# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page Nos</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>03</td>
</tr>
<tr>
<td>KEY HIGHLIGHTS OF OICCI TAXATION PROPOSALS 2020-2021</td>
<td>04</td>
</tr>
<tr>
<td>TAX GOVERNANCE, COLLECTION AND EASE OF DOING BUSINESS</td>
<td>09</td>
</tr>
<tr>
<td>A. Income Tax</td>
<td>10</td>
</tr>
<tr>
<td>B. Sales Tax</td>
<td>18</td>
</tr>
<tr>
<td>C. Custom Duty</td>
<td>21</td>
</tr>
<tr>
<td>D. Ease of Doing Business</td>
<td>23</td>
</tr>
<tr>
<td>E. Documentation and Broadening of Tax Base</td>
<td>28</td>
</tr>
<tr>
<td>ANNEXURES</td>
<td></td>
</tr>
<tr>
<td>Annexure I – Industry Specific Proposals</td>
<td></td>
</tr>
<tr>
<td>Annexure II – Rationale/ Benefits</td>
<td></td>
</tr>
<tr>
<td>Annexure III – Duty Structure Recommendations</td>
<td></td>
</tr>
</tbody>
</table>
INTRODUCTION

The Overseas Investors Chamber of Commerce and Industry (OICCI) is the largest Business Chamber in the country based on contribution to the national and provincial exchequers, as well as to the GDP and represent the largest bloc of foreign investors in Pakistan. OICCI members strong believe in the business potential and opportunities in Pakistan can be judged by the fact that in the past seven years they have invested over $ 13 Billion in Pakistan, which is more than the total net foreign direct investment inflow into the country during the same period. An 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.

- OICCI supports the recent drive of the government on documentation of economy and increasing the tax base, through measures introduced by Finance Act, 2019, like introduction of special regime for persons not appearing on Active Taxpayers List, transition from Final Tax Regime to Minimum Tax Regime etc. However, a number of new measures, including increase in minimum tax rate to 1.5%, abolishing tax credit on investment in BMR (Sec 65 B), halting the gradual decrease in corporate tax rate to 25% by Tax Year 2023 and freezing the same to 29% and some other measures, has shaken the confidence of the loyal large investors in Pakistan, like the OICCI members. Moreover, GOP/FBR failure to smoothly implement tax documentation initiative like CNIC on Retailers, for purchases in excess of PKR 50,000, arrest increasing level of duty not paid locally produced and smuggled products, like cigarettes, petroleum etc., has also created some uncertainty about the ability of GOP to implement tough decisions.

- The existing tax legislation, and more so its enforcement, based on years of experience, is very cumbersome and a serious deterrent in boosting the Tax to GDP ratio to a reasonable level. 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 full implementation of 2016 Tax Reform Commission (TRC) recommendation. The key stakeholders are unaware of the outcome of the Committee formed for TRC implementation, so as to see tangible progress towards documentation and creation of a compliant tax culture in the country.
HIGHLIGHTS OF OICCI TAXATION PROPOSALS

A. EASE OF DOING BUSINESS

1. Focus on Ease of Doing Business:
   i. Consolidate all federal taxes, including Income Tax and levies like Workers Welfare Fund, Workers Profit Participation Fund in one lump sum so as to make the system more efficient and business friendly.
   ii. Massively improve automation and reduce interaction with the businesses including no more than one audit in a year.
   iii. Deliver on promised Tax Reform – compliance and reporting to be reduced to no more than 10 annually

   (Details on page 09)

2. Restrict tax collection to no more than the actual tax liability – Review of Minimum Tax (MTR) Regime and Abolishment of Alternative Corporate Tax (ACT)
   i. The general rate of MTR under section 113 of ITO 2001 should be reduced to 0.5%.
   ii. MTR should be reduced to 0.2% for Oil Marketing/ Refineries/ LNG Terminal Operators, large chemical companies, authorized dealers of local vehicle manufacturers and traders, including large trading houses, dealing in sectors with high turnover and low margins.
      • Minimum tax should be adjustable against future tax liabilities for next 6 years.
   iii. ATC under section 113C of ITO 2001 should be abolished in presence of Minimum Tax.

   (Details on page 10)

3. Revamping of Withholding Tax Regime (WHT)
   i. WHT regime should be revamped by reducing it to a maximum of five rates only and the differentiation should be on basis of active and in-active taxpayers only.
   ii. FBR system should be upgraded and all taxes withheld should be auto populated in the portal to the credit of the beneficiary.
   iii. 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.

   (Details on page 13)

4. Rationalize Sales Tax rates – one rate and one tax return for the country
   i. Sales tax rates (federal and provincial), both on goods and services, should be harmonized throughout the country and be aligned to 13 % charged in Sindh.

   (Details on page 18)
5. **Section 8B in STA 1990 should be abolished for registered taxpayers**
   
i. Section 8B of the STA 1990 should be abolished for registered taxpayers so that input adjustment to sales tax currently allowed only up to 90% is 100% adjusted not only to reduce cost of doing business but also reducing pressure on cash flow.

   ii. Most industries have long term import contracts with international suppliers. Due to current COVID pandemic situation, sales of companies have reduced significantly and resultanty, input tax is getting accumulated as full adjustment of input taxes against output tax is not possible.

   *(Details on page 19)*

6. **Delay and procedural hassles in Processing of Outstanding Refunds**
   
i. All pending tax refund be cleared within next six months in a prearranged manner.

   ii. Verification process for refunds should start automatically as soon as an application for refund is filed by the taxpayer and tax refunds be cleared within 45 days.

   iii. Inter adjustment of Income tax and Sales tax refunds should be made part of the law.

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

   v. Amend current fixed interest rate of 10% to floating interest rate linked with KIBOR.

   *(Details on page 23)*

7. **Reduce the number of Payments and filing frequencies**
   
i. The large number of payments and filing of various returns is a cause of great hardship to taxpayers and a major reasons for tax evasion/non-registration as 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.

   *(Details on page 23)*

**B. INCENTIVES FOR NEW INVESTMENTS FOR ECONOMIC GROWTH**

8. **Restoration/ Extension of Tax Credits**
   
i. Tax credit timelines on new investment may be extended up to FY 2023 to incentivize investment plans in large longer term projects with noticeable impact on the economy (Sections 65B, 65D and 65E of ITO 2001).

   ii. The credit rate under section 65B should be reverted back to 10% of the amount of investment as before.

   iii. Tax credit under section 65B and 65E is currently limited to the purchase and installation of plant & machinery. Credit should be allowed for cost of civil works/factory building directly associated with purchase and installation of plant and machinery.

   iv. Tax credit on employment generation given to manufacturing sector (section 64B) should also be provided to the services sector that contributes about half of the country’s GDP.

   *(Details on page 11)*
9. **Initial depreciation [Sec 23 of ITO 2001]**
   i. The rate of initial depreciation allowance under section 23 should be increased from the current 25% to 50% for plant and machinery.

10. **Withholding Tax on Import u/s 148 of ITO 2001**
   i. Withholding Tax on import of raw materials and plant and machinery by industrial undertakings be substantially reduced from 5.5% to 2%.
   ii. Clause 72B of Part IV of the ITO 2001 (excluding provisos) should be amended to align with actual tax liability
   iii. 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 as provided in SRO 717 of 2014.
   iv. A new provision to be inserted in Section 148 so that tax paid by manufacturers cum importers dealing in both manufactured and commercial imports shall be adjustable.

11. **Coordination between Federal and Provincial Legislations**
   i. 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.
   ii. WWF & WPPF related tax laws 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.
      a. Sections 60A and 60B should appropriately be amended to allow deduction against provincial laws of WWF and WPPF.
      b. Clarity should be inserted in respective laws regarding the basis of allocation of WWF/WPPF charge where the taxpayer is having industrial establishment in more than one province.
   iii. One authority to collect all types of federal and provincial taxes for onward transmission to respective revenue authorities within the country without burdening the business entities. Single sales tax return should be filed with FBR instead of separate sales tax returns for each Province.
   iv. The provincial taxes should be consolidated specially the labor levies e.g. EOBI/ SESSI/ WPPF/ WWF as mentioned above.
   v. Controversies arising as to jurisdiction of authority to charge and collect tax on certain services should be resolved.
   vi. Special attention be given to tax implication arising on emerging e-business models and asset-free web service providers who act 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.
12. **All income earners should get themselves registered and obtain proper NTN**
   
i. FBR should immediately implement the recommendations of the Tax Reforms Commission
   
ii. Tax authorities should make better/effective utilization of NADRA database and other documented sources to ensure that all income earners are NTN holders (NTN is replaced with CNIC so why are we mentioning this here) and “Filers”, with submission of annual income tax/wealth returns and wealth reconciliation statements.
   
iii. Exemption given to agriculture income should be withdrawn and agriculturists should file income tax returns and wealth statements.
   
iv. All incomes should be taxed and as a general rule exemptions be given only for attracting FDI and for underprivileged and poor sections of society or, in exceptional circumstances, as motivation to encourage the registration of individuals and all legal entities.
   
13. **Consolidation of different SROs in STA 1990**
   
i. 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.
   
14. **FBR should implement the recommendations of the Tax Reforms Commission (TRC)**
   
i. FBR to 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.
   
15. **Tax authorities should use technology, data analytics including Artificial Intelligence tools and make better/effective utilization of data bases**
   
i. NADRA database and other documented sources should be appropriately accessed to ensure that all income earners are NTN holders and “Filers”, with submission of annual income tax/wealth returns and wealth reconciliation statements.
   
16. **Arrest revenue leakages through fiscal and physical check in industries like tobacco, petroleum and other items imported under the garb of Afghan Transit Trade (ATTA)**
   
i. Besides physical checks in sectors like tobacco, petroleum where there is widespread illicit trade, government should revise the ATTA based on current reality protecting the revenue base of Pakistan without hurting the real spirit of such agreements.
D. INDUSTRY SPECIFIC PROPOSALS

17. Effective Tax of Banking Sector
   i. Corporate tax rates for the banking sector should be aligned with other sectors.
   ii. Super Tax relief, as granted to other industries, should be given to banking sector as well.

   (Details on Annexure I - page 33)

18. Exemption under Clause 42 of Part IV of Second Schedule to the Terminal Operators
   i. 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.”

   (Details on Annexure I - page 36)

19. Anomaly in RD on light fittings with fixed/fitted LED (30%) and LED bulbs/tubes (2%).
   i. 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.

   (Details on Annexure I - page 39)

20. Zero rating for Milk & Milk Based Products
   i. Re-transpose the dairy products to the fifth schedule of the STA 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.

   (Details on Annexure I - page 40)

21. Higher Corporate tax rate on E&P sector be reduced and aligned to the rate of other corporate sector
   i. To incentivize oil and gas exploration in the country corporate tax rate on E&P sector should be reduced from the current 40% to the rate applicable to other corporate sector.

   (Details on Annexure I - page 42)

22. Sales Tax Zero Rating on Pharmaceutical Input
   i. Local supply of medicines/ drugs be classified under Zero-rating, so that the pharma industry, whose selling prices are regulated by the government, may claim input tax credits on taxable inputs.

   (Details on Annexure I - page 46)

23. Grant of Industry status to telecom sector for the purpose of ITO, 2001
   i. Grant “Industry” status to telecom sector so that the benefits and tax credits available to “Industrial Undertakings” in the ITO, 2001 are extended to telecom sector as well.

   (Details on Annexure I - page 48)
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 submit the following taxation and tariff related recommendations for the 2020-21 Fiscal Budget:

1. Separation of Tax policy from tax administration with separate accountability mechanism. GOP had in the recent past announced the formation of a Tax Policy Board without tangible action to-date.

2. Simplify the complex system of determining the corporate tax liability by abolishing ACT (Alternative Corporate Tax) and MTR (Minimum Tax Regime) and doing away with undue recurring audit/examinations/reviews and recovery proceedings.
   a. A number of ease of doing business and simplification of tax paying process issues can be addressed by the introduction of:
      i. A single collection authority using online payment structure;
      ii. Simplifying the procedures and the forms for filing the sales tax and income tax return.
      iii. One form for reporting all the tax liability in the country including for FBR, and provincial revenue authorities.

3. Tax policies should be predictable, transparent and consistent and implemented properly.
   a. Taxation policies should be for timelines with a 10-year phasing out period to facilitate and protect longer term investment plans of local and foreign investors. Changes in policy, if needed for a cogent reason, should only be done after prior consultation with the key stakeholders.

