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# Taxation Proposals

2024-2025

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## Highlights of Taxation Proposals

### Broadening of Tax Base and Increase in Tax Revenue

Tax collection currently is a fraction of the tax due to GoP. Tax to GDP ratio be increased to at least 15% of GDP, it is recommended to allocate a major portion of FBR resources (IT, manpower, intelligence, data collection) towards broadening to tax base.

#### **Proportionate Contribution of All Sectors in Tax Net**

##### **1. Tax on Wholesale/Retail Trade.**

- Wholesale and retail sector is connected with the supply chain of manufacturers/ importers. Hence its documentation is linked with how manufacturers and importers transact business with them. Income tax withholding presently applicable on the purchases of wholesale/ retail sector (i.e. on sales made by manufacturer and importer) should be applied across the board (by amending sections 236G & H) and such withholding should be made at a higher rate (at least 10%).
- At present some specified (and not all goods) are subject to tax withholding and that too at a rate not more than 0.5%. The above tax withholding should be supplemented by reporting of sales by manufacturer/ importers, with complete details of unregistered buyers (at present unregistered sales are not reported with relevant information).
- At first stage, wholesalers and distributors should be required to provide information (Name, CNIC, NTN, Address) of their customers in their sales tax returns and withholding statements. Failure to do so should result in a disallowance of a portion of income tax and input tax.
- For Tier-1 retailers, including jewelers, property dealers, etc., FBR to ensure implementation of 100% POS integration, which is mandatory by law for Sales tax by applying strict enforcement measures.

##### **2. Immovable property**

- There are broadly two types of immovable properties; (a) agriculture property; and (b) non-agriculture property. In first place, details of agriculture and non-agriculture property should be obtained by the FBR and mapped with the wealth statements of taxpayers to identify the undeclared properties and status of owners of such properties.
- Withholding tax on immovable property (including agriculture land) to be collected along with property tax by provinces @ 0.5% of FBR value every year. The tax so collected would be adjustable against tax liability of the owner (credit for income tax collected on agriculture land can be given against agriculture income tax collected by provinces). Small properties may be excluded. This would result not only in documentation but identification of undeclared property.
- CGT exemption on sale of immovable property (after 4-6 years of holding) should be available to those only who have declared the property upon acquisition and such exemption should be available for one property in 3 years.

##### **3. Tax on Service Providers**

- Bring all service providers and professionals (including doctors, private hospitals, lawyers, painters, fashion designers, property dealers, interior designers, educational institutes including private teachers, coaching center, salons etc) into the tax net by implementing mandatory POS integration and also promote awareness for POS invoicing upon payment.
- Tax return filings to be made compulsory for annual license renewals in the service sector. For example, doctors should submit tax declarations to the Pakistan Medical Association (PMA), and tax consultants/accountants to comply with Institute of Chartered Accountants of Pakistan (ICAP) regulations, lawyers at Bar Council etc. Hospitals should also prohibit non-filer doctors from engaging in consultancy practices.
- Provide digital IDs to small service providers such as plumbers, carpenters, electricians etc.

## 4. Tax on Non-Corporate Business

Undocumented businesses are mostly undertaken in sole proprietor/ AoP setups, supplemented by cash economy. There is no law which regulates such businesses. Corporate Law should therefore be amended requiring incorporation of businesses surpassing certain financial thresholds. Meanwhile, the withholding tax rates for non-corporates should be enhanced significantly (like increased rates applicable in case of in-active persons) so that conducting businesses in such setups becomes more costly than corporate setup.

## 5. Tax on Agriculture Income

Under the Constitution, tax on agriculture income is collected by provincial authorities. However, if agriculture income is not taxed in the province, then FBR can tax it as un-explained income/ assets etc. This area needs to be explored with effective administration and enforcement, to improve tax collection from agriculture sector.

## 6. Tax on Builders and Construction Association

The rate of tax on builders for a 3000 sq ft commercial building is Rs. 80 / sq ft which is calculated as Rs. 240,000 total. Knowing the valuation of flat in Karachi, a 3000 sq ft flat can be not less than 3 Crore rupees which means that the builder has to pay tax @ 0.8% only and all his liabilities will be vanished compared to salaried class which are paying tax @ 35% and corporates which are paying taxes @ 29% + 10%.

## 7. Transport Sector

There are primarily two types of transporters: (a) one involved in transportation of goods and (b) the other involved in transportation of passengers. The advance tax collection on purchase / transfer of vehicle does not apply to these transporters as they pay annual advance tax, (collected with the motor vehicle tax) which is substantially low e.g. a 20-seater AC vehicle pay Rs. 30,000 income tax per annum (which is doubled to Rs. 60,000 maximum if the vehicle owner is a non-filer). Advance tax on (purchase/ transfer) of goods and passenger transport vehicles to be collected at the rate of 10% (at least) of the vehicle's value.

*Details on page 7*

## 8. Effective Utilization of Available Data/Information

- i. Tax authorities should use technology, data analytics including Artificial Intelligence tools and make better/effective utilization of 'NADRA, 'FBR Malomooat Portal' database and withholding statements, data submitted by withholding agents including banks and utility companies, property registrar, excise, sales tax returns, etc to ensure that all income earners should pay due taxes.
- ii. Tax exemptions/concessions given to certain sectors or regions (for eg FATA) should be time-limited and subject to periodic review.
- iii. Initiate thorough investigations into all 'Nil' tax returns.

*Details on page 7*

## 9. Capacity Building and Policy Reform in FBR

Genuinely interact/ partner with respectable trade bodies to bring visible change in taxable landscape.

### FBR Reforms:

- Separate policy making as approved by the GoP recently.
- Research and Analysis Wing be formed, the FBR/MoF to align with revenue with current trend.
- FBR IT system be modernized and linked with critical database like that of NADRA etc.

*Details on page 10*

## 10. Digitization of economy/ Demonetization

- i. Facilitate digitization of payments by promoting fintech infrastructure, POS invoicing, and e-Invoices, while offering tax incentives to FinTechs and merchants.
- ii. Promote digital payments and discourage cash circulation through initiatives like RAAST digital payment, extending digital invoicing mandates to all sectors, and incentivizing Fintech adoption for retailers and service providers.
- iii. Additionally, consider demonetizing Rs 5000 notes to deter cash transactions.

*Details on page 9*

## 11. General Revenue and Documentation Measures

- i. There are frequent travelers, including business and economy classes, avoiding taxes as well as identification. Income tax should be collected on all air tickets issued for foreign travel, from non-filers including applicability of withholding on hoteling and travel expenses.
- ii. Many times, taxes are avoided by temporary change of tax residential status. It is suggested that assets owned by such individuals should be treated as sold in the year they become non-resident for tax purposes.
- iii. There should be no exempt income including pension.
- iv. Make NTN (National Tax Number) mandatory for opening / maintaining a bank account and issuing compulsory NTNs to non-filers for specific transactions like vehicle and high value property sales, foreign travel, and club memberships etc. Additionally, significant banking transactions of non-filers should be monitored to uncover the asset / income beyond means. Cash withdrawals/ deposit by non-filers should be monitored by a separate wing of FBR, which should work in liaison with FMU of SBP.

*Details on page 9*

## Facilitation of Taxpayers & Ease of Doing Business

### 12. Single Tax Rates/Policy and Authority

- i. Sales tax rates and policies should be harmonized across all jurisdictions and sectors i.e. uniform sales tax rates all over the country.
- ii. Single Sales Tax return to be implemented for all sectors similar to telecom sector.

*Details on page 12*

### 13. Coordination between Federal and Provincial Legislations

Formally as to determine, whether FBR or SRB/PRA is empowered to collect WWF & WPPF from trans-provincial entities.

*Details on page 12*

### 14. Application of Sales Tax Laws on Distribution:

We recommend for necessary instructions for collaboration and coordination among Federal and Provincial tax regulators to develop consensus-based policy for taxpayers concerning the application of sales tax laws on distribution and subsequent supply arrangements. It is crucial to engage with other provinces (including FBR), to ensure consistency and harmonization in tax regulations across the country.

*Details on page 12*

15. **Reduce the number of Tax Return filing frequencies** to provide ease of doing business to compliant taxpayer.

*Details on page 13*

## Income and Sales Tax

### 16. Super Tax

Abolishment of Super Tax [Section 4C] and maintain the status quo for corporate tax rate at 29%, without any additional increase in the effective tax rate.

*Details on page 14*

### 17. Minimum Tax Regime

Reduce minimum tax rate u/s 113 from 1.25% to 1%, as previously enacted and for refineries and oil marketing companies from 0.5% to 0.25%. Allow adjustment of excess minimum tax paid within next 5 years.

