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FBR seeks WHT on foreign currency

ISLAMABAD: The Federal Board of Revenue (FBR) has proposed the introduction of 0.6% withholding tax (WHT) on the purchase of foreign currency and has sought to squeeze various expense allowances that industrialists get before computing their taxable income.

The proposals have been made to generate an additional Rs40 billion in taxes from five measures during fiscal year 2020-21, starting July.

It has also recommended bringing more sectors under the scope of advance income tax being charged from dealers, distributors and retailers, besides increasing their withholding tax rates, according to sources in the FBR. These sectors are dealt with under Section 236 G and H of the income tax law.

The revenue board is also considering limiting interest expenses and treating them as income beyond a threshold for foreign companies to meet international obligations.

The FBR has proposed 0.6% withholding tax on those who purchase foreign currency, said the sources. It has not quantified the revenue potential but sees a positive impact of the move on next year's tax collection.

The concept of 0.6% withholding tax on cash withdrawal from banks by non-filers of tax returns had been introduced by former finance minister Ishaq Dar. The Pakistan Tehreek-e-Insaf (PTI) government now wants to extend it to foreign currency purchases, which may help it to get details of these people but FBR's track record to chase the non-filers remains extremely poor.

For the next fiscal year, the International Monetary Fund (IMF) has proposed a Rs5.1-trillion tax collection target but the FBR has put the final figure at Rs4.9 trillion, said the sources.

Many rounds of negotiations have been held this week and another meeting took place on Tuesday evening to convince the Fund to ease the condition.

The IMF was also insisting on withdrawing all sales tax exemptions, which the government was keen to do at a later stage due to the impact of Covid-19 on businesses.

Withdrawal of allowances

The FBR has proposed an amendment to Section 21 of the Income Tax Ordinance, aimed at treating expenses on purchases as income, if transactions are carried out with unregistered persons. It sees an increase in revenue but has not specified the quantum of increase.

One of the key proposals is to introduce a half-year rule for depreciation of assets aimed at curtailing expenses of industrialists by amending Section 22 of the Income Tax Ordinance. The

FBR has estimated that it will receive Rs16 billion worth of additional revenue in fiscal year 2020-21.

Similarly, it has proposed a reduction in the rate of normal depreciation for business assets aimed at recovering another Rs12 billion from the industrialists.

Under Section 23 of the Income Tax Ordinance, the depreciation deduction for a tax year is allowed to be computed by applying the rate given in the law against the written down value of the asset at the beginning of the year. However, all over the world these incentives are given to promote industrialisation and their possible withdrawal at this stage may send a negative signal about the government's intention to revive the economy.

Tax experts say Prime Minister Imran Khan should shoot down these proposals, which according to them will discourage industrialisation and overburden the existing taxpayers.

"These proposals are anti-business and, if approved, will put undue burden on the existing taxpayers," said Dr Ikramul Haq, a renowned lawyer and tax expert. "Disallowing expenses to registered manufacturers will promote illegal business of flying invoices."

Foreign affiliates

The FBR has also proposed to limit the deduction of interest expense by foreign affiliates of multinational companies aimed at enhancing tax revenues.

The proposal is aimed at meeting a requirement of the Organisation for Economic Cooperation and Development (OECD) that the global anti-tax evasion body has set under its Base Erosion and Profit Shifting (BEPS) initiative.

Advance tax

Sources said the FBR had also proposed to enhance the scope of advance income tax on sales to distributors, dealers and wholesalers to other sectors.

At present, every manufacturer or commercial importer of electronics, sugar, cement, iron and steel products, fertiliser, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam, at the time of sales to distributors, dealers and wholesalers, collects advance tax at the rate of 0.1%.

The FBR has also proposed that the 0.1% rate should be increased to 0.25% in order to collect an additional Rs13 billion in the next fiscal year.

Through the Finance Act 2019, the government had reduced the WHT tax on fertilisers from 1.4% to 0.7% and on other than fertilisers from 0.2% to 0.1%.

There is also a proposal that the retailers' list should also be expanded under Section 236-H. Currently, the manufacturer, distributor, dealer, wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam, at the time of sales to retailers collects advance tax at the rate of 1% from electronics goods retailers and 0.5% from other retailers.