

**Tax exemptions cost kitty Rs1.15tr**

ISLAMABAD: The tax exemptions cost in the current fiscal year rose to Rs1.149 trillion, up 18.25 per cent from Rs972.4 billion in the preceding year, the Pakistan Economic Survey 2019-20 showed on Thursday.

Tax exemptions are the revenues foregone by the state by granting exemptions under different categories to various industries and other groups. These costs have increased substantially over the past couple of years.

In the year 2017-18, the tax concession cost was Rs540.98bn.

The overall tax exemptions decreased substantially during the last International Monetary Fund bailout. However, the government again allowed several concessions to certain industries and individuals.

In the first year of the ongoing IMF programme, the cost of exemptions has risen compared to last year.

The income tax exemptions jumped to Rs378.026bn in 2019-20 from Rs141.645bn in the previous year, showing an increase of 166.88 pc. This was primarily driven by exemption of Rs212.07bn from total income and Rs104.498bn of tax credits extended to businesspersons. The main beneficiaries of the exemption under total income were the independent power producers.

Sales tax exemptions fell to Rs518.8bn in 2019-20 from Rs597.7bn in 2018-19, showing a decline of 13pc. This decline is mainly because the government did away with the zero-rating regime of five export-oriented sectors and imposed the standard rate of 17pc general sales tax on local sales of these five sectors and sugar. Last year, revenue loss from these five sectors was projected at Rs87bn.

Exemptions on the import and the local supply of items placed under the sixth schedule of Sales Tax Act were Rs310.714bn this year, up 3.22pc from Rs301bn a year ago. The sixth schedule is a list of exempted products, mostly consumer items.

The cost of exemption on import of products under the eighth schedule stood at Rs118.137bn this year as against Rs156bn last year, showing a decline of 24.2pc. The schedule applies to items imported under specified conditions.

For the first time, it was noted in the survey that exemptions available on cellular mobile phone is Rs23.154bn. The customs exemptions grew 8.56pc to Rs253.111bn this year from Rs233.134bn a year ago.

The single highest general tax concessions mainly on account of the CPEC-related imports, expenditure for vendors of the automotive sector and original equipment manufacturers were reported at Rs95.420bn this year as against Rs79.938bn last year, showing an increase of 19.36pc.

Tax exemption costs also rose due to increase preferential imports under the preferential trade agreements and free trade agreements to 45.02bn in 2019-20 from Rs43.1bn.

Pakistan has FTAs with China, Malaysia, and Sri Lanka with highest tax exemptions cost coming from China and followed by Malaysia. Under the PTA, the highest cost of exemption is with Indonesia.