists in 4th and 5th schedules for insurance and oil exploration companies; which is a discriminatory treatment with banks.

46. Islamic modes of financing [7th Schedule Rule (3)]
Rules for the computation of the profits and gains of a banking company and tax payable thereon.

Rule 3: Treatment for Shariah compliant banking—

- Any special treatment for “Shariah Compliant Banking” approved by the State Bank of Pakistan shall not be provided for any reduction or addition to income and tax liability for the said “Shariah Compliant Banking” as computed in the manner laid down in this schedule.
- A statement, certified by the auditors of the bank, shall be attached to the return of income to disclose the comparative position of transaction as per Islamic mode of financing and as per normal accounting principles. Adjustment to the income of the company on this account shall be made according to the accounting income for purpose of this schedule.

Recommendation

- New legislation to be drafted to provide neutrality in the light of below:
- The audited financial statements of Islamic Banks as well as those of Islamic banking operations of conventional banks provided separately in the audited financial
statements of conventional banks and submitted to the State Bank of Pakistan shall form the basis for the calculation of income tax liability as provided in this Schedule.

Rationale or Benefit

**Tax Neutrality Treatment**

The objective of Rule 3 of 7th Schedule was to provide tax neutral treatment to IBIs, however, it is difficult to meet the condition of Sub-Rule (2) of Rule 3, keeping in view the diversified nature of Islamic banking transactions and equating each transaction to a conventional equivalence and then getting it certified by the auditor which is time consuming and costly for Islamic Banking Institutions. Moreover, it does not give space for differentiated transactions as each transaction from Income Tax purpose has to be equated with a conventional transaction.

It is thus proposed that the audited financial statements of Islamic Banks as well as those of Islamic Banking branches/windows operations of conventional banks provided separately in the audited financial statements of conventional banks submitted to the State Bank of Pakistan should be taken as basis of calculation for income tax with additions and deductions as provided in the Seventh Schedule to the Income Tax Ordinance, 2001 which is applicable to the entire banking industry in Pakistan.

**47. Payment of Advance Tax**

Through SRO 561(I)/2012 dated May 24, 2012, the right of the banks to file estimate of lower tax liability for the purpose of payment of advance tax under section 147(6) has been withdrawn. Due to this banks could end up paying more advance tax as compared to actual tax charge.

**Recommendation**

- SRO 561(I)/2012 should be deleted to restore original provision of advance income tax through which banks can file lower estimates. It is further proposed that payment period should also be made the same as applicable to other companies i.e. on quarterly basis.

**Rationale or Benefit**

Amendment in law through SRO 561(I)/2012 has deprived banks from their right of filing estimate of lower tax liability which is available to all other categories of the taxpayer. There is no rational basis for this different treatment for banks and non-banks.
C. CHEMICAL/ PESTICIDES/ FERTILIZERS/ PAINTS/ CEMENT

48. Final Tax at Import Stage for Fertilizer manufacturers

Section 148 (7) (b) of the Income Tax Ordinance omitted by Finance Act, 2017 – allowed adjustability of tax deducted at import stage for fertilizer imported by a fertilizer manufacturer.

As a result, the tax deducted at source on such fertilizers becomes Final tax, which makes it difficult for the manufacturers to make available important fertilizers such as Phosphates to the farmer at an affordable price.

Recommendation

- Clause b of Section 148(7) as deleted by the Finance Act, 2017 should be restated, which read as follows:

  148(7)b fertilizer by manufacturer of fertilizer

Rationale or Benefit

The Final Tax regime was originally intended towards unorganized sector to improve documentation and collection of taxes. The fertilizer manufacturers are already in the organized sector and come under large tax payers. Hence, bringing such tax payers under the ambit of Final Tax Regime goes against the original spirit of FTR. Also, even after the proposed amendment, the manufacturers would be paying tax on such imports on NTR basis.

49. Exemption under Clause 42 of Part IV of Second Schedule to the Terminal Operators

(42) The provisions of sub-section 3 of section 153 shall not apply in respect of payments received by a resident person for providing services by way of operation of container or chemical or oil terminal at a sea-port in Pakistan or of an infrastructure project covered by the Government's Investment Policy, 1997.

Recommendation

- Exemption under Clause 42 read with section 153(3) of the ITO, 2001 be available to all terminals without discrimination. The said clause be re-worded as follows:

  "(42) The provisions of sub-section 3 of section 153 shall not apply in respect of payments received by a resident person for providing services by way of operation of terminal(s) at a sea-port in Pakistan or of an infrastructure project covered by the Government's Investment Policy, 1997."

Rationale or Benefit

Exemptions available under Clause 42 should be available to all terminal operators without any discrimination.

50. Section 3 (2)(b) / Section 4 (d) of the Sales Tax Act, 1990

Recommendation

- To reduce / zero -rate sales tax on gas to the urea industry through exercise of powers u/s 4(d) or reduces the rate of sales tax on gas u/s 3(2)(b).

Rationale or Benefit

Through Finance Act 2017, rate of sales tax has been reduced on urea to 2%. The major input of the urea industry comprises of gas from the gas companies for production of urea, which remains to be subject to 5% for Feed and 17% for fuel. This has led to a perpetual sales tax refund position of the urea manufacturers, which is eventually leading to ever-increasing tied up working capital along with increased work-load on both the FBR & manufacturers’ end.
51. Sales Tax rate on raw material of Paints
Mushroom growth paint companies which are involved in tax evasion giving unfair competition to the organized sector

Recommendation

- Enforcement measures to be made more effective in consultation with OICCI members, who are established tax payers, to penalize tax evaders

Rationale or Benefit
Increased revenue collection for the government.

52. Section 13(1) of the Sales Tax Act, 1990
Agriculture sector has always been of utmost significance in the economic growth and development of Pakistan. To enhance agriculture productivity, the government announced a historic package in 2015 and 2016 in the form of subsidy on urea, reduction in prices of fertilizer and concessional electricity etc. Furthermore, through Finance Act 2016, certain pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971 previously covered under Eighth Schedule and taxable @ 7% were classified as exempt from sales tax under Sixth Schedule with effect from June 25, 2016.

