

Proposals for Punjab budget: OICCI suggests harmonisation of taxes

LAHORE: Overseas Investors Chamber of Commerce and Industry (OICCI) suggested that in line with international and regional practices a uniform service tax law may be drafted and agreed upon by the tax authorities of the provinces and federal government, for implementation in their respective jurisdiction. Furthermore, a uniform tax return may also be introduced for the taxpayers.

In their budget proposals to the Punjab government, the largest business chamber in the country that represents the largest bloc of foreign investors in Pakistan, suggested that a policy board comprising of the chairmen of the federal and provincial revenue authorities (FBR, PRA, KPRA, BRA and SRB) should be formed to ensure synchronisation of the policies, standard tax rates, basis of apportionment of revenues and removal of all anomalies/ conflicts between the laws of the different revenue boards (for example issues of jurisdiction, sales tax on toll manufacturing, clarity on jurisdiction and deductibility of WPPF/WWF expenses paid to the provinces). Further the revenue authorities should decide the basis of levy of indirect tax, which can be origination or termination, to establish jurisdiction of taxation of services.

To promote transparency and uniform interpretation, a 'standard schedule' should be introduced covering all services along with standard tariff headings and standard definitions. The standard schedule should be adopted by all provinces and Islamabad Capital Territory while levying sales tax on services in their respective jurisdictions. Besides, one return may be filed with identification of provincial head of account and direct deposit of share of tax of each province.

The OICCI stated that the PRA should take up with FBR for appropriate amendment to IT Ordinance, 2001 to ensure that payments made to the provincial tax authorities on account of WWF and WPPF are allowed as tax deductible expense. Further, the PRA should take up the matter with FBR for the proper mechanism for adjustment of input tax on franchise service payable in reverse charge mode.

It stated that the duplicate taxation was causing hardships to taxpayers and has given rise to unnecessary litigations and is one of the deterrents in attracting FDI in Pakistan. Thus as a first step, the PRA sales tax rates on services should be aligned with the Sindh sales tax rate on services which is 13 percent and gradually reduced to 10 percent over the next three years, whilst the current rate should be maintained for unregistered entities. This reduction in rate will encourage the registration of the unregistered taxpayers to avail the benefits of input adjustment and will enhance documentation. Subsequently, a study of the rates in the regional countries, with comparable economic parameters should also be done and sales tax rates be made more competitive. Reverse charge should be restricted to such cases where service provider is located outside Pakistan. Further, tax paid under reverse charge mechanism should be allowed as input tax and for claiming input tax the requirement of tax invoice should be done away and input tax should be allowed on the basis of agreement/payment proof as well. This will avoid double taxation, allow input tax and reduce cost of doing business.

The OICCI suggested that the rate of withholding sales tax against the invoices of unregistered persons should be reduced to 5 percent in line with the FBR's Withholding Sales Tax regime as applicable under SRO.660 (I)/2007. Further, the withholding tax rules should not be applicable on active

taxpayers. The withholding agents are unnecessarily burdened with deduction of sales tax which is not claimable as input tax and resulting in increasing their cost of doing business.

The purpose of withholding tax deduction is to ensure that non-active & non-registered taxpayers can be detected. Compliance burden of businesses can be reduced by exemption of deduction at source for active taxpayers. PRA allows similar provision [Rule 3 of Punjab Sales Tax on Services (Withholding) Rules, 2015].

The current sales tax rate on telecommunication services of 19.5% should be brought on a par with the general sales tax rate on all other services in order to harmonise all sales tax on all services. This will not only harmonise the tax rates and may also increase the tax collections by helping telecom operators tap lower income population of Pakistan.

They demanded that the services received by pharmaceutical industry should be zero rated. Since pharmaceuticals prices are controlled, sales tax paid on inputs can neither be added to the selling price nor separately charged.