*Details on page 14*

## 18. Revamping of Withholding Tax Regime (WHT)

Simplify the existing over 200 different tax rates for 29 WHT sections. There should be single rate under each section and categorizing rates based on active and non-active taxpayer status. The miscellaneous WHT sections should be merged to reduce the number of sections.

*Details on page 14*

## 19. Intercorporate Dividends (ICD)

Relief from multiple taxation of Intercorporate Dividends (ICD) and surrender of losses in Eligible Group Structures [section 59B]

*Details on page 15*

## 20. Reduction in Sales Tax rates

Sales tax rates (federal and provincial), both on goods and services, should be harmonized throughout the country and gradually reduce the sales tax rate to align with the regional average.

*Details on page 19*

## 21. Fast track procedural hassles in processing of outstanding tax refunds

- i. Inventory of pending refunds and details of refunds issued to be published on regular basis to bring transparency, reduce corruption, and enhance confidence of taxpayer. The provisions with respect to confidentiality of taxpayers information can be relaxed in the larger interest of country and taxpayers.
- ii. Implement an automated process for orderly clearance of tax refunds within 45 days, ensuring transparency through regular FBR disclosure.
- iii. Inter-adjustment of Income/Sales tax refunds against income tax/sales tax liability should be allowed as part of the law.

*Details on page 19*

## 22. Tax on Salary

The salary tax rates should be rationalized, currently salaried classes are paying more tax than exporters and retailers combined.

*Details on page 17*

## 23. Track and Trace System Implementation

Fully implement track and trace system in the FMCG, Cigarettes, Sugar, Cement and other sectors to enhance tax revenue and combat counterfeiting.

*Details on page 10*

## 24. Stringent Controls to Curb Illegal Trade

Massive Excise duty evasion (Rs. 300 billion) in the Tobacco industry, duty-not-paid goods, along with under-invoicing adversely affects government tax revenue. Stringent controls should be in place to arrest this huge leakage of revenue.

*Details on page 10*

## Customs

25. **Import and Export data** including Afghan Transit Data **should be made public** to highlight under invoicing.

*Details on page 21*

26. **Control the abuse of Afghan Transit Trade Facility by increasing examination** (to 50% from 5%) would result in raising revenue.

*Details on page 21*

27. **Introduce stringent controls for illicit trade/ duty not paid** products through implementing stricter penalties and establish a dedicated task force to conduct raids on retailers and manufacturers, confiscating and destroying illicit stocks.

*Details on page 21*

28. **Custom valuation** should be done by using up to data method of valuation.

*Details on page 21*

29. **Unauthorized imports of counterfeit products should be effectively checked** through registration of brands in coordination with the original brand owner/ registered in Pakistan.

*Details on page 21*

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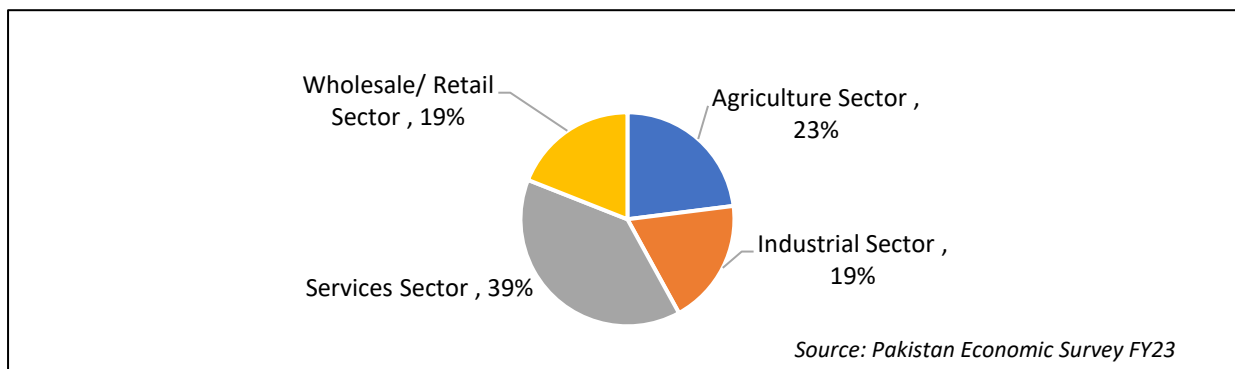
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## BROADENING OF TAX BASE & INCREASE IN TAX REVENUE

Tax collection currently is a fraction of the tax due to GoP. Tax to GDP ratio be increased to at least 15% of GDP, it is recommended to allocate a major portion of FBR resources (IT, manpower, intelligence, data collection) towards broadening to tax base.

### Proportionate Contribution of All Sectors in Tax Net

All sectors should contribute to the national exchequer in proportion to their contribution to GDP, including agriculture, real estate and wholesale/retail trade. The below table shows the sectoral contributions in GDP:



### 1. Tax on Wholesale/Retail Trade.

- Wholesale and retail sector is connected with the supply chain of manufacturers/ importers. Hence its documentation is linked with how manufacturers and importers transact business with them. Income tax withholding presently applicable on the purchases of wholesale/ retail sector (i.e. on sales made by manufacturer and importer) should be applied across the board (by amending sections 236G & H) and such withholding should be made at a higher rate (at least 10%).
- At present some specified (and not all goods) are subject to tax withholding and that too at a rate not more than 0.5%. The above tax withholding should be supplemented by reporting of sales by manufacturer/ importers, with complete details of unregistered buyers (at present unregistered sales are not reported with relevant information).
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- There are broadly two types of immovable properties; (a) agriculture property; and (b) non-agriculture property. In first place, details of agriculture and non-agriculture property should be obtained by the FBR and mapped with the wealth statements of taxpayers to identify the undeclared properties and status of owners of such properties;
- Withholding tax on immovable property (including agriculture land) to be collected along with property tax by provinces @ 0.5% of FBR value every year. The tax so collected would be adjustable against tax liability of the owner (credit for income tax collected on agriculture land can be given against agriculture income tax collected by provinces). Small properties may be excluded. This would result not only in documentation but identification of undeclared property.



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- Bring all service providers and professionals (including doctors, private hospitals, lawyers, painters, fashion designers, property dealers, interior designers, educational institutes including private teachers, coaching center, salons etc) into the tax net by implementing mandatory POS integration and also promote awareness for POS invoicing upon payment.
- Tax return filings to be made compulsory for annual license renewals in the service sector. For example, doctors should submit tax declarations to the Pakistan Medical Association (PMA), and tax consultants/accountants to comply with Institute of Chartered Accountants of Pakistan (ICAP) regulations, lawyers at Bar Council etc. Hospitals should also prohibit non-filer doctors from engaging in consultancy practices.
- Provide digital IDs to small service providers such as plumbers, carpenters, electricians etc.

### 4. Tax on Non-Corporate Business:

- Undocumented businesses are mostly undertaken in sole proprietor/ AoP setups, supplemented by cash economy. There is no law which regulates such businesses. Corporate Law should therefore be amended requiring incorporation of businesses surpassing certain financial thresholds. Meanwhile, the withholding tax rates for non-corporates should be enhanced significantly (like increased rates applicable in case of in-active persons) so that conducting businesses in such setups becomes more costly than corporate setup.

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- The rate of tax on builders for a 3000 sq ft commercial building is Rs. 80 / sq ft which is calculated as Rs. 240,000 total. Knowing the valuation of flat in Karachi, a 3000 sq ft flat can be not less than 3 Crore rupees which means that the builder has to pay tax @ 0.8% only and all his liabilities will be vanished compared to salaried class which are paying tax @ 35% and corporates which are paying taxes @ 29% + 10%.

### 7. Transport sector

- There are primarily two types of transporters: (a) one involved in transportation of goods and (b) the other involved in transportation of passengers. The advance tax collection on purchase / transfer of vehicle does not apply to these transporters as they pay annual advance tax, (collected with the motor vehicle tax) which is substantially low e.g. a 20-seater AC vehicle pay Rs. 30,000 income tax per annum (which is doubled to Rs. 60,000 maximum if the vehicle owner is a non-filer). **Advance tax on (purchase/ transfer) of goods and passenger transport vehicles to be collected at the rate of 10% (at least) of the vehicle's value.**

### 8. General Revenue and Documentation Measures

#### Recommendation

- i. There are frequent travelers, including business and economy classes, avoiding taxes as well as identification. Income tax should be collected on all air tickets issued for foreign travel, from non-filers including applicability of withholding on hoteling and travel expenses.