Recommendation

- Input tax paid before exemption of sales tax on pesticides should be refunded without any further delay
- Sales tax on import and supply of fertilizers should also be withdrawn in line with sales tax on pesticides
- Customs duty on import of fungicides (Customs Tariff Heading 3808.9210) should be abolished

Rationale or Benefit
Input tax @ 7% along with value addition tax @ 3% paid on import of pesticides could not be claimed by the commercial importers after exemption from sales tax provided through Finance Act 2016. The same was not passed on to the farmers either, in order to provide relief from sales tax. Resultantly, the importers of pesticides have been over-burdened with additional cost in the form of unadjusted input tax which needs to be refunded without any further delay after verification of the tax so paid.

Exemption from sales tax on import and supply of fertilizers will streamline government’s price reduction measures. Similarly, zero percent custom duty on import of fungicides (3808.9210) will provide relief to the farmers and help improving agriculture sector performance.

53. Tax Relief on Import of the Micronutrients
To assist farmers, the current policy is that there is no import duty with lower sales tax for micro nutrients which are imported under Chapter 31 of Pakistan Customs Tariff. However, for micro nutrients imported either in Chapter 28 (raw materials) or Chapter 38 (processed), import duties and sales tax are high. The duty structure of the various chapters are given below:

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<td>Sales Tax</td>
<td>2%</td>
<td>Rs. 20,000</td>
<td>17%</td>
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Additional Sales Tax

<table>
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<tr>
<th></th>
<th>3%</th>
<th>Rs. 30,000</th>
<th>3%</th>
<th>Rs.33,900</th>
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<td>Rs. 57,750</td>
<td>5.50%</td>
<td>Rs.74,580</td>
<td>5.50%</td>
<td>Rs.67,320</td>
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<td>Notional amount</td>
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<td>Rs.107,750</td>
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<td>Rs.430,580</td>
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<td>Rs.291,320</td>
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<td>Effective charging rate</td>
<td>10.78%</td>
<td>43.06%</td>
<td>29.13%</td>
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</table>

**Recommendation**

- Make necessary amendments in the revenue regulation for implementation of same duty/GST structure for import of micronutrients, applicable for fertilizers.

**Rationale or Benefit**

This will give relief to farmers to help increase yields which ultimately contribute towards flourishing the agricultural industry.

### 54. Duty on MDI product family:

Customs PCT between, 2012-13 to 2016-17, based on HS Explanatory Notes 2012 Diphenylmethane-Di-Isocyanate (MDI), under PCT Code: 3824.9091 includes three different types. Namely:

(i) Polymeric MDI, (ii) Pure MDI, and (iii) Modified MDI

Custom duty under PCT Code 3823.9091 is 3% which is exempted under S.R.O. 659(I)/2007: FTA Benefit on China Origin.

As per the proposed HS Explanatory Notes 2017, this MDI product family splits in to different separate HS Codes.

i. Polymeric MDI: 3909.31 (other amino resins)
ii. Pure MDI: 2929.1000 (chemically single defined product)
iii. Modified MDI: 3909.5000 (Polyurethanes in Primary Form)

**Recommendation**

- There is a need to create new PCT Code of 3909.31 for Polymeric MDI having similar duty and taxes, as it is in 3824.9091 and also have the opportunity to avail FTA Benefit of 100% customs duty exemption as previously for Chinese origin product of PMDI.
- WCO amendments should not be implemented or imposed by DIT OR Customs Collectorate without prior approval of the Parliament.
- Need to implement HS 2017 in PCT 2017-18 and Pure MDI will be cleared in this heading as per global customs’ practice.
- There is a need to clear Modified MDI in 3909.5000 as per global customs’ practice.

**Rationale or Benefit**

PMDI is a basic industrial raw material and should have minimum CD like 3% with 100% FTA Benefit to exempt CD on imports from China. As the FTA benefit on the product or product description, which was in place when this PMDI was in 3824.9091 in HS 2012 and now in HS 2017, same practice should be followed. We should promote our local chemical industry instead of importing finished products.

It is mandatory to implement HS Code of 3909.5000 for Modified MDI as per HS 2017 even it was in HS 2012 as well. This will benefit our sports industry also as the importer will be able to avail SRO 1125(I)/2011 dated 31st December, 2011 benefit of Sales tax exemption. As exporter cum.
55. Zero Percent Custom Duty industrial Raw Material

Presently, all grades of Titanium dioxide TiO2 (HS Code 3206.1100) and all Silica range (Precipitated Silicas) are subject to custom duty.

Recommendation

- All grade of Titanium dioxide TiO2 and all Silica range (Precipitated Silicas) which are highly specialized grades, should be cleared at 0% custom duty.
- Further, basic Industrial raw materials which are not manufactured locally in Pakistan including Tri-Chlor, Trichloroethylene, Methylene Chloride, Perchloroethylene should be cleared at Zero percent customs duty.

Rationale or Benefit

These are basic industrial raw material and are not manufactured in Pakistan. Therefore, their import should be zero rated to promote our local chemical industry.
56. Current regulatory duty on lighting fittings with fixed / fitted LED under HS code 9405.1030 and 9405.4020 is 30% whereas on LED bulbs (HS code 8539.5010) and LED tubes (HS code 8539.5020) the same is 2%.

**Recommendation**
- Regulatory duty should be reduced on Lighting fittings with fixed / fitted LED under HS code 9405.1030 and 9405.4020 in alignment with LED bulbs and LED tubes.

**Rationale or Benefit**
Above proposal is for promotion of energy saving products which is an alternative solution to alleviate energy crises.

57. Taxation of Export of Services and Execution of Contracts outside Pakistan:

As per Clause (3) of Part II of second schedule of ITO, the rate of tax has been increased from 1% to 3.5% and 4% on account of execution of contract outside Pakistan and export of services respectively. This significant increase will adversely affect the export business of companies.

