INTERNATIONAL THE NEWS

28th May, 2019

Rs5.5tr revenue target: Drastic taxation measures on the cards

ISLAMABAD: In a bid to realize the challenging revenue collection target of Rs5,550 billion in the upcoming budget, the federal government has decided to slap a reduced rate of GST on hotels and restaurants, abolish zero rating regime for five export-oriented sectors, and bring income of distributors and dealers into the tax net.

The Federal Board of Revenue (FBR) has estimated that rescinding zero rating regime for five export-oriented sectors including textiles, leather, carpets, sports and surgical, will fetch a revenue of Rs75 billion in the budget 2019-20.

The FBR has also proposed reduction in taxes on import of mobile phones in the range of 10 to 20 percent, but under the baggage rules provision of allowing one mobile phone set will be withdrawn in the coming budget.

The FBR has proposed this change to avoid rampant misuse of allowing one phone set.

The board has also proposed bringing the steel sector into the normal tax regime for imposing GST rate of 17 percent. The GST on sugar will be brought at the standard rate of 17 percent.

The Federal Excise Duty (FED) on aerated and beverages will be brought into the tax net. The FBR is also contemplating upon options to abolish presumptive regime for importers and exporters in the coming budget.

In order to get additional revenue of Rs1 trillion through taxation measures and administrative steps, the FBR is proposing to make it mandatory for those entities to become registered where credit card machines are installed.

The FBR challenged that the major chunk of textiles was being used in domestic market as the ratio of domestic sale was estimated at Rs1.8 trillion, while exports of textile was hovering around Rs1.2 trillion.

In a bid to remove liquidity crunch, the FBR official said Bangladesh model could be replicated where the central bank would be bound to provide refunds soon after clearance of receipts of exporters' proceeds instantly.

There is a lingering controversy among the Centre and the provinces' on treating restaurants/hotels as good or service. Now the FBR has decided to seek the advice of Law Ministry and slap reduced GST on all restaurants/hotel in the coming budget by declaring it as good. One top official of FBR raised a question in front of a select group of journalists on Monday that ingredients of meals used in restaurants/hotel should be treated as good or service. He said there was need to differentiate between good and service.

He was of view that the Centre and provinces could work out a distribution mechanism on the basis of ratio for treating as good and service in case of hotels.

The FBR is also asking the banking sector to share the data of Benami account holders. Checking the withholding data of companies has revealed that many big dealers are Benami actually owning the manufacturers money. Within the mechanism of dealership, a mechanism of transfer/pricing would be in place to document the transactions of the dealers.

A system should be in place to document the expenditures of even exporters, distributors and dealers. A proposal is under consideration to exempt exporters from payment of tax and ensure filing of returns along with the declaration of their expenditures.

The presumptive tax regime for importers would be abolished in coming budget. However, they would be required to file return and give details of their expenditures.

The government has also decided to revise income tax slabs for salaried and non-salaried category of taxpayers. The government is considering revising taxable income ceiling from Rs1.2 million to Rs0.8 million but the FBR will have to convince the Adviser to PM on Finance on this proposal. The government will introduce drastic measures for documentation of economy and broadening the tax base through use of technology, including condition of ‘tax filer’ for those running credit card machines.

The FBR will also make it compulsory for the manufacturers to ensure declaration and filing of returns by their distributors and dealers.

On the income tax side, an amendment to the income tax law is expected in coming budget. The manufacturers would be required to register their distributors and dealers for filing of returns.

Meanwhile, Adviser to the Prime Minister on Finance Dr Abdul Hafeez Shaikh Monday chaired a meeting on the merged tribal districts and made it clear that priorities should be revisited in the wake of resource scarcity. It was shown in the meeting that the government allocated Rs24 billion for tribal districts through the Ministry of States and Frontier Regions (Safron) in outgoing fiscal year but no expenditures had been incurred so far.

Dr Shaikh said effective utilisation was area of concern and he could raise many questions on it. “If you like, I can order monitoring on utilisation of so-called funds,” he said.

According to an official announcement, Abdul Hafeez Shaikh chaired a meeting to review the social and economic needs of the merged districts here.

Khyber Pakhtunkhwa Finance Minister Taimur Saleem Jhagra briefed the meeting about the financial requirements of the merged districts.

He highlighted that the development funds for tribal districts would be utilised for development of social sector, particularly, health and education, besides improving road and electricity infrastructure in the area. The adviser informed the meeting that the federal government would extend all possible assistance to erstwhile Fata to fulfil its needs and support the KP in its endeavours to work for the social and economic development of merged districts.

He assured the meeting that the Ministry of Finance would timely process release of funds for the merged districts. The meeting was informed that the federal government had disbursed sufficient funds on the rehabilitation of temporarily displaced persons (TDPs) of the tribal districts. The meeting was also attended by Adviser on Establishment Shehzad Arbab, Secretary Finance Naveed Kamran Baloch and other senior officials of the Finance Ministry.

The Budget Strategy Paper (BSP) for 2019-20 going to be tabled before the federal cabinet today (Tuesday) shows that interest payment would go up by 20 percent to absolute figures of over Rs2.4 trillion in the upcoming financial year.

The increased interest payment requirement will eat up major revenues after providing share to the provinces under the National Finance Commission (NFC) Award, leaving no space available to Centre for meeting other pressing expenditure heads.

There will be no major differential in absolute figures of the budget deficit in coming financial year ranging around Rs2.7 to Rs2.8 trillion compared to the same level in outgoing fiscal year 2018-19.

“The budget deficit may be brought down to around 6.3 percent of GDP in 2019-20 against projected deficit of 7.3 percent of GDP for outgoing fiscal year,” top official sources confirmed to The News here on Monday.

There will be more reduction in primary balance in the next budget under the IMF programme because the hike in discount rates has resulted into pushing up the interest payment requirement leaving no space to making fiscal adjustment more than one percent of GDP.

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