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# KCCI report sees IMF imprints in federal budget 2019-20

A report of KCCI has declared the federal government's financial budget for 2019-20 an IMF budget that totally ignored how badly it would affect common man and wreak havoc with the industries. That is the gist of the report 'A Stranglehold on the Economy' prepared by Research and Development wing of Karachi Chamber of Commerce and Industry (KCCI).

It inferred that the revenue generation theme of the budget finally showed to them that all discussions with all industry stakeholders for making improvements in ease of doing business, removing tax anomalies affecting businesses and giving an attentive ear to what businesses had to say with respect to enhancing exports of the country had been put on backburner.

The report cited that in the first 8 months of its rule, the government had been making intent discussions with all industry stakeholders for aforesaid purpose. It also referred that the ruling PTI had announced in its manifesto to provide employment opportunities to 10 million people but the budget appears to actually aim at creating massive unemployment.

The KCCI report noted unrealistic and far-fetched targets in the annual budget. Burdened with huge tax revenue target, the budget is set to unleash inflation, incessantly increase cost of doing business and stifle all forms of economic growth, it apprehended.

It said that the government has sought to tax every sector of the economy on one hand and on the other it has withdrawn all exemptions necessary for maintaining industrial competitiveness and those control inflation. It said the target GDP growth rate has been set at 2.4 percent which is too low to yield the 36pc jump in taxes required to meet the collection target.

"One can appreciate that the budget has been made in testing times and that interest payments (on debt incurred by previous government) will eat up rupees 2.9 trillion or 35 percent of the total outlay," it said, adding that the government has to jack up its revenues to meet its repayments.

The report said it is also understandable that the government wants to restrict twin (budget and current account) deficits and curtail expenditures but it should bear in mind that the country can only progress if its industries and commerce flourish. "Killing the goose that lays the golden egg will not help the government in any manner, yet it has don the same," it said, adding that the reduction of exemption limit of income tax from Rs 1.2 million to Rs 0.6 million for salaried individuals and Rs 0.4 million for unsalaried individuals is unjustified keeping in view the erosion of purchasing power of the low-paid people due to high inflation in the previous years.

At that time, the rate of US dollar was hovering at around Rs 120 and currently, the currency has depreciated to Rs 160 per US dollar whereas inflation was ranging between 7 percent to 9 pc which would greatly erode the purchasing power of the masses.

KCCI report said that in case of family-owned businesses, it is a normal practice to transfer properties by way of gift. Therefore, it requested to allow more close relations such as sister-in-law and daughter-in-law under the exemptions of tax in case of transfers in the form of gifts.

In the past budget, KCCI had appealed to reduce the minimum turnover tax to 1.0pc; however, it was kept at 1.25pc. In recent Finance Bill, the maximum tax is proposed to be increased further to 1.5pc which is too high. It said that turnover tax is charged on loss-making firms and increasing the burden on loss-making firms is totally unjustified. It demanded to lower the rate of minimum turnover tax to 1.0pc.

KCCI strongly objected to the reduction and subsequent withdrawal of tax credit on BMRs. The country direly needs foreign investments for industrialisation to attract transfer of technologies, create exportable surplus and generate employment opportunities. This measure would discourage investments into the country. We believe 10pc tax credit is appropriate as we need more plant and machinery through BMRs for improving productivity and quality standards.

Late filers would now be included in the active taxpayers list (ATL) after newly-added penalties. The KCCI report recommended simplification of laws and creation of conducive business environment. It suggest that rules should encourage more people to come under the tax net while such additional penalties would not send positive signals to the persons who have been filing returns.

The government has decided to impose a standard rate of 17pc sales tax on the five export-oriented sectors - textile, leather, carpets, surgical and sports goods, thereby rescinding SRO 1125. Local sales will now be subject to 17pc sales tax; however, export sales would remain exempted. This proposal would create further problems of refund claims and would block the liquidity of the exporters.

"Exporters will have to depend more on commercial loans and running finances to meet their liquidity requirements which will carry a much higher markup, resultantly, increasing the cost of doing business and making the export-oriented sector uncompetitive," it apprehended, adding this step would be counterproductive for export growth. However, if there are problems with regard to the commercial importers, these could be addressed with mutual understanding by revisiting the SRO 1125.

Hence, KCCI and other trade bodies appealed to continue zero rating in the larger interest of the nation and economic growth. If there are issues with SRO 1125 then those should be settled on the table with the stakeholders, it emphasised.

KCCI said that since CNG sector has been deregulated, Oil and Gas Regulatory Authority (OGRA) has no role in price determination of CNG. Therefore, the changes in duties in terms of paisa and rupees are not justified. The sector also has reservations for not being treated at par with regard to sales tax as oil and spare parts are being charged at prescribed prices (without input adjustments).

Hence, either the sector should be allowed input adjustment or the recent increase in duty should be reverted, it demanded. The report said enhancement of sale tax from 8 percent to 17 percent on basic consumer items such as sugar, edible oil and milk would adversely affect the common man whose purchasing power would be eroded with these measures. It said that this is also the basic raw material of food, bakery and confectionary business which also contributes in value added exports. This measure would increase the cost of production making the food industry uncompetitive while it would also fuel inflation. Therefore, KCCI urged that the rate of tax on sugar should not be increased.

It noted the change of tax on edible oil from Rs 1/kg FED to 17pc sales tax of maximum retail price (MRP) has created an anomaly. It now bounds the company to pay tax at MRP which was not practical to apply due to rapid fluctuation in PKR/USD parity and import prices as well as variance in retail prices carried by different outlets.

KCCI R&D's report noted higher prices for high-end supermarkets and malls while the low-end outlets charge less. In case of edible oil, the existing formula of PKR 1/Kg FED is more workable and suitable. KCCI, therefore, demands to keep the same formula intact.

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