**Recommendation**
- The rate of tax needs to be reduced to 1%.

**Rationale or Benefit**
This significant increase is discouraging companies from investing in projects outside Pakistan and will also make them less competitive.
E. FAST MOVING CONSUMER GOODS

58. Aerated waters fall under third schedule of the Sales Tax Act, 1990 and under First Schedule of Federal Excise Act, 2005

‘Aerated waters’ is the only item within food and beverage industry that is subject to both sales tax (third schedule of the Sales Tax Act, 1990) and FED (First Schedule of Federal Excise Act, 2005), while all other beverages (like: Juices, Tea & Milk based drinks) are only subject to sales tax @ 17%. Earlier in 2011-12, FED rate was reduced from 12% to 6% with commitment that it shall be eliminated in 2 to 3 years but this was not implemented.

Recommendation
- The Federal Excise Duty (FED) should be decreased from 11.5% to 8.5%, and eliminated gradually.

59. Withholding Tax on Distributors of FMCG Companies

The distribution of fast moving consumer goods is a high turnover and low margin business. This fact has also been acknowledged to some extent by the Federal Board of Revenue by prescribing minimum taxation rate for the distributors of FMCG Companies at 0.2% of their turnover i.e. reducing the basic rate of minimum tax by 80%.

Recommendation
- The basic rate of withholding tax under section 153 for distributors of FMCG sector should be reduced to 0.2 % in line with section 113 of income tax ordinance, 2001

Rationale or Benefit
The high rate of withholding tax is increasing the cost of doing business as the existing withholding tax rate is higher than the net margin of Distributors.

60. Anomalies in Chapter-XIII:

After the withdrawal of 58R of Special Procedure Rules, 2007, relating to the payment of Extra Tax on Specified Goods vide SRO 608(I) 2014 dated 02/07/2014, Large Trading Houses are now unable to issue sales Tax Invoice to Customers. Resultantly, all Professional Customers are inclined to directly purchase from Manufacturers as they are issuing Sales Tax Invoice to their Customers.

Recommendation
- Rule 58R which was withdrawn vide SRO 608(I) 2014 be restored only for Large Trading Houses operating as Wholesale-cum-retail under Chapter-XII.

Rationale or Benefit
To create level playing field Large Trading Houses.

61. Input Sales Tax on purchase of electrical and gas appliances

The Sales Tax Act, 1990 does not permit adjustment of Input Sales Tax on purchase of electrical and gas appliances (including visi-coolers & industrial gas appliances etc.) under section 8(1)(h) of the Act.

Recommendation
- The Act should be amended to allow for adjustment of such input sales tax.

Rationale or Benefit
Visi-Coolers are an integral part of beverage business and inadmissibility of input tax places beverage business at a disadvantage vis-à-vis other businesses, besides such inadmissibility escalates the cost of doing business.

In other industries, it is reiterated, that ALL input tax relatable to ‘taxable supplies made or to be made’ is admissible. Removal of restriction shall provide level playing field.
62. Further Tax on sales to retailers

With reference to section 14 of the Act, retailers are required to obtain sales tax registration excluding those retailers who are required to pay sales tax through their electricity bill. Moreover, as per section 3(1A) further tax at the rate of 3% is to be charged where supplies are made to unregistered person other than those mentioned in SRO 648 dated July 9, 2013.

Recommendation

- Retailers who pay their sales tax through electricity bill to be excluded from further tax through inclusion in SRO 648 dated July 9, 2013.

Rationale or Benefit

It will clear the ambiguity regarding applicability of further tax on these retailers.

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i. Dairy Industry

63. Zero rating for Milk & Milk Based Products

Through finance act 2015-16 and 2016-17, sale tax zero rating status has been abolished and imposed reduced rate tax (10%) on goods such as: concentrated (powder) milk, cream, yogurt, cheese, butter, whilst UHT and Fat Filled milk has been categorized as “Exempt” under the Sales Tax Act 1990.

Recommendation

- Having changed the tax structure in the previous 2016-17 budget, it is recommended to re-transpose the dairy products to the 5th schedule of the Sales Tax Act 1990 & resume the Zero Rating facility for the dairy sector, for continuous growth and availability of good quality products to the consumer at an affordable cost through the tax complaint sector.

Rationale or Benefit

Restoration of zero rating regime will help restore the volumes of the packaged milk industry and better profitability. The share of revenue loss for the Govt. will be partially compensated by increase in direct taxation share due to improved profitability.

Categorization of dairy products as exempt discourages dairy manufacturers to work with compliant suppliers as input tax on purchases cannot be claimed. Accordingly exempt regime inherently discourages documentation and compliance.

64. Withholding of Income Tax on Purchase of Fresh Milk

Purchase of fresh milk from direct grower is exempt from income tax withholding under the provisions of clause 12(a), part IV of 2nd schedule of Income Tax Ordinance 2001.

Whilst if a milk is purchased through commission agent, then it attract the provisions of section 233 where commission is subject to withholding of tax at the rate of 15%.

This is clearly a case of hardship as milk commission agents are small entrepreneurs and tax rate is far higher than the income they earned by the means of collection and selling of milk.

Recommendation

- It is recommended to “exempt milk” from withholding tax in cases either it is purchased through direct farmer or through commission agent.

Rationale or Benefit

This will streamline the process and avoid confusion/discrepancy amongst different type of suppliers who are closely related to dairy business and are either direct growers of milk or simply consolidate and carry the milk to processors.
A. OIL, GAS AND ENERGY

i. Oil Exploration And Production Companies

65. Higher Corporate tax rate on E&P sector be reduced and aligned to the rate of other corporate sector

The applicable tax rate for the Oil and Gas Exploration and Production sector is 40%. Before the promulgation of ITO 2001, the tax rate was 50% to 55%, however, the royalty payment to Government was adjusted against the tax liability, resulting in effective tax rate of approximately 35% or less

Applicability of effective 40% tax rate has in fact increased the tax expense of the Oil and Gas Exploration and Production Companies, as against the incentives given to other sectors of the economy, whereby the tax rate will be gradually reduced to 30%.