- ii. Many times, taxes are avoided by temporary change of tax residential status. It is suggested that assets owned by such individuals should be treated as sold in the year they become non-resident for tax purposes.
- iii. There should be no exempt income including pension.
- iv. Recommend making NTN (National Tax Number) mandatory for opening / maintaining a bank account and issuing compulsory NTNs to non-filers for specific transactions like vehicle and high value property sales, foreign travel, and club memberships etc. Additionally, significant banking transactions of non-filers should be monitored to uncover the asset / income beyond means. Cash withdrawals / deposit by non-filers should be monitored by a separate wing of FBR, which should work in liaison with FMU of SBP.

## 9. Effective Utilization of Available Data/Information

### Recommendations:

- i. Tax authorities should use technology, data analytics including Artificial Intelligence tools and make better/effective utilization of 'NADRA' and 'FBR Malomooat Portal' database and other documented sources to ensure that all income earners should pay due taxes.
- ii. Various data/ transactions reported through withholding statements, data submitted by withholding agents including banks and utility companies, property registrar, excise, sales tax returns, etc should be used by FBR to broaden the tax base without giving burden to the existing compliant taxpayers.
  - i. The banks provide customer wise details of tax deducted on profit payment (profit on debt; Section 151), payments of good and services (Section 153), Exports (Section 154), Export of Services (Section 154A), payments made abroad through debit/credit cards (Section 236Y) and cash withdrawals (Section 231AB) etc.
- iii. Leverage data mining techniques and advanced data analytics tools to identify patterns, trends, and anomalies that indicate potential tax opportunities or unreported income.
- iv. Tax exemptions/concessions given to certain sectors or regions (for eg FATA) should be time-limited and subject to periodic review.
- v. Initiate thorough investigations into all 'Nil' tax returns.
- vi. Eliminate the culture of Amnesty Schemes as it discourages honest taxpayers.
- vii. Based on the information exchanged through OECD Global Forum on Transparency and Exchange of Information, an appropriate action should be taken to bring undisclosed income/ assets in the tax net.
- viii. Establish protocols for data confidentiality and security to ensure compliance with privacy regulations and protect sensitive taxpayer information.
- ix. Develop standardized reporting templates to facilitate regular monitoring and reporting of tax base expansion efforts based on data analysis.
- x. Automation in IRIS to facilitation to taxpayers: all tax payments on which taxes deducted/ collected should be auto reflected in the FBR portal with reference to Computerized Receipt Payment Challans to avoid any discrepancy at time of refund verification. This would benefit both companies and FBR in terms of cost of compliance and reduce monitoring assessments.

## 10. Digitization of economy/ Demonetization

To achieve the vision of Digitalization interventions from both public and private sectors would be required. The existing IT infrastructure is unable to support even penetration of the banking sector within rural locations, hence movement of payment systems on digital platforms across the country will not be possible. The trend for movement to digital payment modes is now very common across other economies, hence government may need to onboard international e-commerce companies and Fintech for making these interventions successful.

## Recommendation

- i. Eliminate/ discourage the circulation of cash in economy for documentation. The SBP has taken very positive steps in introducing/promoting RAAST digital payment, similar methods are required to be implemented to avoid circulation of cash in the economy.
- ii. Digital invoicing to be mandatory for all sectors, which is currently mandatory for FMCG sector only.
- iii. Government should promote the platform/infrastructure for digitization of payments through fintech, POS invoices, e-Invoices, mobile wallets etc. This will also help the government to bring retailers and service providers etc into the tax net.
- iv. Tax incentives and concessions should be provided to FinTechs and merchants in order to promote financial inclusion and move towards a cash-less economy.
- v. Rs 5000 notes should be demonetized to discourage cash dealings.

## 11. Policy Reform in FBR

### Recommendation

- i. Separate policy making as approved by the GoP recently.
- ii. Research and Analysis Wing be formed, the FBR/MoF to align with revenue with current trend.
- iii. FBR IT system be modernized and linked with critical database like that of NADRA etc.

## 12. Capacity Building

### Recommendation

- i. Genuinely interact/ partner with respectable trade bodies to bring visible change in taxable landscape.
- ii. Implement targeted training programs for FBR staff to educate businesses within targeted sectors, identifying and assessing potential taxpayers and equip teams with necessary resources.
- iii. Strengthen field force capabilities to conduct physical field surveys effectively to explore new avenues of broadening the tax base specifically in retail, service and hospitality sectors.
- iv. Enhance technology infrastructure to support field operations and data analysis for tax base expansion.
- v. Conduct regular internal reviews and assessments to measure the FBR performance, effectiveness of capacity building efforts and policy reforms.
- vi. Encourage cross-functional collaboration between sector-focused teams and other units within FBR to leverage expertise and resources for comprehensive tax base expansion efforts.

## 13. Track and Trace System Implementation

Fully implement track and trace system in the FMCG, Cigarettes, Sugar, Cement and other sectors to enhance tax revenue and combat counterfeiting.

## 14. Stringent Controls to Curb Illegal Trade

### Recommendation

Massive Excise duty evasion (Rs. 300 billion) in the Tobacco industry, duty-not-paid goods, along with under-invoicing adversely affects government tax revenue. Stringent controls should be in place to arrest this huge leakage of revenue.

## 15. Incentivization of the Taxpayers

### Recommendation

- i. Offer tax credits or deductions for businesses/ taxpayers incentivizing compliance rather than over-burdening.
- ii. Establish recognition programs or awards for taxpayers with a history of consistent compliance, fostering a culture of tax responsibility.
- iii. Offer tax incentives for businesses that invest in sustainable practices or contribute to community development projects, linking tax compliance with corporate social responsibility.
- iv. Implement a system of tax credits or rebates for small businesses that invest in employee training or job creation, encouraging economic growth while promoting tax compliance.
- v. Provide preferential treatment in government services for active taxpayers for e.g. separate counters at NADRA/passport offices etc.

## 16. Public Awareness for promotion of Tax Culture in the country

### Recommendation

- i. Tax culture should be promoted through various communication channels eg. IVR (Interactive Voice Response) scripts during phone calls, social/electronic/print media, radio channels, morning shows, campaigns/roadshows etc.
- ii. Taxes/levies knowledge should also be included in the curriculum at Higher school education.
- iii. Provide educational resources and workshops for taxpayers to better understand their tax obligations and available incentives for compliance.

## FACILITATION OF TAXPAYERS & EASE OF DOING BUSINESS

To attract sizeable Foreign Direct Investment (FDI) into the country and make it easy for doing business in Pakistan both for local and foreign investors, it is proposed to:

### 17. Single Tax Rates/ Policy and Authority

#### Recommendations:

- i. Sales tax rates and policies, both on goods and services should be harmonized across all jurisdictions and sectors throughout the country.
- ii. Single Sales Tax return has been implemented for telecom sector is positive step for filing of single return. To promote ease of doing business this should be launched for other sectors also.
- iii. Single Taxation platform shall be maintained under the name "Pakistan Revenue Authority", to provide single window solution to all businesses.

### 18. Coordination between Federal and Provincial Legislations

#### Recommendations:

**WPPF/ WWF for Trans provincial Entities:** Trans-provincial entities should be allowed by FBR to claim WWF/WPPF paid liability as allowable expense in their returns, irrespective of the fact that whether they had discharged these liabilities to Federal or Provincial Tax Authorities.

### 19. Application of Sales Tax Laws on Distribution:

The recent decision of Hon'ble Supreme Court of Pakistan (SCP) dated January 26, 2024, regarding the taxation of distributors. Through the said decision, SCP has upheld the earlier decision of Sindh High Court (SHC) dated September 6, 2021, wherein distributors were held subject to tax under the heading of 'Supply Chain Management or Distribution (including delivery) Services' [9845.0000] of the Sindh Sales Tax on Services Act, 2011 on their distribution margin despite having paid sales tax to federal government on the supply of goods made by them.

While the decision of SCP is based on facts involved in that particular case, however it seems that the effect of that decision is being applied across entire distribution sector by the tax authorities of Sindh Revenue Board (SRB) by issuing notices.

If this issue is not appropriately addressed by provinces and federation with consensus, it would not only increase cost of doing business of documented sector but would also further add complications in the existing fragmented VAT system applicable in the country.

#### Recommendations:

**We recommend for necessary instructions for collaboration and coordination among Federal and Provincial tax regulators to develop consensus-based policy for taxpayers concerning the application of sales tax laws on distribution and subsequent supply arrangements. It is crucial to engage with other provinces (including FBR), to ensure consistency and harmonization in tax regulations across the country.**

### 20. Tax Audits & Appellate System

#### Recommendations:

- i. Audit criteria u/s 177 should be risk based, sample driven and cost-efficient, instead of calling 100% information involving voluminous transactional data.
- ii. FBR letter on withdrawal of earlier directives related to attachment of bank accounts dated October 11, 2021 should be withdrawn and it should be provided in the law that recovery

proceedings shall not be initiated until tax assessments have passed at least one independent appellate forum.

