

Zero-rated sectors: FBR should increase GST on domestic sales only gradually: Haroon

ISLAMABAD: Former Special Assistant to the Prime Minister on Revenue, Haroon Akhtar Khan has suggested that the Federal Board of Revenue (FBR) should gradually increase sales tax rate on domestic sales of five leading export sectors and reduce the tax applicable on the actual market value of the real estate sector.

Speaking as a guest in “Paisha Bolta Hai” of Aaj News with Anjum Ibrahim Saturday, Haroon Akhtar said that to impose the standard 17 percent sales tax on domestic sales of zero-rated sectors overnight is inexplicable and accounts for the virtual collapse of this market. A phased approach starting with 5 percent and going on to 8 percent and gradually raising it to 17 percent would be a better option, he added.

While supporting the government for raising real estate values to market values, he added that initially the tax rate should have been lower than what the government has imposed – from 10 to 15 percent with provinces collecting stamp duty. This high rate has led to the real estate business coming to a standstill, he added.

Coordination between the FBR and provincial authorities is needed to rationalize rates of stamp duties along with adjustable advance tax on real estate sector, Akhtar Khan added.

He added that the government must give relaxation in number of things to traders in order to make CNIC requirement work. Once CNIC condition has been fully implemented, most of the problems in the tax system in Pakistan would be resolved hopefully in the next 3-4 years, he added.

Haroon Akhtar said that the target of Rs 5.5 trillion set for the FBR for 2019-20 is not achievable.

About the appointment of new FBR chairman, Haroon Akhtar said that Shabbar Zaidi is a pleasant change and he understands taxation. The new chairman is making efforts to bring about reforms, but if the FBR takes dramatic/drastring measures which cannot be implemented it would be waste of time.

“It is unfair to expect Shabbar Zaidi to achieve 45 percent growth in revenue in 2019-20 as compared to 2018-19 in a situation where businesses are closing, growth is stagnant, and profitability down,” Haroon Akhtar said.

He said that tax collection is not only done through policy, but through effective administration and field formations, which are responsible for day to day operations and collections, adding that Shabbar Zaidi is possibly facing strong resistance within the FBR because he is not from the FBR.

If the FBR fails to achieve the assigned revenue collection target due to current economic situation, the whole blame would be put on Shabbar Zaidi which is unfortunate, Haroon Akhtar Khan stated.

Haroon Akhtar said that tax policy cannot be looked in isolation, as it part of economic policy. The FBR will get taxes provided that people earn profit, get salaries and there is employment generation.

Tax lawyer Waheed Shahzad Butt said if the FBR is committed to continuing 17 percent standard rate of sales tax on leading export sectors, there is a need to introduce fast track refund system for zero-rated sectors.

He said that it is important to maintain CNIC condition for documentation of economy and broadening of tax base. At present more than 100 million mobile phone users have been registered through biometric verification process, which means there is someone who owns the SIM card, therefore it would be advisable at this stage to dispense with the CNIC condition and simply record the mobile phone number of the buyer.

Though FBR has enhanced property valuation rates yet cost of documentation/registration i.e. stamp duty has not been synchronized. Butt suggested introducing two additional categories: (i) for buyer of property who is end consumer (purchased for own use) and (ii) for buyer of property for the purpose of business and furtherance of taxable activity like an investor/property dealer etc, Butt said.

Waheed Shahzad Butt said that the limited workforce of the FBR cannot examine 2.5 million income tax returns filed for Tax Year 2018. The concerned assistant/deputy commissioners Inland Revenue must be provided support by hiring professionals through, possibly, outsourcing for assessment of such a large databank.

Waheed Shahzad Butt said that Shabbar Zaidi has ample experience of tax procedures, filing of returns, assessment matters, appeal procedure, refunds and exemption etc. and as Chairman FBR he can perform far better than one who doesn't have his vast experience.

He added that almost 90 percent litigation is related to bank account transactions which do not match the business declarations of income and wealth filed by taxpayers. He suggested FBR to seek basic information in the income tax return forms from every taxpayer by introducing three columns: (i) Total credit entries (deposits) in all bank accounts; (ii) credit entries declared in income tax returns; and (iii) credit entries not liable to tax. This amendment, he argued, would end about 90 percent of the litigation.—SOHAIL SARFRAZ