The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

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Gentlemen

Anomalies Arising out of Amendments proposed / not proposed through the Finance Bill 2024

1. TAXATION OF EXPORTS UNDER MINIMUM/ADVANCE/NORMAL TAX REGIME-

Pakistan's exports are not just a significant component of the economy, they are a vital lifeline for balancing the external account. The country's financial stability demands a significant increase in exports. Therefore, we are deeply concerned about the budget proposals that will have a significantly detrimental effect. Instead of facilitating and reducing the cost of exports, the proposals exacerbate the disadvantaged position that exporters face compared to other countries—please refer to Annexure One. Pakistan is at a disadvantage in all six key measures vs. Bangladesh, India, Vietnam, Indonesia, and Egypt. Keeping the exporters hassle free from Income tax filing/notices in Pakistan, (while not offering any rebates like Bangladesh or India) was one positive factor that has been taken away.

The current simple and transparent 1% tax, which is collected from export proceeds, is proposed to be doubled and furthermore exporters will ultimately be assessed at 39% corporate rate instead of earlier FTR. This impact of tax will be more than 3 times that in Bangladesh and more than 2 times of Vietnam, Egypt etc. Due to the 2% deduction on export proceeds, obtaining refunds in cases where 2% will be higher than the assessed will be at the mercy of bureaucratic delays and will likely result in harassment and extortion. In addition, it will create a cash flow burden on exporters.

ANOMALY – As evident from Annexure 1, Pakistan is at a disadvantageous position in all six key measures against other regional competitors. In these circumstances, changing the tax regime to Normal and collecting at the minimum 100% more tax as compared to the existing rate is an apparent anomaly and needs to be rectified.

2. TAX ON SALARIED EMPLOYEES

The 119% increase in the number of Pakistanis emigrating is surely a major cause for concern. Many of these individuals are experienced, high-quality professionals that the formal sector is losing. The proposed changes in slab rates, particularly the earlier application of the 35% top rate, will accelerate this brain drain. The formal sector not only loses talent when individuals emigrate but also suffers from their transition to the informal, untaxed sector. Salaried employees bear numerous costs that the state

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is meant to but fails to cover. The proposal to increase tax revenue from this sector is unjust. Unlike a government, which can print money and borrow to fund the 20-25% increase in salaries of its

employees, the private sector will be adversely affected by a higher brain drain as professionals seek lower-taxed environments in and outside Pakistan.

ANOMALY – During current times when a vast majority of Pakistanis are trying to move abroad due to many factors including inflation and tax rates, further increasing the tax rate while realizing the fact that salary income is taxed on gross basis, is an anomaly and needs to be rectified.

3. INCREASE IN GST ON TIER-ONE POS REGISTERED OUTLETS

To encourage documentation, the tier-one POS registered textiles and leather outlets were provided with a reduced GST rate of 15%. The Budget proposes that this rate be increased to the standard rate of 18%, which will thwart the growth of POS integration. If we are serious about pursuing POS integration, and giving an edge to retailers paying sales tax as per their actual sales we recommend enhancing the differential instead of withdrawing it.

ANOMALY – Instead of bringing the undocumented sector into the tax net and integrating more retailers with the POS system, treating already compliant taxpayer at par with unregistered retailers is an anomaly and needs to be rectified as this proposal is effectively incentivizing those who are not registered with POS.

4. UNDUE & UNFAIR RELIANCE ON SALES TAX WITHHOLDING

Sales Tax withholding @ 14.4% of appliable sales tax [vis 80% of 18%] has been proposed to be applied on purchase of any kind of plastic waste or waste of paper, by registered person from another registered person or from unregistered person. Recycling has a big informal sector. The govt has to promote recycling in the formal sector since even if Formal sector engaged in recycling does not withhold sales tax on purchase of recycling material supplier it will ultimately pay 18% sales tax on its output made from such recyclable material.

Withholding agent	Supplier Category [Whether registered or unregistered]
Registered persons manufacturing cement	Persons supplying any kind of gypsum under Chapter 25 or limestone flux under chapter 25
Registered Persons	Persons supplying any kind of coal under Chapter 27
	Persons supplying any kind of waste of paper and paper board
	Persons supplying any kind of plastic waste
	Persons supplying crush stone and silica

ANOMALY – Imposition of withholding tax on purchase not only increases the funding cost of the registered recycler but drives out the supplier of material from supplying to the registered recycler to the unregistered recycler. And also gives an edge to the unregistered recycler. The govt has already allowed in this budget purchase of iron and scrap exempt from sales tax so the same should be done for plastic waste and waste of paper, to promote supply of recyclable plastic scrap to registered recyclers

5. TAXATION OF GAINS FROM THE SALE OF SHARES OF PRIVATE COMPANIES

Capital gain from the disposal of immovable properties and shares of listed companies is proposed to be charged tax at 15% irrespective of the holding period; however, gain on disposal of shares of private companies, irrespective of the holding period, is proposed to be chargeable to capital gains tax at applicable slab rate up to of maximum of 45%.