A separate schedule should be inserted in Provincial Sales Taxes Act for zero rating. All services provided to foreign companies outside Pakistan which result in inflow of foreign exchange and export of all taxable services should be exempted from Sind Sales Tax. This will result in harmonisation of tax laws in Pakistan and would ensure convenient compliance with tax laws through uniform systems across the country and would also contribute towards the economic development of the country.

The OICCI suggested that the “toll manufacturing” should be deleted from the list of services, as it is taxable under the Federal Sales Tax to avoid double taxation and bring the practice in line with the norm besides adding to ease of doing business as presently this law is in conflict with federal law.

Further, amend the Punjab sales tax law with a special procedure for chargeability of sales tax on the services of “labour and manpower”. These services are highly essential for conducting business and very strong support for enhancing employment opportunity in the province.

Reimbursement is not revenue for service provider in any manner. The provision should be aligned with Section 8A of STA. Accordingly, the burden to prove that the service provider and service recipient acted in connivance, should rest upon the tax authorities. It will harmonise the federal and provincial sales tax laws. In line with federal government’s policy to exempt social areas from federal sales tax, the chamber recommends that services provided in / to such sectors should also be exempted to remove inequality in provincial sales tax laws.

The OICCI suggested that the rule 13(2) should be abolished from the withholding rules giving the legal right to claim of input tax to service provider in respect of advertisement services. This is a legal right of the tax payer to claim input tax paid on providing taxable services. Moreover, the bar imposed through Rule 13(2) looks more like an anomaly as no such bar is imposed in the PST Act or The Punjab Sales Tax on Services (Adjustment of Tax) Rules 2012 and primarily it is against the VAT mode of taxation.

Under sub-section (10) of section 7 of the Finance Act, 1989, the provincial government may issue a suitable notification to be published in official gazette. “The sale or purchase of immovable property by the banks or financial institutions under any Islamic mode of financing approved by the State Bank of Pakistan or the Securities and Exchange Commission of Pakistan shall be exempted from the levy of Capital Value Tax.” The registration of sale of property is subject to stamp duties, registration fees,

capital value tax and town taxes which approximately come to 6% of the sale value, which has a significant impact on cost of doing business.

The OICCI suggested deleting the provision of “Where franchiser is a foreign or local beverage company and there is no proper or formal agreement between franchiser or franchisee, the assessable value for the purpose of levy of the tax shall be payable on the value of concentrate or syrup or similar input material supplied by the franchiser to the franchisee.” The value of concentrate (which is a good) cannot possibly be taken to be the whole value of services. It is not only double taxation but unconstitutional that a good is taxed twice.

It is recommended that both, life insurance and health insurance, which do not fall within the scope of definition of service, should be permanently included in the list of exempt of exempted services.

Under the section 9A of Stamp Act 1899, the provincial governments may issue following SRO/notification and publish in their respective official gazettes. “The registration of sale or purchase of immovable property by banks or financial institutions under any Islamic mode of financing arrangement approved by State Bank of Pakistan or Securities and Exchange Commission of Pakistan shall be exempted from the levy of registration fee, stamp duty, district, municipal or town taxes or any other related taxes.”

The OICCI believed that such exemptions should be provided on Islamic financing transactions involving transfer of immovable property in Pakistan as already provided in developed countries such as Malaysia and United Kingdom so that it may act as the necessary stimuli for facilitation of Islamic banking in the country and the Islamic financial institutions can have a level playing field. Currently the sale/purchase of immovable property by IBIs is subject to taxes which approximately come to 6% of the sale value. These taxes consequently render transactions involving transfer of immovable properties for Islamic financing purposes unviable. This issue was even faced in issuing GOP Sukuks.

The OICCI proposed that Punjab Development Cess be withdrawn in its entirety. The cess adversely affects cost of doing business in Punjab and elimination of the same will reduce unnecessary burden on businesses operating in Punjab Province.

The current Covid-19 related crisis impacting businesses and creating liquidity and profitability issues is perhaps the right time for the Punjab government to eliminate this disputed levy and help the businesses in their struggle to continue business operations and pay their monthly wage bills.