Recommendations

- To incentivize oil and gas exploration in the country especially after the massive reduction in the international oil prices, the corporate tax rate on E&P sector should be reduced from the current 40% to the rate applicable to other corporate sector by making necessary amendments in the ITO 2001 and Regulation of Mines and Oilfield and Mineral Development (Government Control) Act, 1948

Rationale or Benefit

Foreign investment will be encouraged in the country, which will eventually increase the tax collection of the Government and will also greatly help to overcome the energy crises in the country.

66. Limitation on payment to Federal Government and Taxes

The rate of tax applicable on E&P companies on their Oil & Gas profits are given in their respective PCAs signed with Government. Under Rule 4AA of Part I of the Fifth Schedule to the Income Tax Ordinance, Super tax has been imposed @ 3% for E&P companies earning Rs 500million (equivalent to US$ 5million).

Recommendations

- It is critical for E&P sector and recommended that the tax applicable should be calculated strictly in accordance with the provisions of the respective PCAs signed between Government and each E&P company & are legally binding, without changes throughout the full Lease period.

Rationale or Benefit

This will remove the negative investment scenario, and potential for litigation - due to the varying interpretations by the FBR from time to time (despite the signed PCAs with Government)

67. Allowing Tax Credits

Tax credits under section 65A and 65B are not currently being allowed to E&P companies by the tax authorities despite the fact that appellate Tribunal decided the matter in favour of E&P companies.

Recommendations

- It is suggested that necessary clarification needs to be provided by tax authorities to assessing authorities.

Rationale or Benefit

In view the current energy deficit in the country and recent decision of appellate Tribunal, these credits should be allowed to the E&P companies to promote further investments in this sector.
68. Depletion Allowance – [Rule 3 of part 1 of the Fifth Schedule of ITO 2001]

Clarity over definition of well head value for computation of Depletion allowance is required.

As per clause 3 of Fifth Schedule, depletion is calculated @ 15% of the gross receipts representing well-head value of production, but not exceeding 50% of taxable income.

E&P industry interprets above by calculating depletion at 15% of Gross Revenue before royalty deduction. Tax authorities calculate depletion at 15% of Gross Revenue after deduction of royalty.

Recommendation
- It is proposed that amendment be introduced in the relevant clause in favor of E&P companies i.e. depletion to be calculated @ 15% of revenues before royalty deduction.

Rationale or Benefit
The matter is under litigation at High Court level for various E&P companies. Clarification in the definition of Well head value will ease unnecessary burden of these litigations for E&P Companies.

69. Adjustment in Output Tax – Section 74 of Sales Tax Act, 1990

Currently, adjustment in output tax (sales tax in revenue invoices) is only possible up to 180 days from the date of initial invoice. If an adjustment is required after 180 days, the same is to be first approved by Tax Authorities (condonation process).

E&P Sector is facing hardship in this respect since revenue invoices are based on price notifications from regulatory authorities. Since prices are notified/ adjusted by regulatory authorities after considerable delay (6 months to more than 1 year), adjustment of output tax as a result of revised notification is cumbersome since the same is required to be condone by Tax Authorities after 180 days.

Recommendation
- As a general practice, condonation for adjustment of sales tax also takes very long. With above context, it is proposed that requirement for adjustment of output tax within 180 days from the date of initial invoice be exempt for E&P companies.

Rationale or Benefit
This will entitle tax payers to adjustment of output tax as and when revenue invoices are adjusted (through price notifications) without going into cumbersome process of condonation.

70. Rules for the computation of the profits and gains from the exploration and production (E&P) of petroleum

The provision covers the Rules for the computation of the profits and gains from the exploration and production (E&P) of petroleum. The Rules cover only tax implications for E&P activities in Pakistan and at present it does not cover the foreign E&P activities carried out by Pakistani companies.

Recommendation
- Section 100 and Part-1 of the Fifth Schedule to the IT Ordinance 2001 should be suitably amended to cater for the taxation of Pakistan E&P Companies for foreign activities.

71. Independent Power Producer (IPP)

Under the sales law the rate of sales tax is 17%. In case of IPP’s, they are required to pay Output sales tax (GST-Output) @ 17% on the value of sale of electricity after adjusting the Input sales tax (GST-Input) on Residual Fuel Oil (RFO) paid by them to PSO. Currently the GST-Input rate is 20%. This is resulting in significant adverse cash flow for IPPs as well as is increasing the refund due from FBR.

Recommendation
- The rate on electricity should be raised from 17% to 20% as has been done in the case of diesel based IPPs, so that input and output GST rates are same.
ii. Oil Refineries And Marketing Companies

72. Extra tax on lubricating oils

Rule 58T(1) of the Sales Tax Special Procedure Rules, 2007 introduced vide SRO 583(1)/2017 dated July 1, 2017

Recommendation

- Though this entry extra tax on lubricating oil remains intact, only a proviso has been introduced in Rule 58T(1), providing exemptions from extra tax on supplies of lubricating oil made to registered manufacturers by registered OMCs. Whereas, such exemption should have also been extended to supplies made to registered distributors and its onward sale by such distributors to registered manufacturers.

- Proposed addition:

  "Provided further that extra tax under this rule shall also not apply on supplies of lubricating oils made to registered distributors and on sale by such distributors to registered manufacturers for in house consumption.

Rationale or Benefit

As per the special procedure rules, 2007, lubricant oils have been subjected to extra tax of 2%. This extra tax is considered as final tax charged by manufacturers and importers. Subsequent supply chain i.e distributors are exempt from charging sales tax and they cannot issue sales tax invoice to the consumers. The industrial consumers cannot claim whole sales tax of 19% in case of purchases of lubricants from these suppliers from registered distributors.

73. Zero Rating Sales Tax on Exports - -Section 4(b) of Sales Tax Act, 1990:

Supplies of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan as specified in section 24 of the Customs Act, 1969 (IV of 1969)

Recommendations

- Clarity is required with respect to the definition of stores and provisions. Amendment suggested is as follows: “Supplies of stores and provisions including fuel for consumption aboard a conveyance proceeding to a destination outside Pakistan as specified in section 24 of the Customs Act, 1969 (IV of 1969)”

Rationale or Benefit

To facilitate the OMCs concerns, clarity in the law should be provided to include all provisions consumed including jet fuel aboard international airlines.