- iii. To reduce the litigation disposal time and avoid unnecessary litigations.
  - a) Proviso should be added to section 124 that in case Commissioner fails to issue appeal effect order within stipulated time period, taxpayers’ position should be deemed in effect.
  - b) Stay granted by Appellate Tribunal Inland Revenue should not expire after 180 days but should remain valid until the disposal of appeal.

## 21. SST Imposition on Commission Income

### Recommendations:

The amendments made vide Sindh Sales Tax on Services (Amendment) Act, 2021 during March, 2023 have also changed the definition of “Economic Activity” whereby such activities of an employee against which he earns any fee or commission from the employer have now been included within the scope of economic activity and such employees are required to register with SRB and start issuing invoices to their employers for such commission income and charge 13% SST on it. This amendment impacts employees of Banking, pharma, FMCG, insurance, brokerage, marketing sectors, etc. While making the above amendment, SRB has ignored the implications under the Income Tax Ordinance since any commission / target incentive paid to employee is currently treated as part of Salary and the employer is already withholding Income taxes against these under Federal Income Tax Law.

## 22. Secrecy of Taxpayers Information on Tax Payments CPR [Rule 42 - Income Tax Rules 2002]

### Recommendations:

- i. The right to print Computerized Printing Receipts (CPR) for tax payments should be restricted to withholding agents only, to maintain the confidentiality of taxpayers.
- ii. Pushing for automatic approval mechanisms on the IRIS portal to streamline processes and reduce costs for taxpayers. (for eg. revision of income tax returns, withholding statements, Correction of CPRs etc. require the approvals of tax office, which will be done through automated mechanisms without human intervention.)

## 23. Reduce the number of Tax Return filing frequencies.

The large number of filing of various returns is a cause of great hardship to compliant taxpayers and perhaps one of the major reasons for tax evasion/non-registration as taxpayer. Frequency of return filings should be reduced as per the recommendations below:

Name of authority	Name/Nature of Payment	Frequency of Reporting/ Payment	Total Annual Frequency	Recommendation	Remarks
FBR	Income Tax - withholding payments	Weekly	52	Monthly	It will reduce unwarranted operational burden on withholding agent
FBR	Withholding tax statement	Quarterly	4	Half Yearly	
FBR	Annual Withholding tax statement	Yearly	1	Deleted	Duplicate data reporting, as same data is already reported in quarterly statement.
FBR	Annual Employer Statement	Yearly	1	Deleted	Duplicate data reporting, as same data is already reported in quarterly statement.

## INCOME TAX

### 24. Abolishment of Super Tax [Section 4C]

The imposition and continuation of super tax continues to add to the burden on a relatively small number of compliant taxpayers who contribute the majority of the taxes. This has led to Pakistan becoming less competitive in the region.

Therefore, we strongly advocate for the abolition or at least planned phase out of the super tax imposed under Section 4C. This measure is essential to alleviate the burden on compliant taxpayers and to foster investor confidence.

The removal of super tax will send a positive signal to investors and businesses, promoting economic growth and development in Pakistan.

#### Recommendation

- i. **Super Tax should be abolished.**
- ii. **Given the present challenging economic circumstances and difficult time for business growth, we urge for the preservation of the status quo for corporate tax rate at 29% without any additional increase in the effective tax rate, which already surpasses regional competitive rates. It is worth noting that in the Finance Act of 2019, the government proposed a gradual reduction of the Corporate Tax Rate (CTR) by 1% to 25%.**

### 25. Minimum Turnover Tax [Section 113]

Considering current economic turmoil where constant increase in operational costs of the Companies due to inflationary pressure and devaluation of foreign exchange at its peak, tax on turnover, is a huge burden and has become a major concern for industries paying minimum tax in excess to the normal tax rate. Considering that companies are already required to pay tax higher of its taxable income or accounting profit [Sec 113C] whichever the case maybe, the levy of minimum tax on such companies adds burden to its tax costs due to its high turnover.

Needless to mention, there are certain industry sectors such as oil marketing companies, refineries, electricity distribution, refineries, pharmaceuticals, telecommunication, wires and cables, who are paying taxes on its high turnover due to nature of its business, despite having razor thin margins being regulated or otherwise. Thus, this high rate of turnover tax does not provide fiscal space for such companies to absorb high taxes from their limited margins in addition to high operational costs.

#### Recommendations:

- i. **To reduce tax rate under section 113 from 1.25% to 1%, as previously enacted.**
- ii. **To reduce tax rate under section 113 from 0.5% to 0.25% for refineries and oil marketing companies.**
- iii. **Reinstate the position of adjustment of excess minimum tax from 3 to 5 years.**
- iv. **Enterprises in special economic zone should be exempted from minimum tax under section 113.**
- v. **The turnover threshold for applicability of minimum tax under section 113 should be enhanced from Rs 100M to Rs 250M to bring it in line with threshold prescribed for small and medium enterprises.**

### 26. Revamping of Withholding Tax Regime – one of the key irritants for compliant taxpayer

As per FBR's annual yearbook 2022-2023, a total of 29 withholding tax sections (tax collection ~ PKR 1,874.29 billion) were applicable under the ITO, 2001. Over the years, FBR has focused on simplifying the withholding tax regime to make it more convenient and business friendly, however, the existing WHT rates are approximately more than 200 which are still too high and complex, due to different sub-classifications provided under multiple sections as well as discrimination in rates between active and non-

active taxpayers. It is important to note, that out of 29 only 10 sections accounted for approx. 94% revenue collection to the tune of approx. PKR 1.76 trillion. This is tabulated below:

S.no	Section	No of Rates	Description	PKR in Billion	Proportion
1.	153	22	Supply of Goods and Services	390.8	20.85%
2.	151	8	Profit on debt	320.0	17.07%
3.	148	18	Imports	290.2	15.48%
4.	149	6	Salaries	264.3	14.10%
5.	235	5	Electricity	95.6	5.10%
6.	236	2	Telephone	87.2	4.65%
7.	150	10	Dividends	85.4	4.56%
8.	236K	2	Advance Tax on Purchase of immovable property	84.7	4.52%
9.	154	2	Exports	73.8	3.94%
10.	236C	2	Advance tax on sales of immovable properties	70.3	3.75%
11.	155, 156, 156A, 231B, 233, 234, 236A-H, 236Y, 152 etc	123	Miscellaneous withholding sections	111.8	5.97%
		<b>200</b>	<b>Total</b>	<b>1,874.29</b>	<b>100%</b>

## Recommendations:

Based on the above analysis, we recommend:

- i. To simplify the withholding tax regime, the tax rate applicable on services should be made uniform @4% u/s 153 as already provided to 19 service sectors. As the tax for service providers is a minimum tax, the high rate of 9% further increases the cost of doing business.
- ii. The categorization for withholding tax rate should be for active and non-active taxpayers only. This will reduce the number of existing withholding rates by half.
- iii. As illustrated above there are approximately 200 different tax rates for 29 WHT sections, FBR should simplify the overall structure of withholding taxes by harmonizing tax rates and there should be single rate under each section, where possible. For example, single rates should be imposed for section 156 (Prizes and Winnings) @15% and section 233 (Brokerage and Commission) @8% etc.
- iv. The miscellaneous WHT sections mentioned above should be reduced to a minimum. For instance, section 236C/236K (purchase and sale of immovable property) and 154/154A (exporters of goods and services) can be merged.
- v. An enabling provision should be introduced in section 159 of the Ordinance to empower the Commissioner to issue withholding tax exemption certificate from all advance tax provisions to corporate taxpayers who discharge their annual tax liability in advance. This will account as a major step towards promoting ease of doing business by FBR for the business community.

## 27. Relief from multiple taxation of Intercorporate Dividends (ICD) and surrender of losses in Eligible Group Structures [section 59B]

Relief from multiple tax on Intercorporate Dividend (ICD) was introduced via Finance Act, 2008 as part of larger reforms to promote formation of Holding Company structures (Group Formation) in Pakistan from fragmented, family-owned ownership.

Under the said reforms, relief from ICD taxation was given to avoid double taxation of dividends between Group Companies. In 2021, the ICD relief has been removed, under the mistaken interpretation that it is an exemption.



