

First detailed view on tax exemptions emerges

ISLAMABAD: An internal report of the Federal Board of Revenue (FBR) on Tuesday showed income tax exemptions and concessions given to businesses and industry in FY20 make up Rs140 billion or 37 per cent of the total income tax exemptions granted in that year. The total stands at Rs378bn.

The income tax exemptions and concessions for the sectors — business, industry, agribusiness, energy and mining are in addition to the lower rates of customs duty and sales tax.

The estimates come from the first-ever comprehensive report titled “Tax Expenditure 2020” produced by the FBR in which total volume of all tax expenditures under income tax, sales tax and customs duty is estimated at Rs1.150 trillion for FY20. This is around 3pc of the country's total GDP.

According to an FBR official, the report on tax expenditure is a step towards improving budgetary and fiscal transparency.

The data shows the government has given an amount of Rs108.19bn in tax credit to business and industries. The bulk of it is for investment in balancing, modernisation and replacement of land and machinery totaling Rs65.168bn. This facility was availed by 1,135 industries.

The second major portion of exemptions at Rs30bn has been given to 9,102 enterprises as an initial allowance for new businesses. An amount of Rs335 million has been exempted as the first-year allowance to 20 enterprises.

At the same time, a tax credit of Rs6.486bn has been given to 76 industrial undertakings established before July 1, 2011. Moreover, another Rs5.573bn in the tax credit is for 299 newly-established industrial undertakings.

The tax credit of Rs357m has been given to 29 companies for enlisting on the stock exchange.

Of the total Rs29.312bn exemptions given to the energy and mining sectors, majority of these were for the electric power generation projects normally called independent power producers or IPPs at Rs26.888bn. These projects were set up in Pakistan on or after July 1, 1988. The total number of beneficiaries under this are approximately 73.

The tax concession of an amount of Rs1.229bn has been given on import and subsequent supply of items with dedicated use of renewable sources for energy and another Rs732m has been granted on profit and gains derived by two liquefied natural gas terminal operators and owners. Another tax waiver of Rs443m has been given to one refinery owner.

For the agri-business, the concessions are very nominal at Rs592m. In science and technology, the exemption cost is estimated at Rs2.02bn. Of these, an amount of Rs1.239bn is accrued due to exports of computer software or IT services or IT-enabled services.

The government gave away another exemption of Rs635m to 475 startups.

In the financial sector, the total income tax exemption cost is Rs5.723bn. Of these, the bulk of exemptions of Rs5.228bn was given to collective Real Estate Investment Schemes or REITS.

After industry and business, the second-highest income tax exemptions of Rs83bn or 22pc of the total exemptions went to the state apparatus. Of these, Rs50bn was on the income of the State Bank of Pakistan, Rs18bn on income of federal, provincial and local governments and Rs8.315bn to the Water and Power Development Authority.

The third biggest share in exemption of Rs59.305bn or 15.7pc was for pensions. The cost of income tax exemption for around 1,581 donations, charities and non-profit organisations stood at Rs30.88bn or 8.2pc. In addition to this, 18,105 individuals availed tax credit for donations to charitable organisations.

The exemption on social security is estimated at Rs31.813bn or 8.4pc. These include provident funds, workers welfare funds, workers participation funds, benevolent funds etc. The exemption cost of education, health, sports, and culture is estimated at over Rs7bn in addition to Rs3.827bn for saving and investment.

In the sales tax, the exemptions were given on products used as industrial input or consumed by general masses. The bulk of this exemption was for the pharmaceutical industry, dairy sector and poultry.

In customs, the bulk of exemptions worth Rs29.21bn has been given to automobile sector vendors, Rs39.58bn for original equipment manufacturers of automobile sectors and another Rs15bn on raw materials of survey-based local industries.