74. Issuance of Debit /Credit Note

Section 7 read with Section 9 of Sales tax Act, 1990 states

"Where a registered person did not deduct input tax within the relevant periods, he may claim such tax in the return for any of the six succeeding period.”

In the E&P Sector, provisional invoicing mechanism is adopted till the issuance of notification of Gas prices & execution of Oil & Gas Sales Purchase agreements. Normally this process takes more than a year and requires issuance of debit/credit note on finalization. This results in complication when tax authorities are requested to allow condonation from six months period and they take years to grant the said approvals.

Recommendations

- Based upon the foregoing, legislation be introduced in Sales tax Act specifically for E&P Sector allowing them to issue the Debit /Credit notes after finalization of agreements with GOP. Also, issues of claiming input in six succeeding periods may be relaxed to six months from the date of notification by OGRA.
75. Powers to issue notifications for change in rate of sales tax – Section 3(2)(b)

The Federal Government may, by notification in the official Gazette, declare higher or lower rates of sales tax in respect of any taxable goods, provided that the bill for such change has been passed by the Majlis-e-Shoora.

From 1 July 2016 to date, there have been around half a dozen notifications for changing the rates of sales tax on petroleum products. The rates have varied from 0% to 36.5% during this period.

The Supreme Court of Pakistan took a suo motu notice for a similar notification on 21 June 2013 and held that Federal Government had no authority to levy and recover sales tax without getting the respective bill passed from the National Assembly. Given the Supreme Court’s verdict on the subject matter, questions arise as to whether the frequent changes in the rates of sales tax for petroleum products are maintainable under law.

Moreover, so many changes on such frequent notice are in itself a challenge for industries who have to go through a lengthy systematic implementation process, each time such rates are notified.

Recommendations

- It is, therefore, necessary that changes in sales tax rates are legally vetted by the Parliament and this monthly practice of issuing notifications at the Government’s behest is abolished.

76. Advance tax on import of LNG

Recommendations

Section 148 (Part II of First Schedule): A reduced rate of 1% as advance tax is collected by the Collector of Customs in case of designated buyer of LNG on behalf of Government of Pakistan to import LNG. The reduced rate should be allowed to all buyers of LNG

Rationale or Benefit

This reduced rate incentive to all LNG buyers would open the LNG market and allow potential companies to invest in Pakistan.
B. PHARMACEUTICAL

77. Sales Tax Exemptions in respect of Medical Devices

- As already highlighted in the Supreme Court Human Right Case No. 93336 of 2018, FBR to allow ST exemption for Goods defined in Medical Devices Rules – 2017 under DRAP Act, 2012 with their respective headings of Customs Act 1969 imported and locally manufactured.


Recommendation

- A new Serial No.4A to be inserted in Part II of the First Schedule to reduce the rate of tax from 5.5% to 1% on import of pharmaceutical raw materials and finished goods for filers.

Rationale or Benefit

Presently the rate of tax at import of pharma raw materials and finished goods is very high considering the price constraints on pharmaceutical products and significant devaluation of currency over past months. The pharma sector is highly dependent on import due to non-availability of raw materials and medicine in finished form in as local substitutes.

79. Sales Tax Zero Rating on Pharmaceutical Inputs

Sales Tax being paid on packaging material utilities and other supplies used in manufacturing pharmaceutical products is adding to the product cost. Since the final product is exempt from Sales Tax, the tax paid can neither be passed on to the consumer nor can be claimed as input tax. This is also against the philosophy of sales tax which is supposed to be borne by the consumer.

Recommendation

- Local supply of medicines/drugs should be classified under Zero-rating, instead of the current “exempt” status from levy of sales tax, so that the pharma industry, whose selling prices are regulated by the government, may claim input tax credits on taxable inputs. Alternatively, the taxable raw materials and packing materials, whether imported or locally procured may be notified as exempt from sales tax, if purchased by a pharma manufacturer.

- (Serial No. 104 and 105 of Sixth Schedule to the Sales Tax Act, 1990).

- Alternatively sales tax input paid by Pharma companies should be adjustable against corporate income tax.

80. 5th schedule to the Customs Act and Section 148 of the Income Tax Ordinance – Custom Duties and Commercial Imports

Withdrawal of withholding income tax for import of drugs pertaining to Chronic diseases including Oncology and Hematology, Eye Blindness, Diabetes, Hypertension and Heart Failure.

Recommendation

- The 5.5% tax on the value of imports to be revisited for cases where Pharmaceutical industry has patient access programs whereby free of costs are being provided to the society. No income is being generated on such patient access programs – on the other
hand, significant amounts of taxes are being paid. Propose to allow for tax exemptions/tax credits where companies are offering such benefits to the society.

Rationale or Benefit

- Heavy exchange losses incurred on import of drugs add on the already existing tax losses. In the event of tax losses, the withholding taxes on imports further add to financial burden on multinational pharmaceutical companies.
- It will promote the pharmaceutical industry and the eventual outreach of drugs of chronic diseases to the patients.
- Novartis Pakistan also engages in Oncology Patient Access programs whereby free of cost medicine is dispensed to Cancer patients (in collaboration with provincial governments).

81. Definition of “turnover” u/s 21(o) to be clarified

As per Section 21(o), any expenditure on sales promotion by a company in excess of 5% of turnover shall not be allowed as a deductible business expense.

Recommendation

- The definition of turnover should be clarified for the purpose of this section.

82. Import Duty on Pharmaceutical Raw Materials

[Section 18 of the Custom Act, 1969 read with First Schedule]: Through the Finance Act 2008, custom duty on pharmaceutical raw materials was reduced to 5 percent. However, there are still many items that are not included in the list of duty reduction.