ANOMALY - This is an apparent anomaly that will discourage foreign investment. A shareholder proposing to enter into a JV arrangement with a foreign partner must offer his shareholding to foreign investors; however, the tax rate of 45% will discourage such transactions. This anomaly must be removed by subjecting such gains to the 15% tax rate applicable to other assets.

6. WITHDRAWAL OF POWERS TO ISSUE EXEMPTION CERTIFICATES

Currently, the Commissioner holds the authority to issue exemption certificates in cases where a person's income is exempt from tax or is subject to a 100% tax credit, such as in the case of non-profit organizations. Additionally, the Commissioner can issue exemption certificates for payments related to the sale of goods, services rendered, and the execution of contracts by both resident and non-resident persons, subject to certain conditions. It is pertinent to note that the exemption certificate is issued based on estimated tax liability filed by the taxpayers and can attract penal provisions if the estimates are incorrect. However, it is now proposed that the Commissioner's authority to issue exemption certificates be withdrawn. The Commissioner would retain the authority to issue certificates for a lower tax rate.

ANOMALY – Abolishment of right of exemption certificate incase where a person's income is either exempt or subject to 100% tax credit on incases where person has already discharged advance tax liability is an apparent anomaly and must be rectified.

7. WITHDRAWAL OF ZERO RATING FOR SALES TAX ON LOCAL INPUTS FOR EXPORTS

The proposed withdrawal of sales tax zero-rating under the Export Facilitation Scheme (EFS) on the supply of local inputs to exporters will once again create a disparity between imports (which will continue to benefit from EFS) & local production.

ANOMALY - It will disadvantage domestic manufacturers of intermediate inputs against inputs that exporters can import free of duty and sales tax. Exporters would prefer not to wait for sales tax refunds on local supplies.

8. IMPOSITION OF SALES TAX AT 18% ON HANDSETS BELOW US$500 & @ 25% ON MORE THAN US $500

Imposing a 18% sales tax on handsets below $500 will impede broadband penetration and digitalization in Pakistan. Affordable mobile handsets are crucial for increasing digital access, epecially in a country where mobile phones are the primary means of accessing the internet for a large portion of the population.

ANOMALY – A significant tax hike on these handsets will make them less affordable, particularly for low-income households, thereby limiting their ability to access digital services. This could slow down the adoption of digital technologies and services

9. ADVANCE TAX COLLECTION ON MOBILE SERVICES TO NON-FILERS

At present, non-filers are subjected to higher tax rates to make their cost of doing business higher as well as to compel them to file their returns. The authorities have proposed 75% W.H.T tax for late tax filers. Telecom operators do not have any system provisioning to cater for this new development as currently W.H.T is charged at 15% across all individuals irrespective of filer or non-filer. In the light of recent Income Tax General Order 1 of 2024 where government has directed to block sims, first line of defense will be to charge 75% W.H.T and then proceed towards blocking of sims and disconnection of utility connections.

ANOMALY – The telecom infrastructure is not equipped to handle multiple tax rates, leading to operational inefficiencies and increased consumer costs.

10. PENALIZING THE ENABLERS OF THE INCOME TAX GENERAL ORDERS

In case of the Income Tax General Order, where implementing agencies do not block SIMS or mobile phones or fail to disconnect utility connections or comply with the newly introduced bar on foreign travel, a penalty of Rs.100 million will be imposed upon the implementing agency for first default and Rs.200 million for each subsequent default. Penalties and prosecutions are proposed for entities failing to fully disclose relevant particulars or submitting incomplete information in their tax returns or failure to file return on discontinuation of their business.

ANOMALY – Such punitive measures will only breed more litigation in the courts and ultimately compromise any objective of increasing the tax to GDP ratio. We recommend collaborative efforts to raise tax compliance awareness and a gradual implementation of new policies.

11. APPLICABILITY OF FASTER BASED SALES TAX REFUND PROCESSING ONLY TO 5 ERSTWHILE EXPORT ORIENTED SECTORS

Faster based sales tax refund processing, which at present, is available to erstwhile export oriented sectors, has not been extended to other exporters and these have been left at the mercy of tax officers to get their refund processed with extreme delay and time and that too after unnecessary human interaction. Since exporters are already facing many issues like exponential increase in utility prices, reduction in overall demand of goods etc, PBC would suggest avoiding any further hurdle / bottleneck for exporters and instead encourage exporters to earn more foreign exchange for the Country, which is extremely necessary during these challenging times.

