

'Anomalies' in Finance Bill identified

ISLAMABAD: Ministry of Commerce has reportedly received over two dozen requests from different associations and companies identifying “anomalies” in the Finance Bill 2020-21 in the budget windup speech by the Minister for Industries and Production, Hammad Azhar, well-informed sources told Business Recorder.

The government constituted a committee headed by Prime Minister Advisor on Commerce and Investment, Abdul Razak Dawood and comprising Minister for Industries and Production, Hammad Azhar, Chairperson Federal Board of Revenue (FBR), Nausheen Amjad to evaluate the anomalies in the Finance bill and submit a report.

The “anomalies” identified and received from All Pakistan Textile Mills Association (APTMA) and Karachi Chamber of Commerce and Industry (KCCI) seek a meaningful reduction in the rate of GST, income tax/WHT and Federal Excise Duty specially the rate of GST to be reduced by at least 3 per cent(from 17 per cent to 14 per cent) to reduce the cost of doing business and improve cash flows which will provide much-needed stimulus to domestic economy.

Pakistan Tanners' Association (PTA), in its proposal has sought removal of further collection of 1% Withholding Tax on export proceeds, removal of further collection of EDS @ 0.25%, and removal of further collection of 1% withholding Tax on export proceeds for at least 3 years.

M/s Siemens stated that the Finance bill 2020-21 proposes to exclude Engineering services from the benefit of reduced rate of withholding tax of 3%; and after this amendment, such services will be subject to 8% withholding tax for companies and 10% for other than companies. This omission of engineering services from the reduced rate will result in very high incidence of tax specially for the corporate sector involved in providing engineering services to Energy, Oil and Gas and Construction sectors. Even if an average profit margin of 10% on these service contracts (which in the current scenario is anyway becoming a challenge) is assumed the minimum tax of 8% on the turnover would result in an effective tax rate of 80%. This proposed amendment would be detrimental for the engineering service sector specially in the current scenario of Covid-19 where it will be difficult for many companies to survive. Further, this will also result in increasing the cost of doing business for those availing these services.

M/s Siemens requested the government to withdraw this proposed amendment for companies by reinstating pre-bill status. And further recommended that for the listed companies this 3% minimum tax on services should be replaced with adjustable tax.

Mutual Funds Association of Pakistan (MUFAP) argues that Minimum Tax imposed on the Asset Management Companies at 8% is seriously impacting on the growth of the mutual fund industry, and this is an unjust levy of additional tax which is at substantially higher levels than the actual Corporate income tax liability of 29%. As per Clause 2(i) of Division III of Part III of First Schedule of the Income Tax ordinance, 2001, 3% Minimum Tax is applicable on 18 sectors of numerous corporate service providers. “We request you that Asset

Management Companies and REIT Management Companies licensed by SECP and Trade Associations licenced under the Trade Organization Rules, 2013 by the Ministry of Commerce should also be included in the same list of companies under above mentioned clause 2(i) for applicability of minimum tax at the rate of 3%. Proposal on Finance Bill 2020-21 on Rate of Withholding Tax on Dividend (Division I of Part III of First Schedule) Clause (b) of Division III of Part 1 of First Schedule specifies tax rate on dividend from mutual funds at 15%. The newly inserted amendment in the withholding section of Division I of Part III of the First Schedule has created an anomaly whereby the withholding is being construed as 25%. In order to avoid any probable anomaly and to make the wordings of Division I of Part III of First Schedule consistent with chargeability clause (b) of Division III of Part 1 which specifies 15% tax rate on dividend from mutual funds, we propose amendment in Division I of Part III of First Schedule clause (b): The existing clause reads as follows: (b) 15% other than those mentioned in clauses (a) We propose that this clause be amended in following manner: 15% in mutual funds and cases other than those mentioned in clauses (a) and (ba),” the proposal added.

Other Associations and firms which have sought revision in budget are as follows; (Prisma Tech; (ii) APTMA; (iii) Agha Steel, M/s Treet Corporation;(iv) Agri Auto Industries; (v) BBAP;(vi) PET Food;(vii) Sundar Industries; (viii) APMFA; (ix) Thal Balochistan; (x) PFEA; (x) Metropolis Trade International; (xi) Thal Engineering; (xii) PepsiCo; (xiii) Timeline; (xiv) PRGMEA; (xv) Asia Board Industries Limited; (xvi) APTPMA; (xvii) Nimir Industrial Chemicals Ltd(NICL); (xviii) Pakistan Steel Linepipe Industry Association; (xix) Sunline Solar Company (Pvt) LTD; (xx) Haroon Traders; (xxi) Pakistan Silk & Rayon Mills Association AND; (xxii), Corporate Dairy Farmers Association (CDFA).