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Overseas investors propose aligning corporate income tax with average rate in Asia

KARACHI: The Overseas Investors Chamber of Commerce and Industry (OICCI) on Saturday proposed to align the effective corporate income tax rate with the average tax rate

of countries in Asia, which is around 22 percent.

In addition to direct corporate taxes, companies also pay other levies like the Workers Profit Participation Fund (WPPF) at five percent, Workers Welfare Fund (WWF) at two percent, as both these levies are related to profit, the effective tax rate goes up significantly, the OICCI said in its proposals for the upcoming federal budget.

Sindh Development and Maintenance of Infrastructure at the rate of 1.2 percent of import value and stamp duty on purchase orders and contracts up to 0.3 percent of purchase value, together with many other local levies was increasing overall tax burden to about 40 percent of profits.

This was a significant tax burden with consequential increase in cost of doing business, the proposal said.

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

The banking sector tax rates have not been reduced in line with the general corporate tax rates.

Furthermore, Finance Supplementary (Second Amendment) Bill 2019, proposed to again amend the First Schedule to the Income Tax Ordinance 2001, whereby applying Super Tax of four percent on banks from tax year 2018 to tax year 2021.

The banks, in compliance with the prevailing taxation regime have already closed the tax year 2018 (accounting year 2017) and income tax returns have already been duly filed/assessed.

As a result of the proposed abovementioned retrospective application from tax year 2018 (accounting year 2017), banks would now have to effectively pay super tax for two years or eight percent instead of four percent in tax year 2019 ie four percent already paid in advance for tax year 2019 along with retrospective charge of four percent now being proposed for tax year 2018, the OICCI lamented.

The chamber recommended that the application of super tax on tax year 2018 should be removed to avoid the double charge of super tax in tax year 2019.

Furthermore, it proposed that the same overall relief on super tax, granted to other industries, was also provided to the banking sector as well.

The Overseas Investors Chamber of Commerce and Industry noted the sales tax rate in Pakistan, at 17 percent, was the highest in Asia. "Our analysis shows an average of less than 12 percent in Asia, with a range of six percent to 17 percent.

Moreover different sales tax regimes and sales tax on services rates within the country lead to a number issues for business organisations operating all over the country," the Overseas Investors Chamber of Commerce and Industrysaid, and recommended all sales tax rates of the different jurisdictions within the country to be reduced to 13 percent and jurisdiction be clarified based on origination or destination for services.

The Overseas Investors Chamber of Commerce and Industry proposed the general rate of minimum tax regime (MTR) should be reduced to a maximum of 0.5 percent, and 0.2 percent for oil marketing companies, refineries, LNG terminal operators, and large chemical companies with high turnover and low margins. Alternate Corporate Tax u/s 113C should be abolished.

OICCI further recommended that withholding tax regime should be simplified by reducing the categories of withholding taxes and the rates thereon.

There should be maximum five rates for all withholding taxes and the differentiation should be on the basis of filer and non-filer only.

The chamber advocated incentives such as tax credits for attracting investment and proposed to re-instate the group dividend facility under Section 59AA/59B to facilitate formation of large entities and to restore the law which existed prior to the Finance Act 2016-17.

The Overseas Investors Chamber of Commerce and Industry also proposed elimination of additional custom duty and regulatory duty on essential raw materials, which were either not locally available or in limited supply, used for local manufacturing.

"Tax rates and customs duty be rationalised on the attached sector-wise list of HS codes," Overseas Investors Chamber of Commerce and Industry proposal noted.

"Pending tax refund should be cleared within next six months in an orderly/prearranged manner. All subsequent tax refunds should be cleared within 45 days," it proposed.

Our Correspondent