BUSINESS RECORDER
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SCCI submits proposals for budget 2019-20

Sialkot Chamber of Commerce and Industry (SCCI) has submitted its budget proposals for 2019-20. The SCCI suggested that the government should take steps to reduce the interest rate since it has made borrowing expensive for private sector and discouraged investment. Especially, mark up rate under Export Refinance Schemes should not be enhanced to maintain the competitiveness of the export business.

The SCCI suggested that the exemption from the payment of Sales Tax on imported plant and machinery for Greenfield projects should also be granted to Brownfield projects and BMRE. Special tax facilitation is needed for sick units, for which rules should be framed. The Provincial Governments should re-zone areas in and around urban centres, both for industrial and commercial use to help entrepreneurs invest in business. The Government should urgently establish Special Economic Zones and Pakistani business entrepreneurs should be provided with the same incentives as offered to the foreign investors. Land provided to foreign investors should be leased for initial period of 20 years, which should be extendable up to 30 years.

For Pakistani investors, option should be available for freehold and leasehold properties. Foreign investment should only be allowed as a Joint Venture with Pakistani investors or as a public listed company so that local investors could also be benefited. All existing industrial units should be regularised / commercialised at minimum property valuation rates as existing DC rates were exorbitantly high, separate SECP offices for registration and regulation of companies should be established.

Registering a company should be separated from regulating a company and regulation should begin once the company starts its operations. There should be one tax collection agency for the collection of both federal and provincial Taxes.

It is proposed that samples up to the value of $500 should be totally exempt from any sort of duty, taxes and levies to facilitate the export sector of Pakistan. Moreover, the manufacturers-cum-exporters have to import certain parts of production machinery on emergent basis as a result of malfunction or breakdown, which entail high percentage of duties. It is, therefore, proposed that the duties, taxes and levies on spare parts for such machinery should be waived. Previously it was allowed to the exporters to retain 7 percent of their total export earnings in foreign currency accounts in Pakistan. This facility has been withdrawn and now exporters are only allowed to pay commission up to 7 percent of the export proceeds in foreign currency. It is proposed that the facility of retention of 7 percent of the export proceeds in foreign currency accounts might be restored to facilitate export sector of Pakistan.

The following taxes should be completely abolished for the export industry and social security protection of the workforce should be met out of other taxes collected by the government. Labour related taxes e.g. EoBI, PESSI, WPPF, WWF (Social protection of the workforce is prime responsibility of the State), federal and provincial sales tax (Export sector is sales tax zero-rated sector), professional and property tax (No rationale for charge of taxes on export business), and education cess (Levy of education cess not pertinent to export business).

All raw materials must attract zero or low custom duties. Government must eliminate Regulatory Duty (RD) and Additional Custom Duty (AD) on raw materials, so that local industry is able to compete with smuggling and mitigate the effect with low tariff FTAs. Rate of duties of raw materials used as an input for the industry must be the same for the Manufacturers and the Traders, so that SMEs who would procure inputs from Traders could have a level playing field to offer competitive rates. Custom Duties (CD) on intermediary products should be reduced so that our industry is able to import quality materials, components and machinery from abroad at the same duty rate at which it could be imported through different Free Trade Agreements (FTAs). Non-payment of Duty Drawback claims is creating liquidity problems for the exporters. Payment through promissory notes should be extended to all sectors including five zero rated export sectors. It is further proposed that a limit of Rs1 million should be prescribed for issuance of promissory notes and refunds of the value less than One Million should be issued through crossed cheques.

Duty Drawback should be allowed as a percentage of CIF value of the export consignments (not on FOB) as it was customary to charge import duty as a percentage of CIF value of the import consignments.

Warehousing facility for industrial inputs and raw materials should be allowed in EPZs and SEZs.

All audits (Income Tax, Sales Tax and Customs) should be abolished and if necessary, audit should only be conducted through independent Chartered Accountant firms instead of auditors deputed by the Tax Department.

All Temporary Importation Schemes including DTRE, Manufacturing Bond, Export Oriented Unit, SRO 492 and Export Processing Zones should be made user friendly and documentation involved in availing the facilities should be reduced/simplified.

INCOME TAX

Facility u/s 153(1) to be extended to all the exporters

According to clause 45 of part IV of Second Schedule, the manufacturer cum exporters are absolved from the obligation of withholding income tax u/s 153(1) from suppliers of goods and services used for manufacture of exportable goods. It is suggested that this clause 45 should be suitably amended to include "commercial exporter" as well. Moreover, the words "manufacturer cum exporter" should be substituted with the word "Exporter".

Clarification regarding section 21L and enhancement of limit of salary to be paid through crossed cheque.

Taxpayers other than exporters are being affected due to Section 21L, whereby any payment made for purchase of goods otherwise than crossed cheques is being treated as taxable income. Previously this section was applied to profit and loss expenses only whereas now it is being applied to the cash purchases as well. It is proposed that a clarification should be added to this section to restrict its applicability to profit and loss expenses only. Moreover, restriction of payment of monthly salary of Rs.15,000/- or above through crossed cheque to claim it as deductible expense was imposed in year 2008, which limit is needed to be raised to Rs.25,000/- keeping in view devaluation of Pakistani rupee.

Amendment introduced in section 111 of the Income Tax Ordinance, 2001, in the year 2011, whereby any sales which in the opinion of the officer is suppressed is directly added to income, is harsh. It is therefore recommended that such addition may kindly be restricted to the gross profit on such sales instead of total sales. Similarly, section 111 (4) should be suitably amended to acknowledge foreign remittances received through Western Union and other like channels as valid remittances for the sake of claiming exemption.

Restoration of threshold of applicability of Minimum Tax

The threshold of applicability of minimum tax u/s 113 for individual and AOP has been reduced from Rs.50 million to Rs.10 million through an amendment last year. This amendment again is very harsh and we strongly recommend that the original threshold of Rs.50 million should be restored, especially when the income threshold has been increased and tax of Rs.2,000/- is chargeable on income of Rs1.2 million.

The rate of tax of 15 percent levied on Dividends as per Section 5 read with Clause (b) of Division III of Part I of the First Schedule of the Income Tax Ordinance, 2001, should be rationalized to promote investment in corporate sector. The rate of tax has been enhanced from earlier rate of 10 percent and 12.5 percent and since the dividend is paid from income of a company already taxed, the tax on dividend tantamount to double taxation. It is proposed that rate should be reduced to 5 percent in case of Filer to provide incentive to shareholders and encourage investment in the corporate sector. It will also help to create and boost the corporate culture.

An amendment has been introduced in section 152 whereby payments made to foreign exhibitions has been subjected to 15% withholding tax. The exporters are facing financial hardships as this withholding is against the international norms where the income earned by a non-resident outside Pakistan is not taxable within Pakistan. It is therefore proposed that Exporters may be exempted from withholding of tax on such payments as they are already charged 1 percent WHT at source at the time of realization of export proceeds.

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