4. Targets given by the FBR hierarchy to the LTUs, and operating units should be research-based on the expected growth and economic performance of different business sectors. The revenue target should also provide for tax potential in the newly growing industrial and business centers throughout the country.
   a. No arm twisting of the tax compliant person through unfair means of freezing the bank accounts etc., be done except for appeal/court orders.
   b. Tax collection from broadening the tax base/new tax payers be separately reported.

5. The growing economic needs of the country cannot be fulfilled by tax collection from traditional business sectors only. Time is ripe to bring all income earning sectors, especially agriculture, into normal tax regime. Moreover, all exemptions and relief should be reviewed and revised except for those which are in the nature of creating job opportunities in manufacturing and services and facilitating the increase of export of goods and services.

6. 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, and most importantly after due consultations with key stakeholders.

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 2020-21 tax proposals are divided in to the following sections.

A. Income Tax  
B. Sales Tax  
C. Custom Duty  
D. Ease of Doing Business  
E. Documentation and Broadening of Tax Base  
F. Annexures 1 – Industry Specific Proposals

A. INCOME TAX

i. Corporate Tax

1. a) Consolidate all federal taxes in one lump sum.

b) GOP had previously announced a policy for gradual decrease in corporate tax rate to bring it down to 25% by Tax Year 2023. However in the 2019 Finance Act the rate was frozen at 29%

The tax system has become cumbersome and inefficient due to a number of parallel taxes. 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% on their profits, thus the effective tax rate goes up significantly. If other taxes like the provincial infrastructure taxes in Sindh and Punjab, stamp duty on Purchase Orders and contracts, together with many other local levies are added, overall tax burden goes up to about 40% of profits, which is a significant tax burden with consequential increase in cost of doing business.

Recommendation

i. Consolidate all federal taxes - Income Tax, and levies like WWF, WPPF in one lump sum so as to make the system more efficient and business friendly.

ii. Continue the GOP previously announced policy to annually revise the tax rate to eventually align with the average Regional Corporate rate of 25% by FY 2023

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

Standard rate of Minimum tax under section 113 of Income Tax Ordinance, 2001 (ITO 2001) was enhanced from 1.25% to 1.50% through Finance Act 2019, 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:

i. The general rate of Minimum Tax under section 113 of ITO 2001 should be reduced to 0.5%.

ii. Minimum Tax rate should be reduced to 0.2% for Oil Marketing/ Refineries/ LNG Terminal Operators, large chemical companies, authorized dealers of local vehicle manufacturers
and traders, including large trading houses, dealing in sectors with high turnover and low margins.

- Minimum tax should be adjustable against future tax liabilities for next 6 years.

iii. Minimum tax liability should be computed in comparison with normal tax liability without taking into account any initial depreciation allowance.

iv. Alternate Corporate Tax under section 113C should be abolished in presence of Minimum Tax under section 113.

3. Restoration/ Extension of Tax Credits

Finance Act, 2019, reduced tax credit under section 65B for investing in purchase of plant & machinery for extension, expansion, balancing, modernizing & replacement from 10% to 5% for Tax Year 2019 and abolished the credit for subsequent tax years. This has adversely impacted the investment feasibilities of projects of companies planned on the basis of the said tax credit and shaken the confidence of both local and foreign investors.

Recommendation:

i. Tax credit timelines on new investment may be extended up to FY 2023 to incentivize investment plans in large longer term projects with noticeable impact on the economy (Sections 65B, 65D and 65E of ITO 2001).

ii. The credit rate for 65B should also be reverted back to 10% of the amount of investment as before.

iii. 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” - Sub-section 2 mentions ‘July, 2010, and the 30th day of June, 2019’.

iv. Tax credit under section 65B and 65E is currently limited to the purchase and installation of plant & machinery. Credit should be allowed for cost of civil works/factory building directly associated with purchase and installation of plant and machinery.

v. Benefit of Tax credit on employment generation given to manufacturing sector (section 64B) should also be provided to the services sector that contributes about half of the GDP of the country.

4. Initial depreciation [Sec 23 of ITO 2001]

Recommendation:

i. The rate of initial depreciation allowance under section 23 should be increased from the current 25% to 50% for plant and machinery.

5. Promotion of Islamic mode of Financing

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.

Recommendations

i. The requirement of 100% of investments in the Sharia compliant securities should be reduced to 70% of the total investments.

ii. The requirement to maintain the free float of the company's outstanding shares at 30% should be reduced to 15%.
6. **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 ITO 2001, approval of the High Court is still required.

**Recommendation**

i. The existing reference to Companies Ordinance 1984 should be replaced with references to the corresponding sections of the Companies Act 2017.

ii. Furthermore, section 97A should also be amended to the extent of amendment made in section 284(2) of the Companies Act 2017.

7. **Transactions under Dealership Arrangements**

As per Finance Act 2019, (section 108B) if a person supplies the products listed in the Third Schedule to the Sales Tax Act, 1990 (STA 1990) under a dealership arrangement with the dealers who are not registered under STA 1990 and are not appearing in the active taxpayers' list under ITO 2001 an amount equal to 75% of the dealer's margin shall be added to the income of the person making such supplies.

**Recommendation**

i. Section 108B which penalizes a compliant tax payer should be withdrawn.

8. **Level playing field for non-resident tax payers**

For resident companies, reduced withholding tax rates are provided under section 153 (1)(b) of the ITO 2001 for specific sectors, whereas no such benefit is available to non-resident service providers operating in Pakistan through permanent establishments under section 152 (2A)(b) of the ITO 2001.

**Recommendation**

i. Amendment to be made under section 152(2A)(b) read with 152(2B) of the ITO 2001, to allow reduced withholding tax rate for non-resident service provider companies operating through a permanent establishment in the country.

9. **Compulsory registration in certain cases [Section 181 AA]**

As per Section 181AA, commercial or industrial connection of electricity or natural gas, shall not be processed unless the person applying for electricity or gas connection is registered under section 114 of the ITO 2001.

**Recommendation**

i. Since, section 114, requires a minimum threshold for filing return of income, the requirement of section 181AA should be amended to align it with the said provision.
The withholding tax regime continues to be a key irritant for most tax payers, especially the manufacturing sector, and contributes negatively in Pakistan's rating on World Bank's "Ease of Doing Business".

10. 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 51 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 tax also varies depending upon the nature of transaction, legal/tax status of the parties i.e. company or individual and active or in-active filer. Moreover, FBR system does not auto populate taxes withheld in the portal to the credit of the beneficiary.

Furthermore, at present FBR has prescribed following categories of withholding tax (WHT) rates under the ITO 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:

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<tr>
<th>S. No.</th>
<th>Section Reference</th>
<th>No. of prescribed rates (for Active s &amp; In-active filers)</th>
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<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>4</td>
</tr>
<tr>
<td>3</td>
<td>Section # 152 – Payment to non-residents</td>
<td>23</td>
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<tr>
<td>4</td>
<td>Section # 153 – Payment of Goods, Services &amp; Contracts</td>
<td>28</td>
</tr>
<tr>
<td>5</td>
<td>Section # 156 – Prizes and Winnings</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Section # 156A – Petroleum Products</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>Section # 231A – Cash Withdrawals</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Section # 233 - Commission and Brokerage</td>
<td>6</td>
</tr>
<tr>
<td>9</td>
<td>Section # 236G - Advance Tax on Sales to Distributors, Dealers &amp; Wholesalers</td>
<td>4</td>
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The complexity for the withholding agent has been further compounded after the introduction of active taxpayers list and different rates for an active and non-active filers.

Recommendation

i. Withholding tax regime should be revamped by reducing it to a maximum of five rates for all withholding taxes and the differentiation should be on the basis of active and in-active taxpayers only.

ii. FBR system should be upgraded and all taxes withheld should be auto populated in the portal to the credit of the beneficiary.

iii. 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.

iv. Withholding agents should be given incentive in the form of 2% tax credit of the amount collected for facilitating the Government.
v. In addition to the above administrative/streamlining issues, withholding/advance tax rates on below transactions should be reconsidered:

a) Withholding tax rate be reduced to 1% for all FMCG distributors in line with the withholding taxes applicable on the distributors of cigarette and pharmaceutical products. Distribution is a high turnover but low margin business and high rate of withholding tax on low margins, increases 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.

b) 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 for service providers, hence, tax on services should be made adjustable.

c) Withholding taxes deducted from payments should be deposited in the Govt. treasury on monthly rather than current requirement of weekly basis.

vi. In case of payments to non-residents, the law requires to deposit corresponding withholding tax amount, seven days before the actual remittance to the non-resident person. The deposit of withholding tax should be aligned to the payment to non-resident due to exchange rate implications.

vii. Withholding tax deduction u/s 153 (1)(a) which is currently considered as minimum tax for all the suppliers (except manufacturers and listed companies) should be made adjustable at least for corporates appearing in active taxpayers’ list

i. Withholding tax under section 153 (1b) be reduced to 3% for all the taxpayers providing services in line with 18 service sectors as mentioned in sub-clause 2 clause 1 of Division III of Part III of Schedule I, not clear

ii. Withholding agent should be given authority to adjust from subsequent payments, in case of reversal of excess deduction of withholding or where underlying transactions are cancelled, reversed or cases where tax status is updated subject to filing of proper adjustment form/return

11. Withholding Tax on Import u/s 148

Withholding tax on import of raw materials and plant and machinery was increased gradually from 1% to 5.5% over the last few years which is creating significant cash flow impact, cost of doing business (financing cost) for manufacturers and also results in generation of income tax refunds.

Though SRO 717 of 2014 prescribes that an importer can avail exemption from withholding tax deduction on raw material import if tax higher than the preceding two year’s tax liability is paid during the year. Due to economic slowdown, the taxable income and tax liability of current year has significantly reduced in comparison with prior years. The said condition is practically making the 148 exemption not feasible in cases where the actual tax liability of the company is much lower than the tax liability of the two preceding tax years. Resultantly, higher taxes are being paid at import stage.

Recommendation

i. Withholding Tax on import of raw materials and plant and machinery by industrial undertakings be substantially reduced from 5.5% to 2%.

ii. Clause 72B of Part IV of the ITO 2001 (excluding provisos) should be amended as follows:

“(72B) Provisions of section 148 shall not apply to an industrial undertaking if the tax liability for the current tax year, on the basis of determined tax liability for any of the preceding two tax years, whichever is the LOWER, has been paid and a certificate to this effect is issued by the concerned Commissioner.”
iii. Newly established industrial undertaking be allowed to import raw material without payment of advance tax u/s 148 in the first year of production to minimize cost of production and burden on cash resources.

iv. 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 as provided in SRO 717 of 2014.

v. A new provision to be inserted in Section 148 of the Ordinance:

Provided further that tax paid by manufacturers cum importers dealing in both manufactured and commercial imports shall be adjustable.

12. Time Limit for Conclusion of Withholding tax proceedings

The monitoring of withholding tax proceedings are not barred by time limitation under the current law. Resultantly, the taxpayers are required to maintain records and details of vendor payments until the time period prescribed for maintenance of books of accounts under the law, in line with reported judgments.

Furthermore, after the insertion of sub section 3 to section 161 through Finance Act 2019 whereby the Commissioner has been empowered to modify the withholding tax recovery order, companies would be required to maintain records and details for an indefinite period of time. Failure to provide such records could be used as a tool by the tax authorities to create undue tax demands in order to achieve their revenue targets.

Recommendation:

i. Sub-section (3) should be omitted and the limitation of maximum 3 years from return filing date be provided under the law for initiating and concluding the monitoring of withholding tax proceedings.

13. Withholding Tax on Prizes & Winnings

Section 156 of ITO 2001 requires deduction of withholding tax on prizes and winnings (i.e. 20%; active/ 40%; in-active) offered by companies for sales promotion. This has substantially increased the cost of sales promotion activities, resulting in either discontinuing such activities or low profitability The word ‘prize’ has not been defined in the law and therefore, is being interpreted very liberally by the tax authorities.

Recommendation

i. The term prize should be defined in ITO 2001 and be restricted to where element of chance is involved, and currently applicable two withholding tax rates should be scrapped and single rate of 10% be prescribed under section 156 of ITO 2001.

14. Payment to Non-Residents

Section 152(5) of ITO 2001 requires a person to make a request to the Commissioner when intending to make payment to a non-resident without deduction of tax.

Section 152(5A) bounds the Commissioner to make a decision on such request within the prescribed time limit of 30 days. However, based on experience of some members over last two years, 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 is grossly violated.

