Axe likely to fall on final tax regime in budget

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KARACHI: The government might muster courage to revoke the final tax regime for importers in the forthcoming budget for 2019/20 fiscal year as the presumptive taxation encourages mispricing in foreign trade and subsequently money laundering, sources said on Friday.

Sources said the decision would be taken to check trade-based money laundering. The Federal Board of Revenue (FBR) proposed the government to abolish the FTR – where taxes are withheld at the source on the sale of goods and execution of contracts – for importers in the upcoming budget, they said.

Sources in the FBR said the previous government annulled the FTR for importers and replaced it with minimum tax regime in the budget for the current fiscal year of 2018/19. But, the present government had to bow down to the pressure and restored the FTR regime earlier this year. The FBR had received proposals from various business bodies and chartered accountants firms to restore the FTR for commercial importers, according to the sources.

“Considering the sensitivity of the issue, especially on the backdrop of the (upcoming) Financial Action Task Force (FATF) review on Pakistan, the FTR may be withdrawn for commercial importers in the budget,” a senior FBR official said, requesting his name to be withheld.

The global financial system’s watchdog FATF is about to review Pakistan’s performance to curb money laundering and counter terrorists financing this year. The decision would determine if the country remains on the FATF’s grey list of countries with compliance irregularity or downgrades to the black list.

The official said importers are not liable to maintain records after discharging their liability at the import stage under the FTR. “This relaxation saves them from audit,” the official added. “It is suspected that huge amount of money is being laundered through import payments.”

The Pakistan Business Council, representing at least 78 private sector businesses, estimated the quantum of imports’ mispricing at astounding $5 billion a year.

The State Bank of Pakistan (SBP) drafted regulations for banks related to letter of credits to stop trade-based money laundering.

“Transferring value through legitimate trade transactions has become increasingly attractive avenue for money launderers, terrorist financiers and proliferation financiers, as they are able to easily obscure their transactions in significant volumes of international trade and escape detection,” the SBP said in a statement. “The main methods by which such people transfer value through legitimate trade transactions are under invoicing, over invoicing, short/over shipment, and obfuscation of type of goods/services.”

Chartered accountant firm AF Ferguson that represents PricewaterhouseCoopers in Pakistan underscored a need to re-examine the FTR’s restoration to improve documentation of the economy. Importers were taxable on net income arising from import transactions, and the tax collected at the import stage was treated as minimum tax liability after the abolishing of the FTR last year. The minimum tax payable was five percent of the import value, according to the AF Ferguson.