BUSINESS RECORDER
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Erstwhile tribal areas, FBR suffers loss of Rs4,454.21m from IT relief

ISLAMABAD: The Federal Board of Revenue (FBR) has suffered loss of Rs4,454.21 million from income tax exemption granted to individuals or companies and associations of persons (AOPs) resident in the erstwhile tribal areas during tax year 2019.

The FBR analysis on exemptions granted to erstwhile tribal areas revealed that the actual cost of exemption from the erstwhile tribal areas is much higher compared to the said figures.

The tax expenditure type in tribal areas covers exemption from total income. The beneficiary are individuals domiciled or companies and associations of persons resident in the ex-Tribal Areas, FBR stated.

The FBR's source of data is the income tax returns. The estimation of tax expenditure for this clause is based on data of registered taxpayers residing in the Districts of erstwhile FATA/PATA, who have filed returns and declared exempt incomes for the period under review. The cost of tax expenditure is taken at 15% for business individuals and AOPs, and 29% in the case of companies. Moreover, at least 50% of the non-filers (business individuals, AOPs, Companies) in the said districts have been assumed to be active in business and earning average income equivalent to or close to the filer taxpayers. Tax expenditure is accordingly worked out for these 50% of non-filers, based upon the average.

The FBR said that the reliability of this estimate is low to medium, due to lack of sufficient data. It can be reasonably assumed that a vast majority of small and medium businesses, who are resident or domiciled in the districts of ex-FATA/PATA, are not on tax roll as tax laws have never had any applicability in these districts in the past, and there never was any enforcement or "broadening of tax base" drive here. Hence, actual estimate may be much higher.

The FBR said that in Sales Tax Act, concessions are granted broadly by three ways, i.e. zero rating, exemptions, and reduced rates.

Firstly, the product-based concessions In some cases, product based concession is granted under sales tax act, for example, in case of food and grocery items, certain products are exempt or have reduced rate of sales tax. It may get tricky because these exemptions can then have rules within rules. Prepared foods, such as a ready-to-eat may be exempted or have reduced rate whereas the same items if sold under brand name may not have the concession.

Secondly, use-based concessions Under the Act certain products that are intended to be used for in-house consumption, for use of a specific organization are given tax concession. Typically, this is where the end consumers are not liable to be taxed, or intended to be given tax concession.

Thirdly, buyer-based concessions Diplomats, diplomatic missions, diplomatic organizations, non-profit organizations or government agencies often are not required to pay sales tax. This concession in the form of zero rating or exemption is extended to state agencies.

Fourthly, the economic activity-based concessions Certain tax concessions under the act are granted for a specific economic activity. Like export promotions or certain activities in export processing zones.

A unique case in Pakistan is the case of exemptions in erstwhile Federally Administered Tribal Areas (FATA), where exemptions are granted for mainstreaming of the geographic areas, FBR added.