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**

i. Section 152 of ITO 2001 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.

ii. To reduce the workload of the tax department as well as the tax payer,
   - a) 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, or
   - b) 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.

**15. Advance Tax Exemption Certificate**

Under section 159 of ITO 2001 exemption is provided for industrial undertaking from advance tax on various transactions and the same were being availed by the entities availing tax credit under section 65E of ITO 2001 till FY 2019. However, after Supreme Court decision against Civil Appeals Nos. 1262 of 2018 and 507 of 2017 dated May 15, 2019, wherein, the honorable court has differentiated between undertakings exempted from tax and undertakings claiming 100% tax credit, the applicability of section 159 is restricted to exempted undertakings only.

The practical implication of the said decision has reversed the legislature’s intended relief of 65E by collecting advance tax from the undertaking subject to 100% tax credit and thereby creating liquidity crunch and pile up of huge income tax refund on the balance sheet of such undertakings.

**Recommendation**

i. In order to reignite the spirit of the section 65E and to enhance economic equality, insert an explicit clause in section 159 of ITO 2001 exempting undertakings availing tax credit under section 65E from advance tax under Part-V of Chapter-X of the ITO 2001, similar to Section 100C.

**16. Minimum, Advance and Withholding Taxes related to Traders**

The general rate of minimum tax payable (under section 113 of the ITO 2001) has been reduced from 1.5% to 0.5% for tax year 2020 for traders having turnover up to Rs. 100 million. This amendment has created an anomaly as 1% advance tax under section 236H of ITO 2001 is required to be applied on invoices to traders.

Moreover, the recent amendments in tax laws was for simplification of tax structure for traders and one of the important feature was to abolish withholding tax requirements on purchases made by the traders. Introduction of fixed tax scheme discharges all tax liabilities of the traders once they pay the applicable fixed tax. However, the requirements of withholding tax on their supplies have not been abolished in the proposed scheme. We believe that this ambiguity should be removed as once full and final tax liability has been discharged, there should not be any further withholding tax implications.

**Recommendation:**

i. Rate of advance tax u/s 236G and 236H of ITO 2001 should be made consistent at 0.1%.
OICCI TAXATION PROPOSALS (2020 – 2021)

ii. Withholding tax as per section 153 of ITO 2001 be abolished for supplies made by Traders.

17. Withholding Tax Rates on Profit on Debt

Through Finance Act, 2019, multiple withholding tax rates of profit on debt were introduced which are based on the profit threshold and active / in-active status of taxpayer (i.e. Profit less than PKR 500k is subject to tax at the rates 10% and 20% for active and in-active respectively. Whereas, profit greater than PKR 500k is subject to tax at the rates 15% and 30% for active and in-active filers respectively).

It has been provided that minimum tax rate on profit on debt is 15% as prescribed under section 7B of ITO 2001. So, there is no need to tax the profit at reduced rate (i.e. 10%), if the person has to discharge his final tax liability on such higher rate i.e. 15%.

Recommendation:

i. Prescribed threshold of withholding tax on profit should be deleted and there should be only two rates, for active and inactive taxpayers respectively.

18. Clause 72B of Part IV of Second Schedule to the ITO 2001

The proviso added through Finance Act 2016 entitles the Commissioner to audit taxpayers’ records in order to verify utilization of exemption on import of raw material for tax payers’ own consumption only.

However, the Inland Revenue Commissioners, instead of monitoring the consumption of import quantities and verifying allotted quota, act beyond the scope. They issue audit notices in respect of entire tax affairs of the companies such as requiring bank statements and reconciliation of withholding taxes under Rule 44 etc.

The liberal interpretation of the statute is resulting in disputes with tax authorities and harassment in the form of audit notices beyond the scope.

Recommendation

i. Explanation should be added after Proviso that the Commissioner can only audit quantitative data with regards to purchase and consumption of raw materials imported under the exemption allowed to the taxpayers.
19. 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 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.

Recommendation

ii. Sales tax rates (federal and provincial), both on goods and services, should be harmonized throughout the country and be aligned to 13% charged in Sindh. Moreover, only one Tax return should be filed with FBR.

20. Admissibility of Input sales tax on Civil work and other equipment & materials

Adjustability of input sales tax restricted under section 8(1)(h) & (i) of STA 1990 and SRO 490(I)/2004 on building material, office equipment, furniture & fixtures, vehicles & their parts used for taxable activity purposes 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 5% sales tax withholding.

Recommendation

i. Sub-Section (1)(h) and (i) of section 8 of STA 1990 should be deleted.

ii. SRO 490(I)/2004 which is in contradiction with section 8 should also be rescinded.

21. 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 section 2(44) of STA 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

i. Sales tax be applied at the time of actual delivery for ease of doing business, rather than earlier of receipt or delivery.

22. Sales Tax Withholding on supplies made by Registered and Active Sales Taxpayers

As per serial no. 1 and 2 of Eleventh Schedule of STA 1990, Government departments/ bodies/ authorities and Companies as defined in ITO 2001 are required to withhold sales tax against supplies made by registered and active sales taxpayers. This is only creating hardship for registered sales tax persons as Government departments are not making withholding sales tax payments through FBR web-portal system and deductions made by Companies like leasing companies, Modarabas, etc who are not registered in STA 1990 and FBR does not allow any manual entry of such withholding sales tax.

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.

Recommendation

i. Abolish serial no. 1 and 2 of Eleventh schedule of STA 1990.
23. Sales Tax Consolidation of different SROs in STA 1990

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

i. 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.

24. Joint and several liability of registered persons in supply chain where tax remains unpaid

As per section 8A of STA 1990 a registered person purchasing goods is jointly and severally liable if the sales tax is not paid by the seller of the goods. It is quite unjustified to punish a genuine buyer for an offense committed by corresponding supplier. This section is also inequitable as payments are made after verifying the seller status on the FBR portal at the time of purchase.

Recommendation

i. Section 8A of the STA 1990 should be abolished.

25. Section 8B in STA 1990 should be abolished for registered taxpayers

As per section 8B a registered person is not allowed to adjust input tax in excess of 90% of the output tax for that period in STA 1990.

Recommendation

i. Section 8B of the STA 1990 should be abolished for registered taxpayers.

ii. Most industries have long term import contracts with international suppliers. Due to current COVID pandemic situation, sales of companies have reduced significantly and resultantly, input tax is getting accumulated as full adjustment of input taxes against output tax is not possible.

26. Supplies to hospitals exempt from Sales Tax:

Section 13(1) of the STA 1990, read with clause 52A of 6th Schedule of the Act, exempts ‘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’ from sales tax.

However the provisions of STA 1990 does not allow input tax adjustment against exempt supplies as input tax adjustment is only claimable against taxable supplies. Therefore companies making supplies to hospitals have to bear the cost of input tax, which is increasing the cost of doing business, especially for price regulated businesses like oil, gas and electricity, etc where prices are fixed by the Federal Government.

Recommendation

i. Supplies made by companies to hospitals classifiable under entry No.52A of Table 1 of the Sixth Schedule to STA 1990 be ‘Zero rated’ instead of ‘Exempt’ so that the company is able to claim the related input sales tax paid at procurement stage.

27. Minimum Value Addition Tax (MVAT) (Twelfth Schedule of STA 1990)

(i) Under sub-clause (iii) of clause 2 of Twelfth schedule, service providers are exempted from application of MVAT only if such goods are used for in-house business for furtherance of taxable activity. The provision excludes service providers importing goods and utilizing the same to provide services like maintenance to its customers. Now, neither can service providers claim
exemption on MVAT nor can they claim such input tax against provincial output due to specific exclusion in respective provincial law on claim of MVAT.

(ii) 3% MVAT was applicable on imports made by commercial importers as per chapter X of the Special Procedures Rules, 2007. A 3% MVAT has been inserted on all imports of raw materials and intermediary goods meant for use in an industrial process which are subject to customs duty at the rate of 16% or 20% ad valorem under the First Schedule to the Customs Act 1969.

(iii) MVAT is also being collected on import of Plant & Machinery and pharmaceutical products, which is logically and technically absurd as no value addition is carried out on Plant & Machinery whereas the value addition on pharmaceutical products is exempt from sales tax by virtue of specific exemption under Sixth Schedule to STA 1990.

Recommendation

i. Sub-clause (iii) of clause 2 of Twelfth schedule of STA 1990 should be appropriately amended, exempting all service providers from MVAT as long as related output tax is paid to provincial sales tax authorities.

ii. Machinery should be exempt from MVAT as rate of duty on machinery is below 16%.

iii. Exemption be allowed through inclusion of following amendment in clause 2 of the Twelfth Schedule of the STA 1990:

a) “xi) Raw material and intermediary goods imported under SRO 655 and 656 meant for use in an industrial process imported by Manufacturers.”

b) xii) Pharmaceutical raw materials imported by Manufacturers for use in the manufacturing of finished goods which are exempt from sales tax under Sixth Schedule to the STA 1990.”

28. Input tax adjustment against the liability paid on reverse charge basis

As per provincial laws, for a service received from non-resident, the liability to pay sales tax is on the service recipient - reverse charge basis. The service recipient is allowed to claim the adjustment from FBR. Currently the relevant section lays down procedure for claiming sales tax with reference to registered suppliers only i.e. service recipient need to have tax invoice in his name bearing his registration number.

Recommendation

i. Exclude the requirement of sales tax invoice in buyer’s name bearing his registration number from cases where input is claimed against sales tax paid on reverse charge basis.
29. Tariff Rationalization

Recommendation

i. 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.

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

30. 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).

Recommendation

A. Control the Afghan Transit Trade:

i. Revise the ATTA based on current reality protecting the revenue base of Pakistan without hurting the real spirit of such agreements. Please engage key stakeholders from OICCI and business community in Pakistan in such re-negotiation.

ii. Pending above, harmonize duty and tax rates to remove the incentive for evasion.

iii. Fix quantitative limits for imports based on genuine Afghan needs and size of population.

iv. Establish a basis of collecting duty/taxes at the point of entry into Pakistan for the account of the Afghanistan Government.

v. Fix import value in consultation with the brand owner in Pakistan.

vi. Containers coming back from Afghanistan should be checked by customs to ensure they are empty.

vii. There should be a negative list of items which are not utilized in Afghanistan; yet are imported and make their way into Pakistan.

viii. Streamlining of border crossing procedures on financial guarantee by banks and anti-corruption measures.

ix. Export to Afghanistan be facilitated with simplified procedure by FBR and border control authorities.

B. Introduce stringent controls for illicit trade:

i. Introduce tighter penalties (e.g. criminal liability) for illicit trade across categories across the whole value chain - retailers, distributors and manufacturers.

ii. Introduce a special division/ task force to raid retailers and manufacturers to confiscate and destroy illicit stocks.

C. Structural Reforms in Customs:

i. 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.
ii. 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.

iii. The data of import should be public property (restrictively) to ensure transparency and this will also help in taking over of goods under section 25A of the Custom Act, 1969.
### D. EASE OF DOING BUSINESS

In order to attract sizeable Foreign Direct Investment (FDI) into the country and make it easy for doing business in Pakistan both for local and foreign investors, it is proposed to:

#### 31. Reduce the number of Tax 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 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>
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<td>Yearly</td>
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<td>FBR</td>
<td>Statement u/s 115(4) (Note-I)</td>
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<tr>
<td>FBR</td>
<td>Income Tax - withholding payments</td>
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<td>12</td>
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<td>FBR</td>
<td>Income Tax - Advance Tax</td>
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<tr>
<td>FBR</td>
<td>Sales Tax</td>
<td>Monthly</td>
<td>12</td>
<td>Monthly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No change</td>
</tr>
<tr>
<td>FBR/ SRB/PRA</td>
<td>WWF</td>
<td>Yearly</td>
<td>1</td>
<td>No Change</td>
</tr>
<tr>
<td>FBR/ SRB/PRA</td>
<td>WPPF - Undistributed amount</td>
<td>Yearly</td>
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<td>Single return/ yearly and quarterly payments</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>No Change</td>
</tr>
<tr>
<td>Government of Pakistan</td>
<td>EOBI</td>
<td>Monthly</td>
<td>12</td>
<td>4</td>
</tr>
</tbody>
</table>

(Note-I): In the Tax Laws (Second Amendment) Ordinance 2019, exemption have been given to non-resident entities from filing statement u/s 115(4) solely due to reason of capital gains or profit on debt earned from such investment. This exemption should be made applicable to all foreign companies who are earning income subject to final tax.

