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Manufacturing sector: PBC apprises Shamshad about complexities of tax regime

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Pakistan Business Council (PBC) has apprised Finance Minister Dr Shamshad Akhtar of the problems being faced by the manufacturing sector and businesses owing to high taxes and complicated tax regime. Sources said that manufacturing sector of Pakistan is over-taxed and consequently its growth is lagging behind as compared to neighboring countries. Additionally, free trade agreements signed with various countries are also not supportive to Pakistan''s businesses.

A delegation of PBC met with the finance minister last week and shared its vision titled the "Make in Pakistan" thrust and stated that disproportionate burden of taxes on the industry was hurting the businesses.

The measures proposed for a competitive Pakistan included; well-aligned government policies that support jobs, exports and import substitution; energy at regionally competitive costs; realistic exchange rates; smartly negotiated (or re-negotiated) trade agreements; level playing field with the informal sector; more equitable and broader tax base and tariffs that promote manufacturing over commercial imports; fiscal policy which facilitates capital accumulation and consolidation; tax rates which encourage more transparent corporate structures over unincorporated entities; significant improvement in ease of doing business; up-skilling and rapid growth of the digital and knowledge economy; move agriculture, livestock and dairy from subsistence to professional basis; addressing climate change is essential for life, not just the economy; transparency of CPEC costs, benefits and financial flows; and measures for promoting investment in SEZs without undermining existing industry.

The finance minister was told that agriculture''s share in the in GDP is 19.5 percent but the tax to revenue is one percent whereas manufacturing sector with a share of 13.5 percent contributes to 58 percent tax to the revenue. Likewise, real and wholesale sector with 18.5 percent share in GDP contributes to 1 percent tax revenue while service sector with 59.6 percent share in the GDP contributes 37 percent tax to the revenue.

In 2017, manufactured goods represented 77 percent of Pakistan''s exports against 96 percent of Bangladesh''s. Manufactured exports contribute to 5.9 percent of Pakistan''s GDP as opposed to 13.5 percent of Bangladesh''s. The finance minister was also informed that poorly negotiated trade agreements singed with various countries are also hurting the exports.

The PBC contention was that Pakistan''s corporate tax is 37 percent as opposed to 17 percent of Singapore, 15 percent of Bangladesh, and 25 percent of Sri Lanka while fiscal policy is not supportive due to super tax, restricted group loss relief, tax on retained profit, minimum tax on turnover even in initial year and cascading tax on higher than tax on sole traders and Association of Persons (AoPs) as well as effective tax rate of 55 percent for shareholders of holding companies.

This is also a fact that investment in capital formation is half than that of other Asian countries with Pakistan investment in capital formation is 15.8 percent against 31.5 percent of India, 31.3 percent of Bangladesh, 32.2 percent of Sri Lanka and 32.8 percent of Indonesia.