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New taxes, duties, exemptions withdrawal to fetch Rs600 bn

ISLAMABAD: The government announced additional tax rises worth Rs600 billion on Tuesday, including levies on salaried persons and consumable goods, withdrew exemptions, and increased duties on imports, to plug a revenue shortfall next fiscal year caused by flagging economic growth.

The government in the finance bill 2019/20 jacked up taxes on salaried and non-salaried class, cement, sugar, cigarettes, aerated water, juices, and compressed natural gas, while raising customs duty on 2,400 tariff lines and abolishing tax exemptions.

The government abolished zero-rating regime for five export-oriented sector, including textile, leather, carpets, surgical and sports goods sectors. The withdrawal of zero-rating regime would fetch Rs85 to Rs90 billion for the government. It imposed 17 percent general sales tax on manufacturers. It however slapped general sales tax at reduced rate of 15 percent at retail stage.

The government withdrew tax relief given by the last government for salaried and non-salaried class that expanded taxable ceiling limit to Rs1.2 million from Rs0.4 million.

The finance bill 2019/20 revised down taxable income ceiling for salaried class to Rs0.6 million, imposing 5 to 35 percent for 12 different slabs and on income exceeding Rs0.4 million for six different slabs of non-salaried class. The measures would help the Federal Board of Revenue (FBR) generate Rs50 billion in the next fiscal year.

The government needs a 34 percent growth in revenue to achieve the highly ambitious annual tax collection target of Rs5.555 trillion in the next fiscal year against the revised estimate of Rs4.150 trillion. The FBR's collection could go up to Rs4.668 trillion with nominal growth of 12.5 percent over the outgoing fiscal year's revised projection. The FBR will have to generate around Rs890 billion through increased tax rates, abolishing of exemptions and bringing administrative improvements.

The FBR is eyeing Rs2.082 trillion in shape of direct taxation and Rs3.473 trillion through indirect taxes in the coming fiscal year.

FBR Chairman Shahbar Zaidi told media that taxation measures would fetch additional revenues of Rs512 billion, including Rs200 billion in shape of income tax, Rs200 billion through sales tax, Rs70 billion as federal excise duty and remaining Rs36 to 40 billion as customs duty.

The government restored standard rate of general sales tax at 17 percent. The sales tax on local supplies of finished articles of textile and leather and finished fabric might be raised from current six percent for integrated businesses, and nine percent for others, to 15 and 17 percent, respectively.

The federal excise duty on aerated waters is to be increased to 13 percent from 11.5 percent. Special regime of taxation for the steel sector has been abolished. The ginned cotton, which is presently exempted, is subject to reduced rate of 10 percent.

Sales tax on billets, ingots, bars, ship plates and other long profiles might be exempted at manufacturing and import stages, and in lieu thereof the federal excise duty at 17 percent in sales tax mode might be imposed.

The finance bill proposed increase in federal excise duty on edible oils/ghee/ cooking oil to 17 percent. It was proposed to re-notify the value for sales tax on supply from gas distribution companies to compressed natural gas dealers to realise due sales tax from the sector.

The FBR abolished three-tier taxation on cigarettes and increased federal excise tax on high brand cigarettes. The FBR withdrew turnover tax for retail sector and imposed general sales tax of 17 percent for tier-1 retailer. It might be made mandatory to integrate their points of sales with the FBR's computerized system so that the sales are reported in real time. Retail shops having an area in excess of 1,000 square feet may be included in Tier-1.

The FBR might allow cash back of up to 5 percent of the sales tax charged on invoices to the customers to encourage customers to demand invoices from retailers. Presently, sugar is subject to sales tax of 8 percent. Sales tax on sugar might be enhanced to 17 percent to generate much need revenue.

Non-aerated packaged sugary drinks, such as juices, syrups and squashes, might be subject to 5 percent of retail price to provide a level-playing field for aerated water, which was proposed to be subjected to higher federal excise duty of 14 percent.

Cement is chargeable to federal excise duty at 1.5 per kilogram. It was proposed to increase federal excise duty on cement to Rs2/kg. The price of cement per bag will go up by Rs 25 per bag.

Presently, federal excise duty is payable at Rs17.18/100 cubic meters. The rate is substantially lower and generates only Rs2 to 3 million annually. Accordingly, it was proposed to increase federal excise duty on liquefied natural gas to Rs10 per million metric British thermal unit from Rs17.18/100 cubic meter.

The federal excise duty on locally- manufactured cars from 0 to 1000cc was imposed at 2.5 percent, from 1001cc to 2000cc at 5 percent and 2001cc and above at 7.5 percent. Earlier, the FED on locally manufactured/assembled cars of 1700cc and above was introduced at 10 percent, which has been rationalised.

The FBR granted exemption of customs duty on 1,650 tariff lines by introducing zero slab from earlier rate of 3 percent. The FBR jacked up additional custom duty from 2 to 4 percent on slab of 16 percent and from 2 to 7 percent on 2,400 tariff lines in duty slab of 20 percent.

At present, gift is not taxed in the hands of the recipient. Receipt of gift is employed to reconcile wealth acquired through undisclosed sources of income. Therefore, receipt of gift has been brought within the ambit of income under the head of income from other sources.

Consequently, any amount in cash or fair market value of any property including immovable property would be treated as gift. However, certain exclusions were also proposed to facilitate genuine gift transactions.

At present, there are five taxable slabs of income from property with the highest slab's rate being Rs200,000 plus 20 percent of income exceeding Rs2 million. The slab was revised to Rs4 million and thereafter three additional brackets of income between four to six million, six to eight million and exceeding eight million rupees are being added.

Presently, foreign remittance equivalent to Rs10 million as a source of investment could not be probed. Now, the threshold is reduced to Rs5 million for explaining the source of investment through foreign remittance.

Presently, every market committee is required to collect advance tax from dealers, commission agents and middlemen at the time of issuance or renewal of licences. Now, the tax rates are increased up to Rs100,000.

A new provision was introduced to prescribe rules for initiating criminal proceedings against officers and officials of the Federal Board of Revenue – who deliberately commit acts or fail to act for personal benefits – to effectively check misuse of authority to gain financial benefit. Similar action would also be taken against persons who offer bribes or other financial benefits to the tax employees.

Mehtab Haider