#### 32. Delay and procedural hassles in Processing of Outstanding Refunds

Protracted delays in settlement of tax refunds is one of the biggest contributors in distorting the commercial image of Pakistan in all the Perception and Ease of Doing Business Surveys and a major factor 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. Moreover, through Finance Act, 2019, government has introduced refund bonds for the settlement of long outstanding income tax refunds. These refunds bonds have maturity of three years with 10% simple interest per annum payable at maturity.

As of February 2020, tax refunds pending of OICCI members aggregated to PKR 86 billion, which remained unsettled for a very long time, some of which are pending prior to 2005. However the refunds process is still long drawn and refunds of many companies have not been processed for many
years although FBR already has information readily available on the system. Furthermore, despite specific directions in the ITO 2001, fair mechanism of issuance of government bonds in lieu of income tax refunds is not provided yet and where issued, these bonds are neither being traded freely in the market nor being discounted by the banks mainly due to low interest versus current prevailing discount rate.

**Recommendation:**

i. All pending tax refund be cleared within next six months in an orderly/ prearranged manner.

ii. Verification process for refunds should start automatically as soon as an application for refund is filed by the taxpayer and tax refunds be cleared within 45 days.

iii. Inter adjustment of Income tax and Sales tax refunds should be made part of the law.

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

v. Amend current fixed interest rate of 10% to floating interest rate linked with KIBOR.

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

**Recommendation:**

i. 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.

ii. 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.

   a. Sections 60A and 60B should appropriately be amended to allow deduction against provincial laws of WWF and WPPF.

   b. Clarity should be inserted in respective laws regarding the basis of allocation of WWF/WPPF charge where the taxpayer is having industrial establishment in more than one province.

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

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

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

vi. Special attention be given to tax implication arising on emerging e-business models and asset-free web service providers who act 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.
34. 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.

Recommendation:

i. 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.

ii. Departure from VAT mode of taxation should be discouraged at all levels. Give examples of ‘not VAT taxation’

iii. FBR IT/Data integration 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 in-actives.

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

35. 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.

Recommendation:

i. Tax appellate forums should come under the direct supervision of High courts and should be independent of FBR.

ii. Professional Tax adjudicators should be appointed in the process with clear tasks of rapid disposal of cases.

iii. Recovery proceedings should not be initiated until tax assessments have passed at least one independent forum.

iv. Decision should be made within 60 days of the filing of the response?

36. Abrupt Implementation of Various Circulars/SROs

It has been observed time & again that certain changes were applied/implemented abruptly without giving time to corporate taxpayers, like the requirement of CNIC for purchases above PKR 50,000 by
OICCI TAXATION PROPOSALS (2020 – 2021)

retailers/wholesalers/distributors and printing of retail prices on imported consumer goods. This not only creates hurdles for all stakeholders for smooth functioning of their processes but also poses risk of non-compliance of law which, ultimately leads to notices, inquiries and penalties from tax authorities.

Recommendation:

i. Before announcing any such SRO or Circular, its impact, change in current practices, increase/decrease in ease of doing business/operations should be properly discussed and addressed with taxpayers/trade bodies/professionals so as to minimize hindrances at the time of implementation.

ii. Some breathing time should be made available before bringing any significant change.

37. Computerized Payment Receipts [CPRs] of withholding tax under section 153(1) (a) of ITO 2001 for sales made to Government Organizations, Institutions and NPOs.

Recommendation:

i. 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.

38. Requirements for registration as a manufacturer with FBR

For registration as a manufacturer with FBR, the Rule 5(h) of Sales Tax Rules, 2006 requires information including list of machinery installed and manufacturing facility is ready for the inspection of tax authorities, which could not be the case in the initial phase when a business is being setup. Being an unregistered manufacturer, the investor has to pay 3% extra GST on import of plant and machinery for setting up a manufacturing facility.

Recommendation

i. Waiver of condition of having installed plant & machinery for registration as manufacturer.

39. Filing of Withholding Tax Biannual Statements under section 165 of ITO 2001

Previously, for monthly statements, the law required that these statements should be submitted within fifteen days after the end of relevant tax period. Whereas, for biannual/six monthly statement only one month period has been provided to report all these transactions, which is not justified and should be extended to at least two months approx.

Recommendation:

i. As compiling the statements is a very tedious and time consuming process, the timeline to furnish these biannual statements should be extended to two months from the end of relevant tax period.

40. Alternate Dispute Resolution Committee (“ADRC”).

The introduction of Alternate Dispute Resolution Committee was indeed a great initiative by the Government, however, the Finance Act, 2018, amended the provisions of section 134A in a way that made the option unfeasible and unattractive to the taxpayers where it has been made mandatory that the appeal pending before any Appellate Authority must be irrevocably withdrawn first, i.e. before
approaching ADRC. Further, the order of the ADRC has been made binding on both the tax authorities and the taxpayer and cannot be appealed by any of the parties.

Prior to the amendments introduced by the Finance Act, 2018, the order passed by Federal Board of Revenue (“FBR”) on the recommendations of the ADRC was not binding on the aggrieved taxpayer but on the Tax Authorities, hence the risk of taxpayers not following the FBR order based on ADRC recommendations was not exist. Some may have seen this as not acceptable, as the taxpayer seemingly had an option to “walk away” and continue to pursue its appeals pending at various appellate forums.

Keeping in view the amendments made pertaining to ADRC in perspective, it appears that the very concept of “Alternate” has dissipated since the outcome is now binding on the taxpayer. Furthermore, the amended provisions do not appear to achieve the objects with which the concept of ADRC was introduced. Therefore, to encourage more taxpayers to adopt the route of Alternate Dispute Resolution, the position prior to the amendments made through Finance Act, 2018 may be restored.

Recommendation:

i. Keeping in view the amendments made pertaining to ADRC in perspective, it appears that the very concept of “Alternate” has dissipated since the outcome is now binding on the taxpayer. Furthermore, the amended provisions do not appear to achieve the objects with which the concept of ADRC was introduced. Therefore, to encourage more taxpayers to adopt the route of Alternate Dispute Resolution, the position prior to the amendments made through Finance Act, 2018 may be restored.
E. 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.

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

Recommendation:

i. 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.

ii. Tax authorities should use technology, data analytics including Artificial Intelligence tools and 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. 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.

iii. 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.

iv. 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.

v. “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.

vi. Section 111(4) of ITO 2001, which has also been amended in 2018, should be further reviewed to restrict tax free inward foreign remittances to immediate family members only.

vii. Eliminate culture of Amnesty Schemes as it discourages the honest tax payers.

viii. Severe, and visible, penalties should be levied to punish tax evaders, starting with evasions of over PKR one million.

ix. 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.

x. 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.
42. 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.

Recommendation:

i. It should be made mandatory for all businesses to maintain books of account and taxes should be levied on 'net income' basis only.

ii. 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.

iii. 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.

iv. 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.

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

Despite the revision of real estate values there is still a lot of difference between actual market value and various ‘official’ values of real estate across the country. Bearer certificates, bonds and other instruments lead to tax evasion.

Recommendation:

i. Shortcomings in the mode and manner of valuation of immovable properties to be addressed. Registration of sale and purchase of real estate should be on fair market value at the time of the transaction. Necessary information on market value of real estate can be easily obtained.

ii. Sale of all kinds of bearer securities, prize bonds, and other such items should be stopped.

44. Active and In-actives Filers

Different treatments for filers and in-active filers are helping in increasing return filers and broadening the tax net.

Recommendation:

i. This treatment should be extended further e.g. Lower taxes should be charged to active filers on plane tickets, vehicle taxes and utility bills etc. and, correspondingly, higher withholding taxes should be levied on in-active filers.

ii. Additional preferential treatments to active filers may also help – e.g. active filers should be given early utility connections etc.

iii. Currently Fertilizer manufacturers collect Advance withholding tax from their dealers @ 1.4% for In-active filers and 0.7% for active 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.
45. Exemption on Agriculture income and others should be withdrawn [Section 41 of ITO 2001 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:

i. Exemption given to agriculture income should be withdrawn and agriculturists should file income tax returns and wealth statements.

ii. Suitable provisions should be incorporated in ITO 2001 to enable tax authorities to implement the requirement of filing of income tax returns and wealth statements, effectively.

iii. 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.
INDUSTRY SPECIFIC PROPOSALS

This section comprises of sector specific proposals identifying issues faced by different business sectors. These recommendations have important ramifications for OICCI members and need to be reviewed by the concerned authorities (FBR/Ministries of Finance/Commerce/Industries) for appropriate changes in law.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Automobile</td>
<td>32</td>
</tr>
<tr>
<td>B. Banking, Leasing &amp; Insurance</td>
<td>33</td>
</tr>
<tr>
<td>C. Chemicals/ Pesticides/ Fertilizers/ Paints/ Cement</td>
<td>36</td>
</tr>
<tr>
<td>D. Engineering/ Electrical</td>
<td>39</td>
</tr>
<tr>
<td>E. Fast Moving Consumer Goods/ Dairy Products</td>
<td>40</td>
</tr>
<tr>
<td>F. Oil, Gas and Energy</td>
<td>42</td>
</tr>
<tr>
<td>G. Pharmaceutical</td>
<td>46</td>
</tr>
<tr>
<td>H. Telecommunication</td>
<td>48</td>
</tr>
<tr>
<td>I. Tobacco</td>
<td>51</td>
</tr>
</tbody>
</table>
Annexure I

OICCI Taxation Proposals 2020 – 2021

Industry Specific Proposals

A. AUTOMOBILES

1. Federal Excise Duty (FED) on locally manufactured vehicles be withdrawn

The Finance Act, 2019, revised FED on all categories of locally manufactured motor vehicle (Motor car & SUV’s, 8703 category) as follows:

<table>
<thead>
<tr>
<th>Vehicle (cc)</th>
<th>FED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up 3 to 1000cc</td>
<td>2.5%</td>
</tr>
<tr>
<td>1001cc to 2000cc</td>
<td>5%</td>
</tr>
<tr>
<td>2000cc and above</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

This has resulted in significant increase of the sales price of the vehicles with consequential reduction in sales volume of the respective vehicle categories.

Recommendation

i. Levy of FED on locally manufactured vehicles be withdrawn by deleting the serial no. 55B of Table I of First Schedule to the Federal Excise Act, 2005.

2. Withholding Income Tax under section 231B

Currently, as per table under Division VII of Part IV of First Schedule, following advance tax u/s 231B is collected by manufacturers on the following categories of vehicles:

<table>
<thead>
<tr>
<th>Engine Capacity</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001cc to 1300cc</td>
<td>25,000</td>
</tr>
<tr>
<td>1301 cc to 1600cc</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Presently, most of the locally manufactured sedans passenger cars fall slightly above the 1300cc category which includes Honda City (1339cc) etc. This slightly higher engine capacity size results in these vehicles falling in higher tax bracket making it more expensive with higher upfront cost to customers.

Recommendations

i. Amendment be made in the categories of vehicles mentioned in Division VII of Part IV of First Schedule as follows:

<table>
<thead>
<tr>
<th>Engine Capacity</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001cc to 1350cc</td>
<td>25,000</td>
</tr>
<tr>
<td>1351 cc to 1600cc</td>
<td>50,000</td>
</tr>
</tbody>
</table>

3. Additional Custom Duty:

Additional custom duty (ACD) was levied vide SRO 1178 (I) 2015 on various items, including raw materials, at 1% which was enhanced to 2% vide SRO 630 (I) / 2018. Through SRO 670 (I) / 2019, levy of ACD was further enhanced and slab wise ACD was introduced as follows:

<table>
<thead>
<tr>
<th>Tariff Slab</th>
<th>Additional Custom Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff slabs of 0%, 3% and 11%</td>
<td>2%</td>
</tr>
<tr>
<td>Tariff slab of 16%</td>
<td>4%</td>
</tr>
<tr>
<td>20% and higher</td>
<td>7%</td>
</tr>
</tbody>
</table>

Recommendation

i. Exempt imports made under SRO 655(I)/2006 & SRO 656(I)/2006 from ACD.
B. BANKING, LEASING AND INSURANCE

*Note: Islamic banking recommendation included in general proposals have not been duplicated here*

1. **Effective Tax of Banking Sector**

   The banking sector tax rates are not aligned with the general corporate tax rates. Furthermore, through Finance Supplementary (Second Amendment) Bill 2019, Super Tax @ 4% is made applicable on banks from tax year 2018 to tax year 2021.