ANOMALY - Method being adopted by FBR by moving away from technology and promoting manual verification and unnecessary interaction between tax officers **and exporters is beyond comprehension and an apparent anomaly**, therefore, the same should immediately be rectified by allowing FASTER based refund processing to all exporters. Ministry of Commerce, vide its letter dated January 24, 2024 has also recommended to implement this, however, this is still pending

12. UNDUE RESTRICTION UNDER SECTION 8B OF THE SALES TAX ACT FOR EXPORTERS

Section 8B restricts Input tax adjustment to the extent of 90% of the Output tax [i.e., ratio of Input / Output ≤ 90%]. As per SRO 1190 dated October 2, 2019, section 8B is not applicable to persons whose zero-rated supplies during a month is more than 50% of the total supplies. The condition of 50% should be amended to 10% on monthly basis for all exports irrespective of any sector otherwise it would not be possible for registered person to absorb the amount of input tax paid for the purposes of manufacturing of items for local and export sales and consequently, the same would discourage export of goods.

ANOMALY - Exports do not contribute towards Output tax, therefore, levy of minimum tax even on input tax paid for exports is unfair and incomprehensible. This amendment is necessary to encourage local manufacturers with excess production capacity to look for export opportunities for unutilized capacity. At present, due to restriction under section 8B, manufacturers with surplus capacity are reluctant to venture into export markets.

13. MULTIPLE STAGE TAX ON INTER-CORPORATE DIVIDEND

The following amendment in section 59B, which was earlier suggested by PBC, has not been incorporated in the Finance Bill and must be added to rectify anomaly of multi-stage taxation of inter-corporate dividend:

"Distribution of dividends within companies eligible for group relief under this section shall not be deemed a taxable event"

ANOMALY -

a) Taxation of ICD is tantamount to double taxation, as same income is taxed multiple times until it reaches eventual shareholder.

b) Clause 103C is not an exemption rather it is provision which prevents double taxation of intercorporate dividend.

c) As per the list of 30+ countries earlier shared with FBR, inter-corporate dividend is nowhere taxed multiple times.

14. MINIMUM TURNOVER TAX

Relevant amendment to either abolish minimum turnover tax from loss making companies or atleast reduce its impact, has not been proposed vide the Finance Bill. The impact of 1.25% minimum turnover tax must be reduced on current loss-making companies by reducing the rate and being fair by allowing adjustment of previous 2 years and future 5 years tax payment above minimum tax.

ANOMALY – Collection of minimum turnover tax despite losses incurred by the taxpayer is beyond comprehension and unfair, therefore, if complete abolishment is not possible, its impact should atleast be reduced.

15. TAX ON BONUS SHARES HAS NOT BEEN ABOLISHED

The Government has not withdrawn tax on bonus shares.

ANOMALY – Tax has not been abolished by not appreciating the fact that bonus shares are not an income of the recipient as overall value of shareholder before and after the issuance of bonus shares remains the same. Moreover, bonus shares in public listed company can be treated as an attraction [not income] for minority shareholders due to an increase in number of shares, however, this is not the case of shareholders of private companies, therefore, the said tax should with withdrawn or atleast be withdrawn for shareholders of private companies.

16. MINIMUM TURNOVER TAX ON SEZ ENTITIES

Minimum turnover tax has not been proposed to be abolished from entities operating in SEZs.

ANOMALY - Levying minimum turnover tax on SEZ enterprises in their tax holiday periods defeats the purpose of the tax holiday and therefore, the said anomaly must be rectified

The Pakistan Business Council and its members are available in case you would like clarity on the anomalies identified.

Thank you and regards

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ANNEXURE ONE

Comparison of Export Competitiveness

Particulars	**Pakistan**	**Bangladesh**	**India**	**Indonesia**	**Vietnam**	**Egypt**	**Advantage of Pakistan over any other country?**
Tax on Exports	2% of Proceeds or 29% of taxable income, whichever is higher **[Proposed]**	For individuals/ partnerships: 50% of exporters' income is exempt from tax. The reduced rate for companies is 10% of profit for LEED-certified companies and 12% for others. The government provides a cash rebate of up to 4.5% based on the destination of exports.	No concessional tax rate; however, huge Production Linked Incentives [PLI] are available to encourage companies to increase their production capacity	Lower rate depending on the sector, investment value, etc.	Lower rate of corporate tax ranging between 10% & 17% for exporters meeting certain criteria	Free Zone Enterprises with export sales of 50% or more are Exempt	NONE
Super Tax	Upto 10%	N/A	N/A	N/A	N/A	N/A	NONE
Infrastructure Cess	1.2% Proposed to be increased to 1.8%	N/A	N/A	N/A	N/A	N/A	NONE
Gas (Boiler)/ MMBTU	$8.50	$7.20	$6.5	Not available	$9.8	Not available	NONE

Gas (Captive)/ MMBTU	$11.15	$7.20	$6.5	Not available	$9.8	Not available	NONE
Electricity /kwh	$0.18	$0.09	$0.04	$0.10	$0.06	$0.09	NONE
Benchmark interest rate	20.5%	7.45%	6.80%	6.52%	4.75%	19.25%	NONE