Recommendation

- Reduction in custom duty and abolishment of regulatory duty on pharma raw materials and packing materials.
- All pharmaceutical raw materials should be added to Table A of Part-II of Fifth Schedule to the Pakistan Customs Tariff.
C. TELECOMMUNICATION

83. Withholding tax of foreign suppliers against import of telecom equipment

The Finance Act, 2018 inserted a new clause in sub-section (3) of section 101 of the ITO’2001, under which Pakistan source income from business derived by a non-resident person, would include income on account of import of goods, whether or not the title to the goods passes outside Pakistan, if the import is part of an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the associates of the person supplying the goods or its permanent establishment, whether or not the goods are imported in the name of the person, associate of the person or any other person. Keeping in view the amendment in section 101(3), corresponding amendments have also been made in sub-section (7) of section 152, whereby a taxpayer would invariably now be required to obtain an order of the Commissioner Inland Revenue u/s 152(5A) of the ITO’2001 for making payment on account of such transaction without deduction of tax.

These amendments have significant tax consequences for telecom equipment suppliers where there is a requirement to install and commission into service the equipment imported into Pakistan. This amendment will increase the risk of supply part of the contract being targeted for taxation in Pakistan.

Recommendation:

Exemption of withholding tax on the payments made to suppliers against import of equipment shall be restored because the title of goods in such cases passes outside Pakistan.

84. Grant of Industry status to telecom sector for the purpose of ITO, 2001

Consequent to approval of Federal Cabinet in 2004, the Ministry of Industries and Production has classified Telecom Sector as "Industry". In addition the Mobile Cellular Policy issued by the Ministry of Information Technology dated 28th January, 2004 also referred to CMOs as an "Industry". Ministry of Information Technology not only clearly mentioned CMOs status as in industry but endorsed the request of CMOs for grant of “Industry” status for the purpose of definition of “Industrial Undertaking” contained in Clause (b) of Section 2(29C) of the Income Tax Ordinance, 2001 through their letter addressed to Chairman FBR dated 18th June, 2014. However, till date CMOs have not been declared “Industry” by the FBR.

Due to lacking of "Industry" status to CMOs, withholding tax paid at import stage is being treated as full and final discharge despite of the fact the CMOs are importing telecom equipment for their own use and not for further sale.

Recommendation:

FBR should issue the notification for grant of “Industry” status to telecom sector so that the benefits and tax credits available to “Industrial Undertakings” in the ITO, 2001 should be extended to telecom sector as well.

85. Reduction in customs duties/sales tax exemption against import of telecom equipment

Telecom being very investment intensive sector should be given concessions in terms of reduced rates of customs duties and exemption of sales tax against import of telecom equipment to promote the teledensity throughout the country especially in far flung areas so that the benefits of next generation mobile services can be reached to the masses living in backward areas.

Previously, telecom sector was importing telecom equipment at 5% customs duty and 0% sales tax under SRO 575, however, through Finance Act, 2015, this SRO was rescinded and consequently, the customs duties on network equipment have been increased from 5% to 20% and sales tax exemption
has been removed. The increase in custom duty and levy of sales tax has badly affected the pace of growth and digital inclusion as the cost of doing business has been significantly increased which is an additional barrier to network coverage in Pakistan. The roll out of 3G/4G network is still very much at the early stages and reduction in customs duties and restoration of sales tax exemption will help the operators to sustain the necessary investments.

Recommendation:

We recommend to reinstate the concessionary custom duties/exemption of sales tax (refer SRO 575) to encourage investments in IT/telecom infrastructure.

86. Adjustability of 8% withholding tax for services sector

Through Finance Act, 2016, an amendment was made in Section 153(1)(b) of the Income Tax Ordinance, 2001 whereby the 8% withholding tax deducted against the services provided by telecom companies, along with other service providers, have been subjected to a charge of minimum tax instead of adjustable regardless their actual income or loss. This tax has thus changed the character of income tax from a direct tax to an indirect tax as the amount of charge would no longer be applicable on the quantum of income actually earned even under the standard income tax rules. Furthermore, the exorbitant rate of 8% will seriously erode the profitability, or further increase the losses, of the telecommunication industry which according to independent reports is in shackles and is already the victim of discriminatory taxation.

Consequent to the above amendment in the law, non-issuance of exemption certificates under Section 153(1)(b) of the Income Tax Ordinance, 2001 in view of the imposition of the minimum tax has also increased the administrative burden of both the telecommunication companies and the withholding tax monitoring units of FBR as the tax that was previously deposited lump-sum as advance tax is now being collected by thousands of corporate customers across Pakistan.

Recommendation:

It is recommended that the 8% minimum tax regime may be withdrawn and should be made adjustable.
87. Illicit Trade:

The level of illicit trade in tobacco in Pakistan is currently measured highest in its history at approximately 40% of the total consumption (source: SBP report 2016, Nielsen retail audit 2016) which is translating into a revenue loss for the government of approximately PKR 40 billion (source: Oxford Economics and ITIC Asia 17 illicit tobacco indicator).

**Recommendation**

To address this issue, we recommend the following:

- Introduce tighter penalties for illicit trade across categories, including criminal liability across the value chain, including retailers, distributors and manufacturers
- Introduce a special division / task force to raid retailers and manufacturers to confiscate and destroy illicit stocks
- Launch a media campaign to increase awareness in consumers of the harms of illicit products and discourage them from purchasing such products

88. Duty not Paid (DNP) Cigarettes

The Government generates close to Rs 100 billion annual revenue from the tobacco industry of which the two multinational companies contribute 98%, with 66% market share, whereas the other 34% duty not paid contribute just 2%. Government revenue loss because of this is close to Rs 45 billion annually.

Effective reforms to increase collection from tobacco industry requires the following:

**Recommendation**

- **Create market Non-Feasibility for selling DNP products:** Reducing the price differential between Duty Paid & DNP sectors by maintaining the current three tier excise structure and rates, while ensuring compliance to minimum price laws.
- **Administrative actions to curb manufacturing and selling of illicit cigarettes:** Administrative action by the Government, including raids and seizures, need to be conducted with strict penalties on those found in non-compliance to the law.
- **Fiscal Markings:** Introduce a monitoring system through pack identifiers: Fiscal markings, administered and enforced correctly and selected through a transparent process, will result in quick identification of DNP cigarettes arresting the increase in DNP sector and increasing Government Revenues.