**Recommendations**

   i. Corporate tax rates for the banking sector should be aligned with other sectors.

   ii. Super Tax relief, as granted to other industries, should be given to banking sector as well.

2. **Tax Deduction on Profit on Debt under section 151 of ITO 2001**

   Through Circular No.1/2-STB/2019 dated 26th July 2019, FBR has clarified that withholding tax under section 151 shall be deducted on the basis of cumulative profit paid in a tax year. The circular is in contradiction with the Act, which requires that withholding tax shall be deducted on payment basis.

**Recommendation**

   i. The circular should be withdrawn, to avoid litigation between banks and department.

   ii. There should be a uniform withholding tax rate of 15% for all payments of profit on debt.

3. **Section 165 & 165A of ITO 2001 – Submission of statements and information by Banks**

   The Clause (81A) of Part IV to the Second Schedule was inserted vide the Finance (Second Amendment) Act 2019 to exclude the reporting requirements under section 165 of ITO 2001 with respect to withholding tax under section 151 (Profit on Debt) and 231A (Cash Withdrawal) since both the withholding sections are required to be reported under section 165A. The clause was abolished vide Finance Act 2019, resulting in duplication of reporting i.e. WHT under section 151 and 231A has to be reported, with a threshold, under section 165A on monthly basis and again under section 165 on bi-annual basis, but without any threshold i.e., WHT of even Rs. 1 has to be be reported under section 165A.

**Recommendation**

   i. Clause (81A) of Part IV to the Second Schedule should be restored to avoid duplication of reporting and handling of voluminous data for immaterial WHT transactions. Not clear?

   ii. Alternatively, reporting requirement of section 165A for both these sections (151 and 231A) should be deleted to avoid double reporting.

4. **Enhanced rate of tax on Additional income from additional investment in Federal Government Securities (Rule 6C of Seventh Schedule):**

   A major change was introduced, with effect from tax year 2020 (i.e. Calendar Year 2019) and onwards, in taxation of banking companies, in Seventh Schedule of the ITO 2001 whereby enhanced
rate of 37.5% was applied on banks income from additional investment in Federal Government Securities. The banks are already taxed at very high rate (income tax: 35% and super tax:4%) and this tax incidence will further worsen the position for the banks with a double impact.

Recommendation:

i. Rule 6C of seventh schedule of ITO 2001 should be deleted.

5. Issuance of Bonds against the determined income tax Refund (Section 171A):

Finance Act 2019, introduced the concept of issuance of income tax refund bonds against the determined income tax refund in lieu of payment through refund vouchers. These bonds would have maturity of 3 years with annual simple profit of 10%, to be paid in full at maturity and tradable in secondary market.

Recommendation:

i. Payment of profit should be on a six monthly basis instead of at maturity i.e. 3 years. The return rate should be at the prevailing market rates e.g. 3 year PIB which is a valid existing benchmark on compound interest basis. OR

ii. As the rate of return is very low the income from the bonds should be taxed at 10%.

6. Rules for person not appearing in Active Taxpayer List (Section 100BA and Tenth Schedule):

As per Finance Act 2019, if a withholding tax agent is satisfied that a person not appearing in Active Taxpayers List (ATL) is not required to file return, then before deducting tax he will furnish to the Commissioner a notice carrying particulars of taxpayer along with reason on the basis of which it is considered that the person is not required to file a return. These rules are not practical for implementation on a withholding agent and the entire exercise should be between customer/accountholder/vendor and tax authorities. The bank branches staff are not conversant with the income tax law to determine who is required to file tax return and who is not, and this will create dispute between customer and bank branches.

Recommendation:

i. Delete the rule or alternatively, if FBR is satisfied that a person is not required to file return of income, his CNIC/Name should be included in an Exempt Taxpayer List (Similar to ATL) which should be issued periodically.

7. Restoration of the Original Provision related to Bad Debts:

Seventh Schedule of ITO 2001 was introduced with the objective of eliminating or substantially reducing the disputes between the Tax Authorities and the banks in Pakistan. However, the Tax Authorities have upset the very spirit of the Seventh Schedule by aborting the treatment for bad debts originally enacted by making amendments even before it came in to force.

Recommendation:

i. It is suggested that the original provision of the Seventh Schedule should be restored where provision for bad debts as per the Prudential Regulations of SBP and supported by an Auditors certificate was allowable as a tax deduction to the banks. Or alternatively;

ii. Threshold for allowing provision for bad debts should be increased to 2% of gross advances to corporate customers.
8. **Overriding Provision in Seventh Schedule to ITO 2001:**

Rule 9 of the Seventh Schedule states that the provision of the Ordinance not specifically dealt with in the aforesaid schedule shall apply mutatis mutandis, to the banking company. This rule is being misused and leading to unnecessary litigation. Further no such rule exists in Fourth and fifth schedules for insurance and oil exploration companies; therefore, this is a discriminatory treatment with banks.

**Recommendation:**

i. The rule 9 of the Seventh Schedule of ITO 2001 should be deleted.
C. CHEMICAL/ PESTICIDES/ FERTILIZERS/ PAINTS/ CEMENT

1. Final Tax at Import Stage for Fertilizer manufacturers

Section 148 (7) (b) of ITO 2001 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

i. Clause b of Section 148(7) of ITO 2001 as deleted by the Finance Act, 2017 should be restated, which read as follows:

148(7) b fertilizer by manufacturer of fertilizer

2. Input tax disallowance for sales to unregistered persons under the STA 1990 – Section 73(4)

Through Tax Laws (Second Amendment) Ordinance 2019, a new sub-section has been inserted in section 73 of STA 1990 where input tax of manufacturer will be disallowed proportionately if its sales are made to single unregistered person exceeding Rs. 100 Million in a financial year or Rs. 10 million in a month.

Recommendation

i. Industry specific exemptions be allowed to fertilizer sector

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

Clause 42 of the provisions of sub-section 3 of section 153 of ITO 2001 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

i. 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.”

4. Section 3 (2)(b) / Section 4 (d) of STA 1990

Recommendation

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

5. Sales Tax rate on raw material of Paints
Mushroom growth of paint companies involved in tax evasion is giving unfair competition to the organized sector. The items like; Epoxies, Resins, Pigments, Solvents, should be on regulated raw materials and importer should provide proof of their consumption/disposal.

**Recommendation**

i. **Sales tax of 25% should be imposed on some basic raw materials like Titanium dioxide and other following categories for commercial importers.**

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

### 6. Section 13(1) of the STA 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. However, input tax @ 7% along with value addition tax @ 3% paid on import of pesticides before June 25th 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 them relief from sales tax.

**Recommendation**

i. **Sales tax on import and supply of fertilizers and plant growth regulators (Customs Tariff Heading 3808.9310 & 3808.9390) should also be withdrawn in line with sales tax on pesticides**

ii. **Customs duty on import of fungicides (Customs Tariff Heading 3808.9210) should be abolished**

iii. **The pending refund claims in respect of unadjusted input tax should be settled to provide instant relief to the already aggrieved taxpayers. True for all refunds**

iv. **Exemption from sales tax under Serial No. 133 of Sixth Schedule be also available to commercial importers and local suppliers of active ingredients of pesticides registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II of 1971).**

### 7. Tax Relief on Import of the Micronutrients

To assist farmers, the current policy is that there is no import duty and lower sales tax for micronutrients which are imported under Chapter 31 of Pakistan Customs Tariff. However, for micronutrients 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:

<table>
<thead>
<tr>
<th>Chapter</th>
<th>31</th>
<th>38</th>
<th>28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional import value</td>
<td>Rs.1,000,000</td>
<td>Rs.1,000,000</td>
<td>Rs.1,000,000</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>0%</td>
<td>-</td>
<td>11%</td>
</tr>
<tr>
<td>Additional customs Duty</td>
<td>0%</td>
<td>-</td>
<td>2%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>2%</td>
<td>Rs. 20,000</td>
<td>17%</td>
</tr>
<tr>
<td>Additional Sales Tax</td>
<td>3%</td>
<td>Rs. 30,000</td>
<td>3%</td>
</tr>
</tbody>
</table>
Annexure I

OICCI Taxation Proposals 2020 – 2021

Industry Specific Proposals

<table>
<thead>
<tr>
<th>Income Tax</th>
<th>5.50%</th>
<th>Rs. 57,750</th>
<th>5.50%</th>
<th>Rs.74,580</th>
<th>5.50%</th>
<th>Rs.67,320</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional amount</td>
<td></td>
<td>Rs.107,750</td>
<td></td>
<td>Rs.430,580</td>
<td></td>
<td>Rs.291,320</td>
</tr>
<tr>
<td>Effective charging rate</td>
<td>10.78%</td>
<td>43.06%</td>
<td>29.13%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Recommendation

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

8. 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 is split into different 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

i. 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.
ii. Need to implement HS 2017 in PCT 2017-18 and Pure MDI will be cleared in this heading as per global customs’ practice.
iii. There is a need to clear Modified MDI in 3909.5000 as per global customs’ practice.


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

Recommendation

i. All grade of Titanium dioxide TiO2 and all Silica range (Precipitated Silicas) which are highly specialized grades, should be cleared at 0% custom duty.
ii. 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.

10. Tax credit to incentivize Research & Development (R&D) spend in agricultural sector

Recommendation

i. R&D expenses for agricultural sector should be given tax credit to incentivize local investments to enhance crop yield.
1. 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
   i. 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.

2. Consequent to amendments in law relating to IOCO arrangements, sales tax (including duties) is exempt under fifth schedule of Customs Act under serial no 23 on all type of housing i.e. “Housing/Shell, shell cover and base cap for all kinds of LED Lights and Bulbs under respective headings. Accordingly, sales tax should have been exempt on said product under sixth schedule of STA 1990. However, this is not the case as related amendment in sixth schedule of STA 1990 was not made.

Recommendation
   i. To align with amendment in fifth schedule of Customs Act under serial no 23, consequent amendment be made in serial no. 15A of sixth Schedule of STA 1990 for description of goods for HS code 9405.1090 be changed from Aluminum Housing /shell for LED (LED Light Fixture) to Housing/Shell, shell cover and base cap for all kinds of LED Lights and Bulbs as.

3. Through Finance Supplementary (Amendment) Act October 2018, Energy Saving Tubes under HS code 8539.3120 are exempted from sales tax (including duties) under serial no. 22 (xiii) of fifth Schedule of Customs Act 1969. However, related amendments are not made in table 3, serial no. 15 of sixth Schedule of STA 1990.

Recommendation
   i. To align with amendment in fifth schedule of Customs Act under serial no 22 (xiii), consequent amendment be made in serial no. 15 in table 3 of sixth Schedule of STA 1990 by addition of HS code 8539.3120.

4. 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 in Finance Act 2016 has adversely affected the export business of companies.

Recommendation
   i. The rate of tax needs to be reverted back to 1%.
E. FAST MOVING CONSUMER GOODS

1. Imported items in Third schedule of STA 1990

As per Finance Act, 2019, the retail price regime is also applicable on imported items falling in Third schedule of STA 1990. Consequently, at the time of import, items falling under the said schedule are subject to sales tax at retail price rather than assessed price. If retail price is not printed on the item, in that case sales tax is calculated on 130% of the custom value. This creates issue at the time of import of raw tea being third schedule item. The raw tea imported is process and blended and then packed in Pakistan to make it ready for the marketing. Due to this, printing of retail price at the time of import is impossible and as a result custom authorities collect tax on 130% of custom value which result in excess input tax.

Recommendation:

i. The words “in retail packing” to be mentioned with tea (serial no. 14) in order to clarify that sales tax at retail price is only applicable in case of imported finished tea in retail packing.

2. Zero rating for Milk & Milk Based Products

Through finance act 2015, 2016 and 2019 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, whey and Fat Filled milk whilst UHT milk has been categorized as “Exempt” under the STA 1990. Introduction of exempt regime has reversed the trend of packaged milk industry growth and has resulted in rapid decline of almost 12% in the industry volumes in 2018 only. Continued trend of this scale will severally impact new investments in the sector and may result in exit of some manufacturers leading to lost jobs and the market share will again eventually rest with undocumented and untaxed loose milk.

Recommendation

i. Re-transpose the dairy products to the fifth schedule of the STA 1990 & resume the Zero Rating facility for the dairy sector (HS Codes 0401, 0402, 0403, 0405,1901.9090), for continuous growth and availability of good quality products to the consumer at an affordable cost through the tax complaint sector. Moreover, it will boost the income tax revenue collection through rapid growth in sales and profitability of the sector.