The removal of relief from double taxation has made Pakistan less competitive in comparison to several developed countries (such as China, USA, Germany, Singapore, Australia) as well as many developing countries such (including India, Vietnam, Sri Lanka, Malaysia, Turkey, Brazil, Argentina, and others) where the relief from said double taxation is common.

## Recommendations:

- i. To make the Holding company structures fully adaptable in true letter & spirit, as introduced in 2007, and in line with global practices, ICD should not be taxable. The following new sub-section should be inserted in section 59B:  
*“Distribution of dividends within companies eligible for group relief under this section shall not be deemed a taxable event.”*  
Moreover, the following clause should also be inserted in second schedule to exempt the ICD from withholding:  
*“Provisions of section 150 will not apply in respect of ICD within the group companies eligible to group relief u/s 59B.”*
- ii. The existing condition in section 59B(1A) restricts the surrender of losses by one group company to another group company in the percentage of shareholding. This requirement should be removed as the condition for the holding company to maintain continuous ownership in subsidiary is already prescribed in section 59B(2) to qualify for group relief.

## 28. Final tax regime (exporters)

### Recommendations:

- i. Companies generating FTR income are subject to reduced tax rates. Therefore, it is suggested to impose a higher tax rate (like 25% in case of companies deriving exempt income) on dividends of such companies.
- ii. There are also exporters engaged in business through AOP / sole proprietor setup. They are not being taxed on distribution of profits. Their distribution should be taxed at par with companies at 15%.

## 29. Reduced rates as per holding period to be restored on securities [section 37A]

Currently, securities with shorter holding period are taxed at the lower rate as compared to securities (acquired before June 30, 2022) with longer holding period.

### Recommendation

- Tax on capital gain on disposal of securities should be according to the holding period. Section 37A allows gradual decrease in applicable tax rates from 15% to 0% on securities acquired after July 1, 2022, with the holding period ranging from 1 year to 6 years.
- It is recommended that all securities should be taxed as per their holding period regardless of the date of acquisition, with a reduction in rates, where holding period is longer. Therefore, clause (i) and (ii) of the First Proviso of Table to Division VII of Part I of First Schedule to be deleted.

## 30. Removal of anomaly in calculation of withholding tax on disposal of shares [Section 37]

Through Finance Act 2023, via amendment in section 37, withholding tax @ 10% of fair market value (FMV) has been made applicable on disposal of shares of unlisted companies.

The said FMV has been prescribed to be calculated as fair value of total assets of the subject unlisted companies, without reduction of liabilities.

This said prescribed calculation of FMV results in exorbitant amount of withholding tax, which is higher than the actual liability of capital gain tax.

### Recommendation

- Withholding tax rate of 10% should be based on actual liability of capital gains u/s 37.

## 31. Revise limit of cost of vehicle for depreciation/ lease rental [section 22 and 28(1)(b)]

### Recommendations

- i. The limit of cost of vehicle for the purpose of depreciation/ lease rental to be reviewed on yearly basis in line with inflation.
- ii. Furthermore, it should be increased from Rs. 7.5 m/2.5m, respectively, to Rs. 10m, u/s 22 and 28(1)(b) of the ITO, 2001.

## 32. Broadening of definition, the term “greenfield industrial undertakings” u/s 2(27A) and ease of procedural requirement

### Recommendations:

- i. The existing definition of the term “greenfield industrial undertakings” in the ITO is very restrictive. Sub-clause (iv) of clause (a) of the definition in section 2(27A) principally talks about “Pioneer Industries”; this is altogether a separate concept than greenfield industries.
- ii. It is therefore suggested that the sub-clause (iv) of the said definition should be deleted, to facilitate bringing new FDI in the country.
- iii. Moreover, it is also suggested that approval from the Commissioner under section 2(27A)(b) should be given within 30 days from the date of application by the taxpayer.

## 33. Tax on Salary Income – [section 149]

Through Finance Act 2022, the rate of income tax on salaried class was increased substantially. The slabs of the tax rates were changed in a manner whereby the income tax rate increased in a range of 7% to 10% for most of the salaried class. This was further increased by 2.5% through interim arrangement made by previous government. Overall, a salaried individual is now paying a tax of as high as 35% of his salary before deduction of any expense.

Furthermore, the tax credits available to salaried class in form of investment in mutual funds, house finance loans and insurance premium was also abolished which further increases the tax liability of salaried individuals.

- Salaried class are the most compliant taxpayers because their tax is deducted at source. Despite this, putting the burden of all other sectors on this small sector is sheer injustice.
- Salary is taxed at gross income and no expense is allowed in computation of taxable income. Hence by this means, the salaried class are paying a substantially higher proportion of their income compared to corporates.
- Salaried individuals are the think tank of this country and pressurizing them to this extent has forced them to leave the country and very good resources are leaving Pakistan at the pace of around 800,000 persons per year.

### Recommendations:

- The salary tax rates should be rationalized, currently salaried classes are paying more tax than exporters and retailers combined.
- To revive the tax credits available for salaried class in terms of investment in mutual funds, house building loans and insurance premiums.

## 34. Initial Depreciation allowance [section 23 and 23A]

### Recommendations

Initial Depreciation allowance be restored from 25% to 50% for plant and machinery from 0% to 25% for building and from 0% to 90% for installation of plant & machinery in specified rural areas. To encourage investment in Pakistan, especially manufacturing sites.

## 35. Exemption u/s 152 should be granted on an agreement basis

Currently, exemption for foreign payments u/s 152 (5) of the income tax ordinance 2001 is applied for every invoice separately despite of having the exemption certificate from tax authorities for similar kind of transactions previously. This is the time-consuming and cumbersome exercise for taxpayers and tax authorities both.

### Recommendation

Instead of applying for exemption certificates for each invoice separately, it is suggested that the approval should be agreement specific and not invoice wise. This should be applicable only for agreements duly approved by central/intermediary banks. This could streamline the process and reduce the number of applications received and processed by tax authorities.

## 36. Advance Tax Collection on electricity consumption from Inactive Domestic Customers [Section 235]

### Recommendations:

Advance tax charged and collected from inactive domestic customers under Section 235 of the Income Tax Ordinance, on bill of Rs 25,000 or above in a month on electricity consumption shall be made adjustable in the hands of domestic customers which is presently minimum tax upto monthly bill of Rs 30,000 and annual bill upto Rs 360,000. Domestic consumption of electricity is not meant for any business activity and therefore advance tax collected on domestic bills shall be made adjustable.

## 37. Income tax on exports [Section 154]

Income tax on export proceeds should be reduced from 1% to 0.75% which is covered under the Final Tax Regime.

### Recommendations

- i. Due to massive devaluation of the local currency, gross sales and manufacturing cost of the companies have increased significantly without contributing much to the net-profitability. Manufacturing cost of the companies have also been increased due to actual increase in energy cost and removal of subsidies. Hence, 1% income tax on exports proceeds increases the effective tax rate of the companies because of higher cost of doing business.
- ii. The Government should incentivize the taxpayers to increase the exports and bring foreign currency within the country.

## 38. Disallowance of Expenses in Income tax on account of sales made to un-registered persons [section 21(q)]

### Recommendations

Section 21(q), the disallowance of expenditures up to 10% on account of sales made to unregistered persons should be abolished, as it penalizes tax compliant sector with no major revenue benefit to Government. Moreover, sales to un-registered person is already subject to 3% further tax in addition to similar restriction u/s 3(1A) Sales Tax Act, 1990.

## 39. Exemption against Withholding of Income Tax [section 148]

### Recommendations:

- i. Exemption against withholding tax u/s 148 on raw material should be available on the basis of discharge of advance tax liability as per section 147 of the ITO, 2001, as also in the case of section 153.
- ii. Adjustability of advance Tax u/s 148(7) available to industrial undertaking shall also be extended to service sector. It is recommended to amend the section in following manner:  
*“The tax required to be collected under this section shall be minimum tax on the income of the importer arising from the imports subject to sub-section (1) and this sub-section shall not apply in the case of goods on which tax is required to be collected under this section for internal consumption in the business”.*

## SALES TAX

### 40. Reduction in Sales Tax rates

The Sales tax rate in Pakistan, at 18%, is the highest in Asia. Moreover, different rates of Sales Tax on goods and Services i.e. standard, reduced, specified etc. prevailing in the country lead to a number of issues for business organizations operating all over the country.

#### Recommendations:

**Sales tax rates (federal and provincial), both on goods and services, should be harmonized throughout the country and gradually reduce the sales tax rate to align with the regional average.**

### 41. Fast Track procedural hassles in Processing of Outstanding Refunds

Technical glitches in FASTER and ERS systems are causing delays and complications in Sales Tax refund processing for corporates, leading to deferred or missing refunds. Additionally, the absence of clear guidelines from the FBR exacerbates the situation, forcing taxpayers to seek manual verification of refunds, which further deteriorate the Cashflow position for Manufacturers/ exporters, who are already under immense pressure due to increase utility prices, FX volatility and general reduction in demand.