89. First Schedule of the FED ACT, 2005

**Recommendation**

- To avoid any excessive policy, measure the FBR needs to maintain the existing fully specific excise structure
- Avoid introduction of any earmark taxes.

**Rationale or Benefit**

The industry proposal on fiscal policy will arrest the exponential growth of illicit trade in Pakistan. The government can plug the revenue leak and reverse the future loss of government tobacco revenue from the tobacco industry.
90. Harmonization of import policy on cigarettes with local health warning regulation on cigarettes to reduce consumption of smuggled cigarettes in Pakistan.

According to State Bank of Pakistan Q1FY17 report, illicit cigarette consumption in Pakistan was recorded at an alarming 40% of the total market demand resulting in loss of government revenue up to PKR 40 billion rupees. This includes smuggled cigarettes that enter Pakistan mostly from Afghanistan border. Due to non-harmonization of local health warning regulations and import policy, illicit cigarettes without local health warning can be imported in the country. Furthermore, once seized by law enforcement agencies they are then auctioned which generates documentation used to smuggle more illicit cigarettes in the country.

Recommendation

- The harmonization of import policy to local health warning regulation will discourage smuggling as cigarettes without the local health warning regulation will not be allowed in the country legally and when such smuggled cigarettes are seized they will be destroyed instead of auctioned.

Rationale or Benefit

Non–harmonization of import policy and local health warning regulation results in a loop hole for cigarette smugglers to use. Furthermore, smuggled cigarettes seized are auctioned instead of being destroyed which creates legal cover to smuggle more cigarettes in the country.
Tariff Rationalization

Elimination of additional custom duty and regulatory duty on essential raw materials, which are either not locally available or in limited supply, used for local manufacturing.

Tax rates and customs duty be rationalized on the following sector wise list of HS codes.

**1. FOOD AND CONSUMER SECTOR**

<table>
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<td></td>
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<td>CD</td>
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<tr>
<td>3402.90</td>
<td>ESTERS GLYC OL PEARLISER BLEND</td>
<td>20%</td>
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</tr>
<tr>
<td>3206.50</td>
<td>MICA + TITANIUM DIOXIDE</td>
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<td>2%</td>
</tr>
<tr>
<td>3402.12</td>
<td>ALKYL ETHER SULFATE 2EO</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.12</td>
<td>ALKYL ETHER SULFATE 1EO</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.11</td>
<td>SULFONIC ACID ALKYL BENZENE</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.13</td>
<td>ALKYL DIMETHYL AMINE OXIDE</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.13</td>
<td>APG</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>3204.20</td>
<td>FLUORESCER DISTYRYL BIPHENYL</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>3823.11</td>
<td>FATTY ACIDS C16-C18 STEARIC</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>2833.11</td>
<td>SULFATE SODIUM</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>3206.19</td>
<td>DIOXIDE TITANIUM</td>
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<td>2%</td>
</tr>
<tr>
<td>2836.20</td>
<td>CARBONATE SODIUM</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>3901-3000</td>
<td>ETHYL VINYL ACETATE</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>3506-9110</td>
<td>SHOES ADHESIVES</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>3909-5000</td>
<td>POLYURETHANES (ALSO INCLUDES PU SYSTEM FOR PU SHOE SOLES)</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>3921-1300</td>
<td>SHEETS OF POLYURETHANES (ARTIFICIAL LEATEHR</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>3926-9060</td>
<td>PLASTIC SHOE LASTS</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>3210-0020</td>
<td>WATER PIGMENTS</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>3204-1990</td>
<td>SYNTHETIC DYES</td>
<td>16%</td>
<td>-</td>
</tr>
<tr>
<td>3206-4910</td>
<td>MASTER Batches</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>3812-2000</td>
<td>COMPOUNDED PLASTICISER FOR RUBBER OR PLASTIC</td>
<td>16%</td>
<td>-</td>
</tr>
<tr>
<td>3904-1090</td>
<td>PVC RESIN (POLYVINYL CHLORIDE</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>3824-9999</td>
<td>OTHERS (DESMODERS)</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>3904-2200</td>
<td>PVC COMPOUND</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>2811-2990</td>
<td>OTHERS (SILICON DIOXIDES)</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>2712-2000</td>
<td>PARAFIN WAX</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>3921-9090</td>
<td>OTHERS (TOE PUFF MATERIAL)</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>3405-1010</td>
<td>SHOE CARE (CREAMS ETC)</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>3920-5900</td>
<td>PLASTIC CUTTING BOARD</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>0402.1000</td>
<td>SKIMMED MILK POWDER</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>0402.9900</td>
<td>WHOLE MILK POWDER</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>0404.1010</td>
<td>WHEY POWDER</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>1901.901</td>
<td>PROTOMALT EXTRACT</td>
<td>20%</td>
<td>-</td>
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</table>
## 2. REFINERY SECTOR

We propose that the custom duty including additional custom duty for these chemicals be abolished.

<table>
<thead>
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<th>PROPOSED</th>
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<td>CD + ACD</td>
<td>CD</td>
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<tr>
<td>2921.4200</td>
<td>N-Methyl Aniline (NMA)</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2921.4200</td>
<td>Metal Carbonyl N.O.S (Methylcyclopentadienyl Manganese Tricarbonyl) Hitec 3000</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2818.2000</td>
<td>Alumina for Chloride Treaters</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>3811.9000</td>
<td>Oil Lubrimist Synthetic</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2903.2300</td>
<td>Perchloroethylene Isomerizarion</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>3811.9000</td>
<td>Flow Improver T-1804</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>3811.9000</td>
<td>Filmer BPR 81200K</td>
<td>5%</td>
<td>0%</td>
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<tr>
<td>3811.9000</td>
<td>Demulsifier PC DS 1591</td>
<td>5%</td>
<td>0%</td>
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<tr>
<td>3811.9000</td>
<td>Pour Point Depressant For FFO FAG-100-70</td>
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<td>0%</td>
</tr>
<tr>
<td>3811.9000</td>
<td>Pour Point Depressant For FFO PC-45658 G</td>
<td>5%</td>
<td>0%</td>
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<tr>
<td>3811.9000</td>
<td>Pour Point Depressant For FFO PC-452 B</td>
<td>5%</td>
<td>0%</td>
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<tr>
<td>3815.1200</td>
<td>Reformer Catalyst, Platinum, Rhenium, S-120, I-82, KF-757, KG-55, KF-542, KF-851</td>
<td>22%</td>
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<tr>
<td>3403.9990</td>
<td>Oil Anderol 3150</td>
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## 3. CHEMICAL/ PESTICIDES/ PAINTS SECTOR