3. Taxation of Milk and Cream Concentrated

Taxation of milk powders vide 10% sales tax in Finance Act 2015, on milk powders sold in retail packing negatively impacted the manufacturing of such products. The price sensitivity of the product is evident from the nose dive in sales of full cream milk powders in retail packing after imposition of 10% sales tax. Just like liquid milk, milk powders are consumed in liquid form as both are essentially alternatively usable product. The powder format is not a luxury but necessity for many price sensitive lower middle class families.

Recommendation

i. Taxation of milk and cream concentrated (HS code 0402) e.g. locally produced full cream milk powder should be taxed in line with liquid milk counterparts.
4. **Zero rating for Packaging materials of Milk & Milk Based Products**

The current sales tax on the packaging materials for use by domestic liquid food packaging industry is anomalous as basic raw materials for UHT milk are being charged to sales tax at high rates.

**Recommendation**

i. The packaging materials of dairy products should be taxed at zero rate under the fifth schedule of the STA 1990.

5. **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 ITO 2001.

Whilst if a milk is purchased through commission agent, then it attract the provisions of section 233 of ITO 2001 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**

i. Exempt ‘milk’ from withholding tax whether it is purchased directly from the farmer or through commission agent.

6. **Regulatory Duty on Imports in Dairy Sector**

Regulatory duty was imposed on various items with an objective of reducing imports bill by curbing imports of luxury and non-essential items. However, basic raw material for dairy industry such as milk powder and whey have also been subjected to imposition of 25% regulatory duty which has adversely impacted the cost of doing business.

Import of milk powders is imperative for production of various dairy products in times of milk insufficiency, especially in summers when local supply is not enough to meet demand.

**Recommendation**

i. Regulatory duty should be withdrawn or its rate should be minimized on import of raw material for dairy sector.

ii. Alternatively, duties can be minimized by introduction of quota system by placement of these items under Part III, Fifth schedule of the Customs Act, 1969. Quota can be restricted for registered manufacturers of dairy products only and can be allowed as a proportion of fresh milk purchases of those manufacturers.

7. **GST exemptions for water projects.**

i. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of a water processing projects/water supply projects/ Waste to water/ desalination projects based on sea water/ untreated water or similar source of water

ii. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.

iii. This concession shall also be available to primary contractors of the project.
F. OIL, GAS AND ENERGY

i. Oil Exploration And Production Companies

1. 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

i. 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.

2. 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 ITO 2001, Super tax has been imposed @ 3% for E&P companies earning Rs 500million (equivalent to US$ 5million).

Recommendations

i. 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.

3. 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 favor of E&P companies.

Recommendations

i. Necessary clarification to be provided by tax authorities to assessing authorities.

4. 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.
Annexure I

OICCI Taxation Proposals 2020 – 2021

Industry Specific Proposals

Recommendation

i. Amendment be introduced in the relevant clause in favor of E&P companies for depletion to be calculated @ 15% of revenues before royalty deduction.

5. 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
i. 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.

6. Tax on dividend received from IPP’s/companies having zero tax liability – Division III of Part I

Since 1994 the dividend income paid by Independent Power Producers (IPP’s) was subject to tax @ 7.5% under the repealed Income Tax Ordinance, 1979 (ITO, 79). This was also the full and final tax in the hands of recipients and IPPs’ shareholders did not have to pay any additional tax when filing their tax returns.

Through Finance Act 2019, rates of dividend taxation have been revised,

i. In clause (a), the reduced tax rate of dividend of 7.5% for power generation industry (covering power purchaser, producer and supplier of coal to power producer) has been restricted to power producers only where such dividend is pass through under CPPA, and

ii. Higher rate of tax of 25% has been introduced under clause (c) of the said section for the Companies that have nil tax liability due to carry forward of losses, tax exemption or tax credits.

Hence, in case of power producers (having non-pass through agreements with CPPA) and coal suppliers, that previously enjoyed reduced rate under clause (a), the tax rate has been drastically increased from 7.5% to 25% due to exclusion from revised clause (a) and applicability of the new clause (c) as these entities are currently in tax holiday.

Recommendation
i. Clause (a) of Division III of Part I of First Schedule as applicable before Finance Act 2019, should be reinstated, to include power producer companies (having non-pass through agreements) and coal suppliers.

ii. Similarly, amendment be made for the withholding tax rates specified in clause (a) of Division I of Part III of the First Schedule, by reinstating the position prior to Finance Act 2019.

iii. The new clause (c) of Division III of Part I of First Schedule, inserted by Finance Act, 2019 be removed being against the fundamental principles of ITO, 2001.

7. Exemptions and Reliefs to Water Projects:

Water shortage in Pakistan in general and especially in Karachi has created problems for the civic bodies, consumer, industrial sector etc. According to a recent report by the IMF, Pakistan ranks third in the world among countries facing acute water shortage. According to UNDP & PCRWR report the country will reach absolute water scarcity by 2025. With a population of over 20 million research suggests that Karachi is currently short of around 550 MIGD. Due to abrupt increase in population
coupled with inability of the civic bodies to tap and utilize new water resources necessitated involvement of private sector. In order to facilitate the investor, the Government has exempted Greenfield projects from income & sales tax. This also ensures that the cost of the projects is minimized.

Recommendation

Proposed income tax exemptions:

i. **New Clause 126P Part I of the 2nd Schedule:** “Profits and gains of a company from a water processing projects / water supply projects / Waste to water / desalination projects based on sea water / untreated water or similar source of water”

ii. **New clause 146 Part I of the 2nd Schedule:** “Dividend received from a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule”

iii. **New Sub clause xxxv of clause 11A Part IV 2nd Schedule:** “Projects qualifying for exemption under clause (126P) of Part I of the Second Schedule”

iv. **New Sub clause 11F Part IV 2nd Schedule:** “The provisions of section 150 shall not apply in respect of dividend paid a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule”

---

### ii. Oil Refineries And Marketing Companies

8. **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

i. 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)”

9. **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

i. 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.
10. Advance tax on import of LNG

**Recommendations**

ii. 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.
**G. PHARMACEUTICAL**

1. **Sales Tax Zero Rating on Pharmaceutical Input**

   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.

**Recommendations**

   i. **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.**

2. **Section 21(O) of ITO 2001 – Definitions to be clarified**

   The current law restricts the admissibility of sales promotion expenditure incurred by pharmaceutical companies up to 10% of their turnover. However, the tax authorities tend to treat the entire marketing expenditure as advertisement, sales promotion & publicity expenditure (including resource cost in marketing department, awareness programs and Continuous Medical Education (CME) programs for doctors).

   Similarly, it is also not clear whether the turnover means “gross sales” or “net sales”.

**Recommendations**

   i. **A new circular explaining the definition of advertisement, sales promotion & publicity as well as turnover should be issued.**

3. **Reduced Rate of Advance Tax on import of pharmaceutical products not manufactured in Pakistan – [Sec 148 | Entry 5 of Part I of First Schedule to the ITO 2001]**

   The rate of advance tax to be collected by Collector of Customs u/s 148 is reduced from 5.5% to 4% pursuant to amendment through FA 2019 in respect of persons importing pharmaceutical products which are not manufactured in Pakistan. The reduced rate is applicable where the Drug Regulatory Authority of Pakistan (DRAP) issues a certificate to that effect. However, the DRAP has issued a clarification letter restricting the reduced rate benefit only for persons (implying individuals) importing such products for self-consumption disregarding the definition of persons given in the ITO 2001 which includes companies formed under the Companies Act 2017

**Recommendations**

   i. **The requirement to obtain certificate from DRAP be waived off by FBR.**

4. **Reduction of sales tax rate of packing material**

**Recommendations**

   i. **Reduction in rate of sales tax from 17% to 1% on packing materials supplied to pharmaceuticals companies.**
5. **Section 148 of ITO 2001 – Withdrawal of withholding income tax for import of drugs pertaining to Chronic diseases including Oncology and Hematology, Eye Blindness, Diabetes, Hypertension and Heart Failure**

Multinational companies are engaged in Oncology Patient Access programs whereby free of cost medicines are dispensed to Cancer patients (in collaboration with provincial governments). In this scenario, the 5.5% tax on the value of imports to be revisited for cases where products are being provided free of cost to the society. No income is being generated on such patient access programs – on the other hand, significant amounts of taxes are being paid.

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 such multinational pharmaceutical companies.

**Recommendations**

i. **Provide exemption from the operation of section 148 to the ITO 2001 on import of pharmaceutical medicines given free of cost under Patient Access Programs, through addition of a new clause in the Second Schedule to the ITO 2001.**

ii. **Allow tax exemptions/ tax credits where companies are offering such benefits to the society.**
Annexure I

OICCI Taxation Proposals 2020 – 2021

Industry Specific Proposals

H. TELECOMMUNICATION

6. 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:

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

7. 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 ITO 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:

i. 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 are extended to telecom sector as well.

8. 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 tele-density 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:

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

9. Adjustability of 8% withholding tax for services sector

Through Finance Act, 2016, an amendment was made in Section 153(1)(b) of the ITO 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 ITO 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:

i. The 8% minimum tax regime may be withdrawn and should be made adjustable.

10. Withholding Tax

Currently, telecommunication services in Pakistan are subject to withholding tax @ 12.5%, which is much higher as compared to other sectors. Since approximately 30% of the population lives below the poverty line and the percentage of return filers is also nominal, imposition of withholding tax on the entire subscriber base is neither fair nor based on sound principle of proportionate taxation.

Recommendation:

i. Abolish withholding tax to promote the accessibility of internet/data services to the low-income groups.

11. General Sales Tax (GST) / Federal Excise Duty (FED)

In Punjab, KPK, Baluchistan and Sindh, GST on telecom sector is charged from all consumers @19.5%. In the federal capital, this rate is 17%. It is pertinent to mention that the provinces are levying a much lower rate of GST on other services – i.e. 13% - 16%.

Recommendation:
i. Reduce and harmonize GST across the country – i.e. a single rate for all services across all jurisdictions.

ii. Since GST is a consumption tax on usage, the decrease in GST/FED rate will result in increase in usage of telecom services and consequently drive tax collection upwards.

iii. A recent GSMA study\(^1\) concluded that harmonization of GST on mobile services to 17% would yield have an estimated PKR 62 billion positive impact on the GDP and exchequer. Additionally, we can expect 4.5 million more subscribers primarily on mobile broadband, which will be further stimulate GDP growth.

12. Import Duty on Mobile Handsets:

After the implementation of DIRBS and accompanying tax increase, the smartphone penetration in the country has dropped by 6% in the current fiscal year. This is primarily due to the reason that for smartphone, we primarily rely on imports. Smartphones are not only used for communications but are predominantly used as an enabling tool for internet in almost all segments of the economy including finance, education, health, agriculture, social development etc. In the digital ecosystem, availability and affordability of these phones plays a major role in the growth of economy.

All imported mobile phones including smartphones are now heavily taxed, rendering them unaffordable for vast segment of the population. This lack of affordability has become major impediment in proliferation of broadband in the country.

**Recommendation:**

i. Retaining the current tax structure on low-end 2G handsets/feature phones (i.e. Rs. 500 as tax per device)

ii. Reducing taxes on 3G/4G handsets (smartphones) below Rs. 10,000 and cap it to a max of Rs. 1,000/- per device

iii. Reducing taxes on smartphones in the higher price brackets and cap it to a max of Rs. 5,000/- per device

\(^1\) GSMA Pakistan Report, March 2019
I. TOBACCO

Growing economic pressures due to fiscal and monetary tightening led to the legitimate tobacco industry to take two excise led price increases during the last 15 months which resulted in consumers’ down-trading in favor of Duty Not Paid cigarettes. These price increases have not only resulted in substantial growth in share of Duty Not Paid brands, but they have also adversely impacted government revenues despite the increase in excise duties in Sep’18 mini-budget and June’19 fiscal budget.

Effective reforms to increase excise collection from the tobacco industry are given in the below recommendations:

13. **FED ACT, 2005 – First Schedule – Table No. 1 (Serial Number 9)**

Reduce the price differential between Duty Paid & DNP sectors by maintaining a specific two-tier excise structure and reducing the excise rates in Tier-2 to address increasing price gap vs. Duty Not Paid, while ensuring compliance to minimum price laws.