#### Recommendations:

- i. **Inventory of pending refunds and details of refunds issued to be published on regular basis to bring transparency, reduce corruption, and enhance confidence of taxpayer. The provisions with respect to confidentiality of taxpayers information can be relaxed in the larger interest of country and taxpayers.**
- ii. **Implement an automated process for orderly clearance of tax refunds within 45 days, ensuring transparency through regular FBR disclosure.**
- iii. **The efficiency of the FASTER and ERS system should be improved to facilitate accurate Sales Tax refund verification and timely processing.**
- iv. **Inter-adjustment of Income/Sales tax refunds against income tax/sales tax liability should be allowed as part of the law. Furthermore, adjustment of outstanding Income Tax/ Sales Tax Refunds against monthly Sales tax liability should be allowed for facilitating the Taxpayers.**

### 42. Admissibility of Input sales tax on Civil work, vehicles, equipment & materials and reduced rate services [section 8(1)(h), (i) & (j)]

#### Recommendations:

- i. **Section 8(1)(h)(i) of STA 1990 should be omitted to allow for adjustment of input tax on building material, office equipment, furniture & fixtures, vehicles & their parts which ultimately becomes the part of cost for all documented sectors and encourages procurement from un-registered sector whereby 18% sales tax cost is mitigated with only 5% sales tax withholding.**
- ii. **Section 8(1)(j) of the STA 1990 should be omitted to allow input tax on reduced rate (as applicable under provincial laws) used for the furtherance of business.**

## 43. Adjustable Input Tax to be abolished for registered taxpayers [section 8B]

- i. Principle of 90% adjustment of input tax was introduced to encourage the registered taxpayers for correct declaration of sales and purchase transactions in sales tax returns so that related input tax can be claimed. The principle of 90% adjustment of input tax has become redundant after introduction of STRIVE System, input tax is allowed to the registered taxpayers where supplies have been declared in sales tax return and related sales tax liability has been deposited.
- ii. Substantial input tax is paid at the time of import of plant, machinery and related equipment by manufacturing companies. This input tax usually requires more than a year to get adjusted against the output tax due to limited value addition in the final product and restriction on input tax adjustment. Due to which manufacturing companies have to bear finance cost on payment of 10% output while the input tax is already available to the taxpayers.

### Recommendations:

- i. **90% limit for adjustment of input tax against output tax should be abolished for sales tax registered taxpayers.**
- ii. **95% limit for adjustment of input tax against output tax for tier-1 retailers integrated with FBR should be eliminated. The current constraint exacerbates liquidity issues for businesses due to the lack of an efficient refund mechanism.**

## 44. Exclusion from levy of Further Tax and Extra tax to certain persons [Section 3(1A)] & 3(5)]

### Recommendations:

- i. **Further tax shall not be made applicable on supply of taxable goods to those who are “not required to be registered” under ST Act like service providers registered under the Provincial Statutes etc and Not for Profit Organizations and in this respect necessary amendments should be made in SRO 648(I)/2013 dated 09 July 2013. Federal Government, Provincial Government and autonomous bodies are already excluded from this levy vide SRO 648(I)/2013.**
- ii. **Extra tax under Section 3(5) of the ST Act read with SRO 1222(I)/2021 dated 15 September 2021, shall not be made applicable on supply of electricity to Federal and Provincial Government, Semi-Government, Local Government, Service providers registered under the Provincial Authorities and Not for Profit Organizations which are not engaged in sale of goods.**
- iii. **The Commissioner Inland Revenue shall be empowered to exclude any person from the levy of further tax and extra tax, through issuance of exemption certificate.**

## CUSTOM DUTY

### 45. Structural Reforms in Customs to bring Illicit Trade into tax ambit.

#### Recommendation

- i. **The data of import and export should be public property (restrictively) to ensure transparency, which will also help in taking over of goods under section 25A of the Custom Act, 1969.**
  - a) **Exchange of information agreements (for customs duty purpose) should be entered with other countries so that the import/ export values of the consignments may be reconciled. Currently, we have MoUs with China and Iran for export data exchange, there is no other mechanism like online portals with other countries having major exports to Pakistan.**
- ii. **Introduce stringent controls for illicit trade:**
  - a) **Introduce tighter penalties (e.g., criminal liability) for illicit trade across the whole value chain – retailers, distributors, and manufacturers.**
  - b) **Introduce a special division/ task force to raid retailers and manufacturers to confiscate and destroy illicit stocks.**
- iii. **Custom valuation should be done by using latest method of valuation including, online search and matching international and regional pricing and taking local legal brand owners on board.**
- iv. **Unauthorized imports of counterfeit products should be effectively checked through registration of brands with the custom authorities in coordination with the original brand owner/ registered in Pakistan.**
- v. **Control the Afghan Transit Trade:**
  - a) **Increase examination of Afghan Trade (to 25%/50% from 5%) would result in raising revenue.**
  - b) **Revise the ATTA based on current reality, to protect the revenue base of Pakistan without hurting the real spirit of such agreements. Engage key stakeholders from OICCI and business community in Pakistan in such re-negotiation.**
  - c) **Further, harmonize duty and tax rates to remove the incentive for evasion.**
  - d) **Fix quantitative limits for imports based on genuine Afghan needs and size of population.**
  - e) **Vehicle trackers and scanners to be installed from Pak border to Afghanistan border.**
  - f) **Afghan importers should also file the entry in the WeBOC system of Afghanistan, Pakistan authorities should have access to the same. The containers not cleared after 21 days of being released from Pakistan port, should be marked red (for the risk of being misused);**
- vi. **Regulation of Cross-Border Trade**
  - a) **Highlighting the need for regulated cross-border trade to prevent foreign exchange leakage and strengthen the economy. (The cross-border trade with Iran, India, and Afghanistan is not under proper documentation. This leads to leakage of foreign exchange as well as weakening the economy.)**

### 46. Custom Act (Export Facilitation Scheme)

The proposed amendments in Rule 871(g) recommends including all the stakeholders who are already part of the overall supply chain of the export-oriented industries like distributors/local traders, who also locally purchase such Raw Materials, which are required to manufacture export products. In addition, the following benefits shall also accrue from the proposed amendments:

- Support in reduction of Commercial Imports and saving of precious foreign exchange of the country.
- Complete and cover the whole supply chain and distribution cycle of the Country's Exports
- Provide level playing field for not only growth in the local manufacturing but also facilitate import substitution.

## Recommendation

**Rule 871 (g) “Common Export House” means a warehouse authorized by the Collector under this chapter, for import or procured locally, warehouse and supply of input goods without payment of customs duty, sales tax, federal excise duty and withholding tax, to the small and medium export enterprises, direct or indirect exporters or commercial exporters; Consequently, amendments are also required to be made in the definition of Exports and Indirect Exporter in rule 871 (k) and (l) as follows:**

*“export” includes supply of goods, -*

*(a) by an indirect exporter to a direct exporter or Commercial Exporter or Common Export House;*

*“Indirect exporter” means a person who has a firm contract or export purchase order from a direct exporter or commercial exporter or Common Export House for the manufacture and supply of goods to such exporter and includes another indirect exporter in the supply chain for exports authorized under these rules;*



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# Taxation Proposals

2024-2025

Annexure I

**Industry Specific Proposals**

The **First Port of Call** for  
Foreign Investment in Pakistan





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# OICCI Taxation Proposals 2024 – 2025

*OICCI Industry Specific*

## A. AUTOMOBILES

### 1. Reduction in Import volumes of used cars

SRO 1571/22 and 1572/22 levying regulatory duty and additional customs duty on used cars was effective till March-2023. Since then, the non-application of these duties' have made imports of used cars more feasible than locally manufactured vehicle. Besides, entitlement of overseas Pakistanis used by traders for bulk import of used vehicles.

The rationale is to sustain the growth of local automobile industry and provide a level playing field to an already struggling industry.

#### Recommendations:

**It is proposed to reinstate the regulatory duty and the additional customs duty on used cars. Further, additional taxes are imposed on onward sale of vehicle by the beneficiary of scheme meant for overseas Pakistanis.**

### 2. Reduction in Minimum tax u/s 113 for Authorized Dealers of vehicle manufacturers and Exemption of Withholding tax u/s 231B on sale to dealers

The rationale is to promote wholesale-retail mechanism, as applicable internationally, which will improve volumes on account of stock availability and healthy competition. Further, contribution to the Government will also increase with increased volume.

