BUSINESS RECORDER
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Budget proposals, OICCI urges govt to consolidate all federal taxes

ISLAMABAD: Overseas Investors Chamber of Commerce and Industry (OICCI) has submitted its budget proposals to the federal government, urging authorities to consolidate all federal taxes, including income tax and levies like Workers Welfare Fund, Workers Profit Participation Fund in one lump sum to make the system more efficient and business friendly.

The association has also asked the government to deliver on promised Tax Reform – compliance and reporting to be reduced to no more than 10 annually. It has asked the government to massively improve automation and reduce interaction with businesses including no more than one audit in a year.

The OICCI whose members have invested over $13 billion further proposed the government to (i) restrict tax collection to no more than the actual tax liability – Review of Minimum Tax (MTR) Regime and Abolishment of Alternative Corporate Tax (ACT). The general rate of MTR under section 113 of ITO 2001 should be reduced to 0.5%. (ii) MTR should be reduced to 0.2% for Oil Marketing/ Refineries/ LNG Terminal Operators, large chemical companies, authorized dealers of local vehicle manufacturers and traders, including large trading houses, dealing in sectors with high turnover and low margins. Minimum tax should be adjustable against future tax liabilities for next 6 years.

ATC under section 113C of ITO 2001 should be abolished in presence of Minimum Tax.

With respect to revamping of Withholding Tax Regime (WHT), OICCI has proposed that WHT regime should be revamped by reducing it to a maximum of five rates only and the differentiation should be on basis of active and in-active taxpayers only. FBR system should be upgraded and all taxes withheld should be auto populated in the portal to the credit of the beneficiary. Final Taxation Regime should be done away with and all withholding taxes should be available for adjustment and the operations wing of FBR should ensure that all persons whose taxes have been deducted file their tax returns.

On sales tax, the Association has proposed that sales tax rates (federal and provincial), both on goods and services, should be harmonized throughout the country and be aligned to 13 % charged in Sindh.

OICCI is also of the view that section 8B in STA 1990 should be abolished for registered taxpayers. Section 8B of the STA 1990 should be abolished for registered taxpayers so that input adjustment to sales tax currently allowed only up to 90% is 100% adjusted not only to reduce cost of doing business but also reducing pressure on cash flow.

Most industries have long term import contracts with international suppliers. Due to current Covid-19 pandemic situation, sales of companies have reduced significantly and resultantly, input tax is getting accumulated as full adjustment of input taxes against output tax is not possible.

On delay and procedural hassles in processing of outstanding refunds, the Association has submitted the following proposals ;(i) all pending tax refund be cleared within next six months in a prearranged manner;(ii) verification process for refunds should start automatically as soon as an application for refund is filed by the taxpayer and tax refunds be cleared within 45 days;(iii) inter adjustment of Income tax and Sales tax refunds should be made part of the law;(iv) a timely settlement of the determined refunds should be made, and if there is a liquidity issue then issuing marketable Government bonds /securities be considered;(v) amend current fixed interest rate of 10% to floating interest rate linked with KIBOR.

The large number of payments and filing of various returns is a cause of great hardship to taxpayers and a major reason for tax evasion/non-registration as taxpayer. This is also a key factor in Pakistan's poor rating in the World Bank – Ease of Doing Business

'Paying Taxes' parameter. Frequency of payments and return filings should be reduced.

The Association is of the view that tax credit timelines on new investment may be extended up to FY 2023 to incentivize investment plans in large longer term projects with noticeable impact on the economy (Sections 65B, 65D and 65E of ITO 2001).

The credit rate under section 65B should be reverted back to 10% of the amount of investment as before. Tax credit under section 65B and 65E is currently limited to the purchase and installation of plant & machinery. Credit should be allowed for cost of civil works/factory building directly associated with purchase and installation of plant and machinery. Tax credit on employment generation given to manufacturing sector (section 64B) should also be provided to the services sector that contributes about half of the country's GDP.

The rate of initial depreciation allowance under section 23 should be increased from the current 25% to 50% for plant and machinery.

On Withholding Tax on Import u/s 148 of ITO 2001, the Association has submitted the following proposals ;(i) Withholding Tax on import of raw materials and plant and machinery by industrial undertakings be substantially reduced from 5.5% to 2%;(ii) clause 72B of Part IV of the ITO 2001 (excluding provisos) should be amended to align with actual tax liability (iii) For subsequent years, the industrial undertaking, be allowed exemption against advance tax u/s 148 on import of raw material, as per actual consumption requirement, instead of 125% quantity of previous year as provided in SRO 717 of 2014 (iv) A new provision to be inserted in Section 148 so that tax paid by manufacturers cum importers dealing in both manufactured and commercial imports shall be adjustable.

It has further proposed that synchronization of Sales tax rates and policies need to be harmonized across all jurisdiction and sectors and should be closely aligned with the regional benchmark of 12% sales tax rate. WWF & WPPF related tax laws should be updated based on the recent apex court's judgments, provincial enactments and current minimum wage levels. Currently neither the FBR nor the provincial revenue authorities, like PRA, SRB, are receiving the complete revenue stream under these heads.

Sections 60A and 60B should appropriately be amended to allow deduction against provincial laws of WWF and WPPF.

Clarity should be inserted in respective laws regarding the basis of allocation of WWF/WPPF charge where the taxpayer is having industrial establishment in more than one province.

One authority must collect all types of federal and provincial taxes for onward transmission to respective revenue authorities within the country without burdening the business entities. Single sales tax return should be filed with FBR instead of separate sales tax returns for each province. The provincial taxes should be consolidated specially the labor levies e.g. EOBI/ SESSI/ WPPF/ WWF. Controversies arising as to jurisdiction of authority to charge and collect tax on certain services should be resolved. Special attention be given to tax implication arising on emerging e-business models and asset-free web service providers who act as coordinator between supplier and buyer.