<table>
<thead>
<tr>
<th>Excise Tiers</th>
<th>Current Thresholds</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier-1</td>
<td>Rs 5,200 per thousand cigarettes</td>
<td>Rs 5,200 per thousand cigarettes</td>
<td>This will support price stability</td>
</tr>
<tr>
<td>Tier-2</td>
<td>Rs 1,650 per thousand cigarettes</td>
<td>Rs 1,250 per thousand cigarettes</td>
<td>Help to manage the increasing price gap vs Duty Not Paid brands</td>
</tr>
</tbody>
</table>

14. **FED ACT, 2005 – First Schedule – Table No. 1 (Serial Number 7)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Levy</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmanufactured Tobacco</td>
<td>Rs 10/Kg</td>
<td>Rs 300/Kg</td>
<td>Higher levy on un-manufactured tobacco will increase cost of business for Duty Not Paid brands</td>
</tr>
</tbody>
</table>

15. **FED ACT, 2005 – Section 19 – Subsection 2(d)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Penalty</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty for selling below MLP for Cigarettes</td>
<td>Rs 20,000</td>
<td>• Rs 50,000</td>
<td>Increase penalty for selling cigarettes below minimum legal retail price will avoid tax evasion and strengthen enforcement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Extend jurisdiction of Police to take cognizance of this offence</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• To be declared a non-bailable offence</td>
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</tr>
</tbody>
</table>

16. **Introduce a Track & Trace Monitoring System**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Markings on Cigarette Packs</td>
<td>N/A</td>
<td>Track &amp; Trace Monitoring system implementation</td>
<td>Across the board implementation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Effective enforcement at retail level</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Appropriate penalties for breach of the law</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Level playing field within the tobacco industry</td>
</tr>
</tbody>
</table>

17. **Administrative actions to curb manufacturing and selling of illicit cigarettes**
### Annexure I

**OICCI Taxation Proposals 2020 – 2021**

**Industry Specific Proposals**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforcement</td>
<td>Inland Revenue Enforcement Network</td>
<td>Dedicated • Human Resource • Budget allocation • Logistics Support</td>
<td>This will help in curtailing growth and selling of illicit cigarettes</td>
</tr>
</tbody>
</table>

18. **Custom General Order No. 12 of 2002 Rule 34(a)(VI)**

<table>
<thead>
<tr>
<th>Rule</th>
<th>Current</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>34(a)(VI)</td>
<td>Confiscated/seized cigarettes offered to PIA/Duty Free Shops on appraised value with 25% discount</td>
<td>Confiscated/seized cigarettes will be ordered for destruction</td>
<td>Customs General Order 12 of 2002 will be harmonized with Cigarettes (Printing of Warning) Ordinance 1979</td>
</tr>
</tbody>
</table>

19. **Custom Rules 2001 Chapter V Rule 58 Sub Rule 3**

<table>
<thead>
<tr>
<th>Rule</th>
<th>Current</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>58(3)</td>
<td>List of goods not to be put on Auction</td>
<td>Confiscated/seized cigarettes to be included in the list</td>
<td>To stop recycling of Confiscated/ Seized Cigarettes</td>
</tr>
</tbody>
</table>

20. **Import Policy Order 2016, Health and Safety Requirements**

<table>
<thead>
<tr>
<th>Rule</th>
<th>Current</th>
<th>Recommendation</th>
<th>Rationale or Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Column [4] of Serial 12</td>
<td>Packets should carry the warning ‘smoking is injurious to health’.</td>
<td>Packets should carry the health warning mandated under the Cigarettes (Printing of Warning) Ordinance, 1979 from time to time.</td>
<td>Import Policy will be harmonized with Cigarettes (printing of warning) Ordinance 1979</td>
</tr>
</tbody>
</table>
RATIONALES AND BENEFITS

A. INCOME TAX

i. Corporate Tax

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

Rationale or Benefit
Good for tax equity and growth of business and economic activity. As an example Bangladesh has a concept of turnover tax similar to Pakistan but the applicable rate is much lower (0.1% to 1%). In comparison, Pakistan’s Minimum Tax rate is 2.5 times the rate applicable in Bangladesh which negatively affects the ease of doing business.

- Initial depreciation allowance of 25% is available in first year of investment in Plant & machinery which significantly reduces the taxable income in the year of investment. However, the companies making such investments are still required to discharge their tax liability u/s 113 which disregards this benefit, resulting in no cash flow benefit being available which negates the whole intention of the GOP for encouraging investment in plant and machinery/manufacturing activities.

- Abolishing section 113C would simplify determination of tax liability.

3. Restoration/Extension of Tax Credits

Rationale or Benefit
Facilitating new investments for economic growth and employment creation

4. Initial depreciation [Sec 23 of ITO 2001]

Rationale or Benefit
In order to incentivize new investments under the current changed economic scenario after outbreak of Corona virus.

7. Transactions under Dealership Arrangements

Rationale or Benefit
Dealer’s margin not being the income of the taxpayer cannot be added to its income and taxed, as the legislature’s power is limited to taxing income (whether that is profit or revenue). Further, this is tantamount to a penalty and a taxpayer cannot be penalized on account of another person’s non-compliance.
The withholding tax regime continues to be a key irritant for most tax payers, especially the manufacturing sector, and contributes negatively in Pakistan’s rating on World Bank’s "Ease of Doing Business".

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

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.

16. Minimum, Advance and Withholding Taxes related to Traders

Rationale or Benefit

- There should not be separate rates of advance tax in cases where sales to dealers/trader is made by manufacturing company or distributor entity. Hence this disparity of rates should be withdrawn and the rate in 236G (0.1%) should be applicable on sales to traders regardless of the sales being made by manufacturer or distributor.

- This will also avoid any refund which could arise through applicability of Advance Tax u/s 236H of 1% as compared to the enacted rate of 0.5% (minimum turnover tax) for traders having turnover up to PKR 100 million.

B. SALES TAX

20. Admissibility of Input sales tax on Civil work and other equipment & materials

Rationale or Benefit

Purchases of these items from registered sales tax persons will be encouraged, thereby increasing taxpayers under sales tax net and promoting further documentation of the economy.

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

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.

25. Section 8B in STA 1990 should be abolished for registered taxpayers

Rationale or Benefit

Improve the cash flows of the businesses of sales tax registered taxpayers, avoid sales tax unnecessary refunds and reduce cost of doing business.
C. EASE OF DOING BUSINESS

In order to attract sizeable Foreign Direct Investment (FDI) into the country and make it easy for doing business in Pakistan both for local and foreign investors, it is proposed to:

32. Delay and procedural hassles in Processing of Outstanding Refunds

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 five Perception surveys of OICCI. 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.

D. 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.

45. Exemption on Agriculture income and others should be withdrawn [Section 41 of ITO 2001 be amended]

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.

ANNEXURE I – INDUSTRY SPECIFIC PROPOSALS

a) AUTOMOBILES

1. Federal Excise Duty (FED) on locally manufactured vehicles be withdrawn

Rationale or Benefit

i. Withdrawal of FED will increase the number of vehicles sold and consequently government revenue from the auto sector will go up, more than offsetting the loss to the exchequer due to FED withdrawal.

2. Withholding Income Tax under section 231B

Rationale or Benefit

i. This amendment is likely to decrease the upfront cost of vehicle to customers and stimulate the demand in the market, resulting in higher revenue to the Government on overall basis.

3. Additional Custom Duty:

Rationale or Benefit
Annexure II

OICCI TAXATION PROPOSALS 2020 – 2021

Rationales and Benefits

1. Under the Automotive Development Policy 2016 (ADP) a road map of custom tariff on imports of components, sub-components CKD was outlined. The enhancement of ACD is not in line with ADP. Furthermore the levy of ACD has badly affected the competitiveness of local automotive industry.

c) Chemical/ Pesticides/ Fertilizers/ Paints/ Cement

1. Final Tax at Import Stage for Fertilizer manufacturers

Rationale or Benefit

i. 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.

2. Input tax disallowance for sales to unregistered persons under the STA 1990 – Section 73(4)

Rationale or Benefit

i. Fertilizer industry operates in the market with usually only one business partner in the value chain i.e. dealer who connects farmer/ end consumer to the registered manufacturer. These dealers are largely income tax filers and operate in registered framework.

ii. Moreover, sales documentation of this dealer network is being reasonably ensured through the CNIC requirement implemented through Section 23(1)(b) of STA 1990 inserted through Finance Act, 2019. Hence, in view of this requirement, dealers’ registration could be very costly in this industry where end consumers being farmers are generally reluctant to share their CNICs leading to additional cost to the tune of Rs. 40/bag for dealers seeking registration. Hence, such a budgetary requirement is onerous for the fertilizer industry at the cost of no additional benefit to the Government/ National Exchequer.

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

Rationale or Benefit

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

4. Section 3 (2)(b) / Section 4 (d) of STA 1990

Rationale or Benefit

i. 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 is 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.

5. Sales Tax rate on raw material of Paints

Rationale or Benefit

i. Increased revenue collection for the government.
Annexure II

OICCI TAXATION PROPOSALS 2020 – 2021

Rationales and Benefits

6. Section 13(1) of the STA 1990

Rationale or Benefit

i. Importers of pesticides have been over-burdened with additional cost in the form of unadjusted input tax paid before the exemption of pesticides subsequently introduced. The allowability of such refund has also been settled by the Appellate Tribunal Inland Revenue but needs implementation by the concerned tax authorities.

ii. Exemption from sales tax on import and supply of fertilizers and plant growth regulators (Customs Tariff Heading 3808.9310 & 3808.9390) 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.

7. Tax Relief on Import of the Micronutrients

Rationale or Benefit

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

8. Duty on MDI product family:

Rationale or Benefit

i. 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.


Rationale or Benefit

i. 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.

10. Tax credit to incentivize Research & Development (R&D) spend in agricultural sector

Rationale or benefit

i. The Fertilizer industry carries out various R&D projects in the agricultural sector (including farmers’ education and soil studies) through its farm advisory teams with hundreds of millions being spent on related R&D activities.

ii. Pakistan’s average yields are far behind the best practices in the World. Significant yield improvement is possible with the help of improved farmer education (usage technique, understanding of balanced use of fertilizers etc).
d) Engineering/ Electrical

1. 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%.

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

2. Consequent to amendments in law relating to IOCO arrangements, sales tax (including duties) is exempt under fifth schedule of Customs Act under serial no 23 on all type of housing i.e. "Housing/Shell, shell cover and base cap for all kinds of LED Lights and Bulbs under respective headings. Accordingly, sales tax should have been exempt on said product under sixth schedule of STA 1990. However, this is not the case as related amendment in sixth schedule of STA 1990 was not made.

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

3. Through Finance Supplementary (Amendment) Act October 2018, Energy Saving Tubes under HS code 8539.3120 are exempted from sales tax (including duties) under serial no. 22 (xiii) of fifth Schedule of Customs Act 1969. However, related amendments are not made in table 3, serial no. 15 of sixth Schedule of STA 1990.

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

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

Rationale or Benefit
i. The high tax is discouraging companies from investing in projects outside Pakistan and will also make them less competitive.

e) Fast Moving Consumer Goods

1. Imported items in Third schedule of STA 1990

Rationale or Benefit
i. Tea is imported as raw material and used for manufacturing purpose. Therefore, treating it as finished goods is no correct. Therefore, necessary amendment should be made in third schedule.
2. Zero rating for Milk & Milk Based Products

**Rationale or Benefit**

i. 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.

ii. Historically milk based products were part of sales tax zero rated regime since 2006 which naturally depicts the intention of the Federal Government to keep such products of daily necessity in affordable price range of general public. Zero rating tax policy will help the industry to manage prices and inflationary pressures will not be passed on to the consumers.

iii. 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.

4. Zero rating for Packaging materials of Milk & Milk Based Products

**Rationale or Benefit**

i. Current tariff is not only discriminatory but also goes against GOP’s concessional fiscal policy for the agriculture sector. Hence, there is need to provide a level-playing-field to the domestic liquid food packaging industry.

5. Withholding of Income Tax on Purchase of Fresh Milk

**Rationale or Benefit**

i. 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.

6. Regulatory Duty on Imports in Dairy Sector

**Rationale or Benefit**

i. Relaxation of regulatory duty on raw material consumed in production of essential dairy products will help local manufacturers to be competitive and the benefits will be passed on to the consumer while bringing down inflation.

**f) Oil, Gas and Energy**

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

**Rationale or Benefit**

i. 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.
Annexure II

OICCI TAXATION PROPOSALS 2020 – 2021

Rationales and Benefits

2. Limitation on payment to Federal Government and Taxes

Rationale or Benefit
i. 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).

3. Allowing Tax Credits

Rationale or Benefit
i. 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.