Income of dealers will be subject to normal taxation and will promote documentation, thereby increasing tax base.

#### Recommendations:

- **Reduce Minimum tax u/s 113 of the Income Tax Ordinance, 2001, from 1.25% to 0.25% on turnover of authorized dealers of vehicle manufacturers, as being allowed to Motorcycle dealers, distributors of FMCG, Pharmaceutical, Fertilizers, etc.;**
- **Withholding income tax u/s 231B be exempted on sale of vehicles by manufacturers to their authorized dealers to effectively implement wholesale-retail mechanism.**

### 3. Withholding Income Tax under section 231B

Advance tax is being collected by manufacturers on engine capacity on slab basis with fixed values upto 2000Cc and 6% to 10% over 2000Cc. Since this is not based on retail sales price (RSP), tax collections are distorted in relation to values of the vehicles. Hence collection of tax u/s 231B on RSP shall rationalize such tax collected.

#### Recommendations:

**It is proposed that the current applicable mechanism is not equitable. To make it so, withholding tax rates are applied based on sales price of a vehicle.**

# OICCI Taxation Proposals 2024 – 2025

*OICCI Industry Specific*

## B. BANKING, LEASING, AND INSURANCE

4. Enhanced rate of tax on income from investment in Federal Government Securities (Rule 6C of Seventh Schedule):

**Recommendations:**

Incremental tax applied under Rule 6C of seventh schedule of ITO 2001 should be permanently deleted from law, whereby enhanced rate is applied on banks income from investment in Federal Government Securities.

Alternatively, following clarification be added after Sub-Rule 6A of Rule 6C of the Seventh Schedule:

*For removal of doubt, it is clarified that for the purpose of this Sub Rule, the Gross Advances to Deposit Ratio refers to Gross Advances, appearing in financial statements divided by Deposits appearing in financial statements of banking company.*

5. Restoration of the Original Provision related to Bad Debts:

**Recommendation:**

The original provisions of the Seventh Schedule should be restored where provision for bad debts as per the Prudential Regulations of SBP and supported by an Auditors certificate was allowable as a tax deduction to the banks.

Further, IFRS 9 is applicable on banks effective from 1<sup>st</sup> January 2024. It is proposed that loan losses recognized in Profit & loss account shall be allowed as admissible expense for tax working.

6. Additional on certain Income, Profit & Gains (Windfall Profits)

Introduced through Finance Act, 2023 where Windfall Profits for any of the last three tax years preceding the tax year 2023 and onwards shall be chargeable to additional tax maximum up to 50%.

**Recommendations:**

This is an additional tax burden and should be abolished as the income of the Bank is already subject to high tax rates 49% (Corporate Tax @ 39% and Super tax @ 10%) and again taxing the same income will make ETR unsustainable.

7. Islamic modes of financing – Rule 3 of the Seventh Schedule – Treatment for Shariah compliant banking.

**Recommendation:**

Rule 3 (1) & (2) of Seventh Schedule of ITO, 2001 should be replaced with the following text under Rule 3(1):

*“The audited financial statements of Islamic Banks and Disclosure related to Islamic window operations of the conventional banks as contained in the audited financial statements submitted to the State Bank of Pakistan shall form the basis for the calculation of income tax liability as provided in this Schedule.”*

# OICCI Taxation Proposals 2024 – 2025

## OICCI Industry Specific

### 8. Withholding Tax on All Modes of Islamic Financing

#### Recommendation:

To provide tax neutrality for assets financed by Islamic banks and Islamic windows of conventional vis- a vis conventional banks. Following clarification be inserted after clause 153(7)(iii):

*“For the removal of doubt, it is clarified that any goods delivered under an Islamic mode of financing by a bank or financial institution approved by the State Bank of Pakistan or the Securities Exchange Commission of Pakistan, shall not be considered as sale of goods for the purpose of this section.”*

### 9. Information and Recovery Notices issued to banks u/s 176 & 140 of ITO, 2001

The banks are facing following challenges related to information and recovery notices:

1. Single notice requires information tasks for multiple taxpayers.
2. No intimation is made to the customer regarding recovery notice under Rule 210C.
3. Notices are issued by officers other than Commissioner that result in non-compliance of Rule 201B.
4. Notice doesn't specifically mention that all requirements given in the law are already complied by the relevant officer and it create dispute between banks, regulator and customers.
5. Tax period is not mentioned in recovery notices that cause hardship for the bank to reconcile the period with the stay orders provided by the client.

#### Recommendation:

Following amendment shall be made in recovery rules:

- 1- Standard Information & Recovery notice shall be drafted in consultation with Pakistan Banking Association/ SBP and made part of Rules to avoid non-compliance/operational risk for the financial institution.
- 2- Customer shall be copied in all correspondence executed with Financial Institution. Appropriate Departmental Operation Instructions shall be issued to field officers.
- 3- Standard format of recovery notice shall be drafted by the FBR to ensure that all requirements of the law are adequately addressed in the letter.
- 4- Tax period shall be mentioned in the recovery notice to ensure that the information is aligned with the stay order provided by the client.

Alternatively, a centralized recovery unit shall be formed within FBR to ensure operational and regulatory efficiency in the process. A single central unit will result in better coordination between regulators and financial institutions and may result in better revenue for the government.

# OICCI Taxation Proposals 2024 – 2025

*OICCI Industry Specific*

## C. BEVERAGE SECTOR

### 1. Beverage Industry Should be Given Level Playing Field Like Other Food Industry

Aerated waters and fruit juices have been heavily taxed under the Sales Tax Act, 1990 on retail price basis. Under this tax regime, manufacturers are not allowed to deduct on invoice trade discounts and bulk discounts to its customers, which results in investment of huge cash flows in payment of taxes instead of increasing beverage market and production capacity.

#### Recommendation:

Delete the following serials:

- i) The serial no.1 and serial no.3 of third schedule of the Sales Tax Act, 1990 and
- ii) Serial No. 4, 5 & 6 of First Schedule of Federal Excise Act, 2005.

### 2. Rationalize the high rate of FED on Soft Drinks [Serial No. 4, 5 & 6 of First Schedule of Federal Excise Act, 2005]

#### Recommendation:

The increase in FED rate on Carbonated Soft Drinks from 13% to 20%, through Supplementary Finance Bill, 2023, should be rationalized with other sugar containing beverages.

### 3. FED on Sugary fruit juices

Imposition of 20% FED will negatively impact the juice industry that has an annual revenue of approximately PKR 60 billion & investment of PKR 40 billion.

FED will affect business volumes, reducing sales tax collection for national exchequer and will encourage tax evading informal sector to gain foothold in the market. Further, Juice industry has a huge contribution in agri economy of Pakistan through sourcing of 100,000 tons of fruit from local farmers. FED will hamper procurement of fruits, negatively impacting the pulp market. FED will reverse the industry's growth & diminish livelihood of local farmers, creating direct & indirect unemployment for thousands of families.

#### Recommendation:

Delete the words "sugary fruit juices" from the Sr. No 59 of Table 1 of First Schedule to the Federal Excise Act, 2005.

(Withdrawal of 10% FED on juices industry imposed in Finance Supplementary Act, 2023) Original clause is reproduced below:

“sugary fruit juices, syrups and squashes, waters whether or not containing added sugar or artificial sweeteners excluding minerals and aerates water”.

# OICCI Taxation Proposals 2024 – 2025

*OICCI Industry Specific*

## D. CHEMICAL/ TERMINALS/ PESTICIDES/ FERTILIZERS/ PAINTS

### 4. Minimum Tax at Import Stage for Fertilizer manufacturers

#### Recommendation:

Clause b of Section 148(7) of ITO 2001 as deleted by the Finance Act, 2017 should be restated, which read as follows: “148(7)(b) fertilizer by manufacturer of fertilizer” to allow adjustment of tax deducted at import stage for fertilizer imported by a fertilizer manufacturer so as not to make it a Final Tax.

### 5. Exemption under Clause 42 of Part IV of Second Schedule to the Terminal Operators

#### Recommendation:

Exemption under Clause 42 read with section 153(3) of the ITO, 2001 be available to all terminals without discrimination. The said clause be re-worded as follows:

*“(42) The provisions of sub-section 3 of section 153 shall not apply in respect of payments received by a resident person for providing services by way of operation of terminal(s) at a sea-port in Pakistan or of an infrastructure project covered by the Government’s Investment Policy, 1997.”*

### 6. Terminal operators be also included in the list of service providers under clause (2)(i) of Division III of Part III of Second Schedule

#### Recommendation

Terminal business is of the same model as other service providers, it is discriminatory to exclude terminal operators amongst the service sector category subject to reduced withholding @ 3% under section 153(1)(b).

