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Tariff structure rationalised for 30,000 raw materials, intermediary goods

ISLAMABAD: Presenting relief-oriented budget on Friday (today), the government has decided to rationalise duty/tariff structure for over 30,000 raw materials and intermediary goods for boosting up industrialisation in the country, commerce adviser said on Wednesday.

There will be no change in existing number of tariff slabs but the additional customs duty and regulatory duties will be scrapped or reduced on thousands of items in the upcoming budget.

Talking to The News, Adviser to Prime Minister on Commerce Razak Dawood confirmed that the government would abolish additional customs duty and regulatory duty on 30,000 items of raw material in the next budget. “This tariff rationalisation will have negative revenue impact of Rs14 billion in next fiscal year 2020/21” he added.

Dawood said the government would have to change its reliance from importation to other taxes, such as sales tax and income tax as Pakistan’s 45 percent taxes are collected at import stage, while in India it stands at 21 percent, Bangladesh (28 percent) and developed world (10 percent). Tariff rationalisation exercise would give roadmap for three years along with the next budget 2020-21.

Commerce adviser said the government wants to achieve the objective of industrialization through rationalization of tariff. This reduction in import duty will help boosting economic activities and jacking up dwindling exports. “This exercise will help us boost up “Make in Pakistan” branding and will result into jacking up exports,” he added.

The government has finally convinced the International Monetary Fund for envisaging Federal Board of Revenue’s (FBR) annual tax collection target at Rs4.95 trillion against earlier indicated target of Rs5.103 trillion.

There is another proposal under consideration to exclude around 200 items from fifth schedule of Customs Act where there is no attached condition and make it part of normal tariff slabs.

The National Tariff Commission proposed tariff rationalisation plan up to fiscal year 2023/24 and its first phase is expected to be implemented in the coming budget with approval of policy board under chairmanship of Adviser to PM on Commerce with representation from Ministry of Finance and FBR in its fold.

The government has so far decided to keep existing duty structure for import of used/old case unchanged for the next budget. Although there is no justification to keep duty structure on higher side for import of old/used cars, the powerful lobby of car manufacturers is going to win again under the PTI-led regime. Contrary to the principles of ensuring competition and level playing field, the car manufacturers always used influence to protect monopoly of few players into the market and succeeded for placing always highest prices of vehicles in domestic market compared to other comparable regional economies.

The government has decided to intact 17 percent general sales tax on five export-oriented sectors in the next budget, however, efforts will be made to accelerate provision of payment of refunds to textile and other sectors.

On income tax side, there is possibility to keep taxable ceiling limit of Rs600,000 unchanged for the budget. The FBR is considering increase limit of providing CNICs condition from Rs50,000 to Rs100,000.

The official documents showed that Pakistan's effectively applied tariffs are three times those of East Asia, twice the world average, and third highest amongst 68 countries with exports above $20 billion per annum.

A World Bank's study showed that the tariff rationalisation would have negative impact on Pakistan's revenue side on immediate/short term basis, but it would result into increased tax revenues with enhanced economic activities and helped the country for achieving industrialisation and increasing exports share in the world trade. Under the proposed plan, there will be certain items that would be brought down into lower slabs of 3 percent and zero percent. In the last budget, the FBR placed around 1,600 items into zero slab so more items will be placed into zero and 3 percent slabs.

The major exercise has been underway to reduce additional customs duty ranging from 2 to 7 percent on different items into lower side. The regulatory duty that ranges up to 40 percent will also be reduced.

Within the fifth schedule of the Customs Act, 1990, the government is all set to consider bringing those items to the standard customs tariff regime where there is no attached condition. But, the Fifth Schedule of Customs Act will remain intact.