4. Depletion Allowance – [Rule 3 of part 1 of the Fifth Schedule of ITO 2001]

Rationale or Benefit
i. 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.

6. Tax on dividend received from IPP's/ companies having zero tax liability – Division III of Part I

Rationale or benefit
i. Governments provide various tax concessions/ exemptions to different sectors/ industries to make it lucrative for investors to set up industries and promote industrialization, attract foreign investments and contribute towards increasing country’s GDP. One such sector which is pivotal for our country’s economic progression is the energy sector. Large-scale, capital intensive investments have been made by several IPPs over the years in this segment, particularly the coal fired power projects in the Thar Coal field of Sindh. All such initiatives have been feasible to the investors on accounts of tax concessions/ exemptions.

ii. However, with the abrupt increase of dividend rate from 7.5% to 25%, the investors’ return has been drastically affected, which has distorted their confidence for prospective investment in new projects, along-side has also jeopardized expansion of existing projects.

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

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

iii. Liquefied Natural Gas (LNG)

10. Advance tax on import of LNG

Rationale or Benefit
i. This reduced rate incentive to all LNG buyers would open the LNG market and allow potential companies to invest in Pakistan.
Annexure II

OICCI TAXATION PROPOSALS 2020 – 2021
Rationales and Benefits

<table>
<thead>
<tr>
<th>g) Pharmaceutical</th>
</tr>
</thead>
</table>

1. **Sales Tax Zero Rating on Pharmaceutical Input**

**Rationale or Benefit**

i. This will promote the pharmaceutical industry whose prices are regulated by the government.

3. **Reduced Rate of Advance Tax on import of pharmaceutical products not manufactured in Pakistan – [Sec 148 | Entry 5 of Part I of First Schedule to the ITO 2001]**

**Rationale or Benefit**

i. Pharmaceutical companies should also be entitled to avail reduced tax incidence which is the intent of law/Consequent to the above proposed amendment, the existing litigations by taxpayer companies may also be withdrawn by them thus facilitating FBR in simplification and reduction of tax litigations.

4. **Reduction of sales tax rate of packing material**

**Rationale or Benefit**

i. Pharma products are exempt from sales tax and sales tax on packing materials charged to Pharmaceutical companies is increasing the cost of production. In order to provide some relief to pharma sector the rate of sales tax on packing materials provided to pharmaceuticals companies be reduced to 1%.

5. **Section 148 of ITO 2001 – Withdrawal of withholding income tax for import of drugs pertaining to Chronic diseases including Oncology and Hematology, Eye Blindness, Diabetes, Hypertension and Heart Failure**

**Rationale or Benefit**

i. It will promote the pharmaceutical industry and the eventual outreach of drugs of chronic diseases to the patients.
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. CHEMICAL/ PESTICIDES/ PAINTS SECTOR

<table>
<thead>
<tr>
<th>S. No</th>
<th>HS CODE</th>
<th>Tariff Description</th>
<th>Existing duty</th>
<th>Proposed duty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>CD %</td>
<td>RD %</td>
</tr>
<tr>
<td>1</td>
<td>3902.1000</td>
<td>Polypropylene</td>
<td>3</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>3902.3000</td>
<td>Propylene Copolymers</td>
<td>3</td>
<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>3206.1900</td>
<td>Other Pigment. Preparations Titanium Dioxide</td>
<td>16</td>
<td>N/A</td>
</tr>
<tr>
<td>4</td>
<td>3824.9993</td>
<td>Coated and Treated Calcium Carbonate</td>
<td>3</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>6903.9090</td>
<td>Other Refractory Ceramics goods --- Others</td>
<td>20</td>
<td>N/A</td>
</tr>
<tr>
<td>6</td>
<td>7605.1900</td>
<td>Aluminum Wire – Others</td>
<td>20</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### 2. DAIRY SECTOR

<table>
<thead>
<tr>
<th>PCT CODE</th>
<th>DESCRIPTION</th>
<th>EXISTING</th>
<th>PROPOSED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CD</td>
<td>ACD</td>
</tr>
<tr>
<td>1901.901</td>
<td>PROTOMALT EXTRACT</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>2106.9090</td>
<td>VITAMIN PREMIX</td>
<td>20%</td>
<td>7%</td>
</tr>
</tbody>
</table>

### 3. ENGINEERING SECTOR

<table>
<thead>
<tr>
<th>HS CODES</th>
<th>Tariff Description</th>
<th>Existing Custom Duty</th>
<th>Proposed Custom Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>3904-1090</td>
<td>PVC compound – PVC resin</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>7411.109</td>
<td>Copper tubes and pipes. ( - - - Other)</td>
<td>16%</td>
<td>0%</td>
</tr>
<tr>
<td>7210.709</td>
<td>Flat- rolled products of iron or non- alloy steel, of a width of 600 mm or more, clad, plated or coated. - Painted, varnished or coated with plastics: ( - - - Other)</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>7212.409</td>
<td>Flat- rolled products of iron or non- alloy steel, of a width of less than 600 mm, clad, plated or coated. - Painted, varnished or coated with plastics: ( - - - Other)</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>SNo</td>
<td>HS Code</td>
<td>Description</td>
<td>Preferred Duty</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>---------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>1.</td>
<td>7210.701</td>
<td>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated. Painted, varnished or coated with plastics (VCM or PCM coated sheets of a thickness not exceeding 0.5 mm)</td>
<td>3%</td>
</tr>
<tr>
<td>2.</td>
<td>3902.3</td>
<td>Polymers of propylene or of other olefins, in primary forms. Polypropylene copolymers</td>
<td>3%</td>
</tr>
<tr>
<td>3.</td>
<td>3824.78</td>
<td>Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries (including those consisting of mixtures of natural products, not elsewhere specified or included. (- - Containing perfluorocarbons (PFCs) or hydrofluorocarbons (HFCs), but not containing chlorofluorocarbons (CFCs) or hydrochlorofluorocarbons (HCFCs))</td>
<td>11.00%</td>
</tr>
<tr>
<td>4.</td>
<td>3904.21</td>
<td>Polymers of vinyl chloride or of other halogenated olefins, in primary forms. Non-plasticised</td>
<td>16.00%</td>
</tr>
<tr>
<td>5.</td>
<td>3904.22</td>
<td>Polymers of vinyl chloride or of other halogenated olefins, in primary forms. Plasticised</td>
<td>20.00%</td>
</tr>
<tr>
<td>6.</td>
<td>3909.31</td>
<td>Amino resins, phenolic resins and polyurethanes, in primary forms. Other amino resins. Poly(methylene phenyl isocyanate) (crude MDI, polymeric MDI)</td>
<td>20.00%</td>
</tr>
<tr>
<td>7.</td>
<td>3916.2</td>
<td>Monofilament of which any cross-sectional dimension exceeds 1 mm, rods, sticks and profile shapes, whether or not surface-worked but not otherwise worked, of plastics. Of polymers of vinyl chloride</td>
<td>20.00%</td>
</tr>
<tr>
<td>8.</td>
<td>3921.909</td>
<td>Other plates, sheets, film, foil and strip, of plastics. Other</td>
<td>20.00%</td>
</tr>
<tr>
<td>9.</td>
<td>4010.319</td>
<td>Conveyor or transmission belts or belting, of vulcanised rubber. Other</td>
<td>20.00%</td>
</tr>
<tr>
<td>10.</td>
<td>7306.309</td>
<td>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel. Other</td>
<td>16.00%</td>
</tr>
<tr>
<td>11.</td>
<td>7415.29</td>
<td>Nails, tacks, drawing pins, staples (other than those of heading 83.05) and similar articles, of copper or of iron or steel with heads of copper; screws, bolts, nuts, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of copper. Other</td>
<td>20.00%</td>
</tr>
<tr>
<td>12.</td>
<td>8532.29</td>
<td>Electrical capacitors, fixed, variable or adjustable (pre-set). Other</td>
<td>20.00%</td>
</tr>
<tr>
<td>13.</td>
<td>8539.492</td>
<td>Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps; light-emitting diode (LED) lamps. Other</td>
<td>20.00%</td>
</tr>
<tr>
<td>14.</td>
<td>7020.009</td>
<td>Other articles of glass. Other</td>
<td>27.00%</td>
</tr>
<tr>
<td>15.</td>
<td>8414.909</td>
<td>Air or vacuum pumps, air or other gas compressors and fans; ventilating or recycling hoods incorporating a fan, whether or not fitted with filters. Other</td>
<td>16%</td>
</tr>
<tr>
<td>16.</td>
<td>8415.903</td>
<td>Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated. Covers for inner body.</td>
<td>16%</td>
</tr>
<tr>
<td>17.</td>
<td>8415.9099</td>
<td>Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including</td>
<td>20%</td>
</tr>
</tbody>
</table>
### 4. FOOD AND CONSUMER SECTOR

<table>
<thead>
<tr>
<th>H.S Code</th>
<th>Item Description</th>
<th>Existing Duty Structure</th>
<th>Proposed Duty Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CD</td>
<td>ACD</td>
</tr>
<tr>
<td>3817</td>
<td>Linear Alkaline Benzene</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>3910</td>
<td>Silicon Emulsion</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>3302.909</td>
<td>Fragrances</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>404.101</td>
<td>Dairy Products; Whey Protein, Demineralized Sweet Whey powder</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>2915.9</td>
<td>Lauric Acid</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>2833.11</td>
<td>Sodium Sulphate</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>1507.9</td>
<td>Soya Bean Oil</td>
<td>Rs. 11700/PMT</td>
<td>2%</td>
</tr>
<tr>
<td>3901.1</td>
<td>LDPE – Light Density Poly Ethlene</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>3901.2</td>
<td>HDPE – High Density Poly Ethlene</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>3901.2</td>
<td>PET Resin - Poly Ethlene</td>
<td>11%</td>
<td>2%</td>
</tr>
</tbody>
</table>

### 5. PHARMACEUTICALS SECTOR

<table>
<thead>
<tr>
<th>PCT CODE</th>
<th>DESCRIPTION</th>
<th>EXISTING</th>
<th>PROPOSED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CD</td>
<td>CD</td>
</tr>
<tr>
<td>2933.5930</td>
<td>Ciprofloxacin API</td>
<td>20%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### 6. TEXTILE SECTOR
### OICCI Taxation Proposals 2020 – 2021

#### OICCI Duty Structure Recommendations – Sector wise list of PCT Codes

<table>
<thead>
<tr>
<th>HS CODE</th>
<th>DESCRIPTION</th>
<th>Existing CD</th>
<th>CD UNDER SCH.V</th>
<th>ACD</th>
<th>RD</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>5503.1100</td>
<td>SYNTHETIC STAPLE FIBER OR OTHER POLYMAIDES (PARA ARAMID)</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5503.3000</td>
<td>ACRYLIC AND MODACRYLIC</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5503.2010</td>
<td>POLYESTER NOT EXCEEDING 2.22 DECITEX (FIBER HPPE)</td>
<td>11</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5402.3300</td>
<td>SYNTHETIC FILAMENT YARN</td>
<td>11</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5402.3200</td>
<td>SYNTHETIC FILAMENT YARN</td>
<td>11</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5504.9000</td>
<td>ARTIFICIAL STAPLE FIBER</td>
<td>3%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5205.3100</td>
<td>COTTON YARN OTHER THAN SEWING THREAD</td>
<td>11%</td>
<td>2%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5508.1000</td>
<td>SEWING THREAD OF MAN MADE STAPLE FIBER (HPPE YARN)</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5605.0000</td>
<td>METALLISED YARN</td>
<td>11%</td>
<td>2%</td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>7019.1900</td>
<td>GLASS FIBERS INCLUDING GLASS WOOL</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>7223.0000</td>
<td>STAINLESS STEEL WIRE 304L 0.04 YARN</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>6310.9000</td>
<td>USED AND NEW RAGS</td>
<td>20%</td>
<td>7%</td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2917.2000</td>
<td>(DINCH) CARBOXYLIC ACID AND THEIR AN HYDRIDES</td>
<td>3%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2917-3990</td>
<td>(NEOT) CARBOXYLIC ACID AND THEIR AN HYDRIDES</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>3904.1010</td>
<td>(PEVIKON) POLYMER OR VINYL CHLORIDE</td>
<td>11%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>3812.3900</td>
<td>(LASTAB) COMPUND PLASTICIZER FOR RUBBER</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>8507.6000</td>
<td>LITHIUM ION BATTERIES</td>
<td>11%</td>
<td>5%</td>
<td>2%</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>