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<td></td>
<td></td>
<td>*CD</td>
<td>ACD</td>
</tr>
<tr>
<td>3402.1300</td>
<td>-Non-ionic (Organic surface-active agents) Textile/Leather/Paper/ Emulsion auxiliaries</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.1190</td>
<td>-Non-ionic (Organic surface-active agents) Textile/Leather/Paper/ Emulsion auxiliaries</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>3402.1290</td>
<td>-Non-ionic (Organic surface-active agents) Textile/Leather/Paper/ Emulsion auxiliaries</td>
<td>20%</td>
<td>1%</td>
</tr>
<tr>
<td>3402.9000</td>
<td>-Non-ionic (Organic surface-active agents) Textile/Leather/Paper/ Emulsion auxiliaries</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>3204.1510</td>
<td>--- Indigo Blue* Textile/Denim industry auxiliaries</td>
<td>3%</td>
<td>-</td>
</tr>
<tr>
<td>3204.2000</td>
<td>- Synthetic organic products of a kind used as fluorescent brightening agents Textile/Leather/Paper/Emulsion auxiliaries</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>3907.2000</td>
<td>[General purpose polyols]**</td>
<td>3%</td>
<td>2%</td>
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</tbody>
</table>

* Change in HS code is required. Presently raw material and finished goods has similar HS Code making local manufacturing in-competitive, hence suggested to separate the HS Code with at least 20% custom duty on imported finished goods.

** change the description to ‘General purpose base polyols’.
A list HS codes and Customs Duty structure for telecom equipment is attached. It is suggested that the rates should be rationalized. The Additional Duty and Regulatory Duty should be removed.

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<td>8517.6100</td>
<td>BASE STATIONS</td>
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<td>8517.6270</td>
<td>ROUTERS</td>
<td>3%</td>
<td>2%</td>
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<td>8517.6290</td>
<td>OTHER</td>
<td>16%</td>
<td>0%</td>
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<tr>
<td>8517.6910</td>
<td>ISDN SYSTEM</td>
<td>11%</td>
<td>2%</td>
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<tr>
<td>8517.6920</td>
<td>ISDN TERMINAL ADAPTERS</td>
<td>11%</td>
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<td>8517.6940</td>
<td>SUBSCRIBER END EQUIPMENT</td>
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<tr>
<td>8517.6970</td>
<td>NET WORKING equipments like LAN BRIDGES HUBS,</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>SWITCHES AND repeaters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8517.6980</td>
<td>MULTI STATION ACCESS UNITS</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>8517.6990</td>
<td>OTHER</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>8517.6290</td>
<td>RRU WITH ACCESSORIES</td>
<td>16%</td>
<td>0%</td>
</tr>
<tr>
<td>8517.6290</td>
<td>MICROWAVE RTN EQUIPMENT</td>
<td>16%</td>
<td>0%</td>
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<tr>
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<td>DIRECTIONAL ANTENNA WITH ACCESSORIES</td>
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<td>0%</td>
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<tr>
<td>8517.6290</td>
<td>BASEBAND PROCESSING UNIT WITH ACCESSORIES</td>
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<td>0%</td>
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<tr>
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<td>CH121 V3 SERVER WITH ACCESSORIES</td>
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<td>CLOUD ENGINE CE6800 SWITCHES WITH ACCESSORIES</td>
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<tr>
<td>8504.4090</td>
<td>HIGH EFFICIENCY RECTIFIER WITH ACCESSORIES</td>
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<tr>
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<td>BATTERIES</td>
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<tr>
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<td>UNIVERSAL MAIN PROCESSING &amp; TRANSMISSION UNIT</td>
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<tr>
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<tr>
<td>8523.8030</td>
<td>INFORMATION TECHNOLOGY SOFTWARE</td>
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<tr>
<td>8523.4910</td>
<td>SOFTWARE ON COMPACT DISK (CD)</td>
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<td>8523.5130</td>
<td>SOFTWARE ON SOLID STATE DEVICE (FLASH)</td>
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<tr>
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<td>RECTIFIERS, UPS, POWER CONVERTERS ETC</td>
<td>16%</td>
<td>2%</td>
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<tr>
<td>8507.2010</td>
<td>BATTERIES FOR TELEPHONE EXCHANGE</td>
<td>20%</td>
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<td>8507.2090</td>
<td>OTHER BATTERIES</td>
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<tr>
<td>8537.1090</td>
<td>POWER DISTRIBUTION CABINET</td>
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<tr>
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<td>CABLES OF ALL TYPES</td>
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<tr>
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<td>BASE STATION (BTS)</td>
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<td>2%</td>
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<tr>
<td>8517.6990</td>
<td>OTHER NETWORKING EQUIPMENT</td>
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<tr>
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<td>COMPUTER SERVER</td>
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<tr>
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<td>SIM CARD</td>
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<tr>
<td>4911.9900</td>
<td>SCRATH CARD</td>
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</tr>
<tr>
<td>8471.4900</td>
<td>COMPUTER SERVER</td>
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### Annexure I

**OICCI DUTY STRUCTURE RECOMMENDATIONS**  
*Sector wise list of PCT Codes*

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<td>8517.1219</td>
<td>MOBILE PHONE</td>
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<tr>
<td>8517.7000</td>
<td>MOBILE PHONE PARTS</td>
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### 5. PHARMACEUTICALS SECTOR

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<td>2933.5930</td>
<td>Ciprofloxacin API</td>
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<td>5%</td>
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