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Stringent measures for non-filers in upcoming budget

ISLAMABAD: The government is set to introduce higher tax rates for non-filers of sales tax and federal excise duty returns and additional rigorous procedures to improve tax compliance, Dawn has learnt from knowledgeable sources.

The previous government introduced higher withholding tax rates for non-filers and the move had led to revenue generation and documentation for the Federal Board of Revenue (FBR) over the years.

The government will introduce a slightly higher tax rate than the standard 17 per cent sales tax for non-registered individuals.

Moreover, non-registered individuals will be unable to avail the input tax credit.

Within the government, there is strong resistance and pressure on the FBR to retain exemptions in the income tax under the second schedule. These exemptions have higher political significance for documentations despite having lesser revenue implications.

Withholding tax on purchase of foreign currency under consideration

A meeting scheduled for Thursday will take the final decision on these exemptions, according to a source in the Finance Division. The meeting will also consider the proposals to revise rates of some withholding taxes.

The authorities are also working on abolishing almost 10 withholding taxes in the budget, which generate less revenue and have no role in the documentation.

As part of compliance with the Financial Action Task Force guidelines, the government will impose withholding tax on purchase of foreign currency. The withholding tax rate will be around 1pc or lesser.

Another proposal to introduce FED on e-cigarettes is also under consideration. However, the cabinet will take the final decision on raising rates on cigarettes.

According to one proposal, tax on income earned by non-residents will not be final and will be adjustable which will give scope to the department to raise revenue.

To improve the compliance in the tobacco sector, the Inland Revenue officers will be empowered to torch non-duty paid cigarettes after its confiscation. Currently, this power only exists with the Customs Intelligence Department.

The cabinet meeting will also consider changes to the FED rates on beverages.

The proposals also recommend giving recovery power to Inland Revenue officers to confiscate any non-duty paid goods including vehicles. The move aims to improve compliance and lead to documentation of the economy.

The government is set to introduce further facilitation for taxpayers under an Alternative Dispute Resolution Committee (ADRC) under four taxes: income tax, sales tax, FED and customs.

Under the reforms, taxpayers can appeal in case they are unsatisfied with the ADRC decisions.

According to the source privy to the budget making, the International Monetary Fund (IMF) has opposed any relief measures.

There is still no formal agreement on the revenue target between the government and the IMF team. The Finance division still believes it could hardly collect Rs4.7 trillion to Rs4.8tr in the next fiscal year. The IMF will confirm the tax target before the budget, the source said.