### 7. Minimum VAT of 3% on import of DAP to be abolished:

Input and output of DAP is subject to sales tax at the rate of 5%. Hence additional 3% non-refundable minimum VAT @ 3% leads to higher cost of production of essential agricultural input

#### Recommendation:

As DAP is an important agricultural input, it is proposed that minimum VAT levied on import of DAP, being import of finished goods under section 7A and the Twelfth Schedule of the Sales Tax Act, 1990 be abolished by adding appropriate exemption sub-clause in clause 2 of the said schedule.

### 8. Income Tax Deduction on import of PVC:

Currently, Polyvinyl Chloride (PVC) is imported in Pakistan at lower rate i.e. 2% of import value since PVC is covered under Part II of the twelfth schedule of the Ordinance (PCT Code 39.01).

#### Recommendation:

Many traders and manufacturers import PVC from abroad whereas PVC is also locally manufactured. Hence such imports when local substitute is available be discouraged. Therefore, PVC be moved from Part II to Part III of the twelfth schedule.



## 9. Higher Tax Rates on Fertilizer Micronutrients

Macro nutrients being imported under Chapter 31 of Pakistan Customs Tariff, enjoy reduced duties and taxes representing only 8% of the value imported whilst in case of micronutrients being imported under Chapter 28, the import duties and taxes are quite high representing 29% of import value.

### **Recommendation**

**Make necessary amendments in the revenue regulation to reduce sales tax and import duties on import of micronutrients.**

## 10. Removal of Dual taxation on dealers of chemical sector [u/s 236G and 233]

### **Recommendation**

**Dealers of Chemical sectors be removed from the scope of Section 236G who are already paying tax on their commission income under Section 233 of the Ordinance and are also appearing in ATL.**

# OICCI Taxation Proposals 2024 – 2025

*OICCI Industry Specific*

## E. DAIRY SECTOR

### 11. Exempt "milk" from Withholding Tax

**Recommendation:**

Exempt 'milk' from withholding tax whether it is purchased directly from the farmer or through commission agent/resellers.

### 12. Provide Mechanism to issue Sales Tax Refunds for Dairy Industry

100% recoupment of input taxes paid on sale of milk and Fat filled milk is allowed since July & September 2021 respectively.

**Recommendation:**

A pre-defined mechanism such as FASTER be made applicable for dairy companies and refunds should be automatically processed within 15 days of filing monthly sales tax returns. Since majority of the taxable purchases made by dairy companies are from reputed corporate taxpayers therefore verification of input taxes paid will be swift.

### 13. Continue Zero-tax on Milk

**Recommendation:**

The current tax regime established by the Finance Act, 2021, and the Tax Laws (Third Amendment) Ordinance, 2021, where liquid milk and fat-filled milk are subjected to 0% sales tax should continue.

### 14. Restore reduce sales tax rates on Dairy Products

**Recommendation:**

Through Finance Supplementary Act, 2022, the following dairy products i.e. Flavored Milk (HS Code 0402.9900), Yogurt (HS Code 04.03) Cheese (HS Code 04.06), Butter (HS Code 04.05), Cream (HS Codes 04.01, 04.02) and Desi ghee (HS Code 0405.9000) sold in retail packing under a brand name, are currently taxable at standard Sales tax. Re-transpose these products to 8th schedule of the Sales Tax Act, 1990 to continue the reduce rate @10%.

### 15. Reduce rate of WHT on import of raw materials

Collection of tax on major imported raw material related to dairy sector is applicable at the rate of 5.5%. Whereas various raw materials used in other industries are already subject to reduce rate of tax @ 2%.

**Recommendation:**

Raw materials imported for in-house consumption by dairy industry should be subject to collection revised of advance tax at import stage @ 2%. List of major imported raw materials is given below in table.



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HS Code	Description
0404.1010	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.
0404.9000	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.
1302.3900	Mucilages and thickeners, whether or not modified, derived from locust beans, locust bean seeds or guar seeds
1702.1110	Lactose
1805.0000	Cocoa powder, not containing added sugar or other sweetening matter.
1806.2010	Chocolate preparation
2106.1090	Protein concentrates and textured protein substances
2309.9000	Preparations of a kind used in dairy livestock feeding.

## 16. Duty on import of cheese

### Recommendation:

In order to support and protect the dairy industry, as well as preserve the nation's valuable foreign exchange reserves, it has been proposed that the duty on all types of cheeses (falling in any HS codes 04.06, 19.01, 21.06) be increased to the maximum limit (155%) allowed under the Customs Act of 1969. The proposed increase in duty will include not only the Additional Customs Duty but also the Regulatory Duty. This increase in duty will serve as a safeguard against the influx of cheaper imported cheeses that undermine domestic cheese production. The proposed increase in duty will help to protect the domestic dairy manufacturers, who are facing intense competition from imported cheeses that are often sold at lower prices. This will promote the growth and sustainability of the domestic dairy industry, which in turn will positively impact the overall economy of the country.

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*OICCI Industry Specific*

## F. ENERGY SECTOR

### 17. Review Minimum Turnover Tax [u/s 113, ITO 2001]

Energy companies (for eg OMCs, IPPs, electricity distributors and refineries etc) are high turnover and low margin sector and is duly regulated. Further due to the recent Pak Rupee devaluation turnover of the industry has increased with minimal or no impact on profitability. Therefore, minimum tax along with super tax substantially increases the effective tax rates over the sector.

#### Recommendation:

- i. **The rate of Minimum Turnover Tax u/s 113 of ITO 2001 should be reduced to 0.25%.**
- ii. **Alternatively, this rate should be applicable on “gross profits” instead of “turnover”.**
- iii. **Adjustment /carry forward of minimum tax credit shall be allowed for at least 5 years as was the case prior to amendment made vide Finance Act, 2022.**

### i. Oil Exploration and Production Companies

### 18. Depletion Allowance – [Rule 3 of part 1 of the Fifth Schedule of ITO 2001]

As per Rule 3 of Part 1 of Fifth Schedule, depletion is calculated @ 15% of the gross receipts representing well-head value of production, but not exceeding 50% of taxable income.

E&P industry interprets above by calculating depletion at 15% of Gross Revenue before royalty deduction. Tax authorities calculate depletion at 15% of Gross Revenue after deduction of royalty.

#### Recommendation:

**Definition of Wellhead Value in Rule 6 (8) be deleted and Rule 3 rephrased as "depletion allowance to be calculated @15% of gross receipts, before royalty deduction".**

### 19. Tax Depreciation – Below Ground Installations (100% allowed previously)

Through the Tax Laws (Second Amendment) Ordinance, 2021, an amendment is introduced in the Third Schedule of the Income Tax Ordinance, 2001 whereby entry related to 100% tax depreciation in respect of “Below Ground Installations” has been omitted. E&P industry is capital intensive and high-risk industry, as such 100% tax depreciation was allowed in respect of Below Ground Installations (entry in third schedule specific to E&P companies since 1979 in line with International best practices).

#### Recommendation:

**Changes introduced through the Tax Laws (Second Amendment) Ordinance, 2021 in the Third Schedule of the Income Tax Ordinance, 2001 should be reversed and previous position of allowing 100% tax depreciation in the year of incurrence should be restored.**

### 20. Restriction on deduction of Profit on Debts payable to associated undertakings u/s 106A.

Introduced vide Finance Act 2020 - Capping of Interest Expense on 15% of EBITDA

#### Recommendation:

**Clarification to exempt Permanent Establishment of Foreign Companies who are assessed under Fifth Schedule of ITO.**

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## ii. Coal Mining and Exploration

### 21. Broadening scope of corporate tax exemption available to coal mining projects in Sindh

Tax credit equal to 100% has been provided to coal mining projects in Sindh, supplying coal exclusively to power generation projects via section 65F(1)(a) of the ITO, 2001. At present the inclusion of the word “exclusively” (as highlighted above) discourages the extension of the aforementioned tax credit to supply of coal by coal-mining projects in Sindh to non-power generation projects.

#### Recommendation

It is recommended that the following phrase should be deleted from section 65F(1)(a) of the ITO, 2001:

*“(a) persons engaged in coal mining projects in Sindh ~~supplying coal exclusively to power generation projects~~”*

### 22. Enhancing the scope of exemption from custom duty and additional custom duty on import of coal mining projects operating in Sindh

#### Recommendation

Following amendment be made in the Fifth Schedule to the Customs Act, 1969:

*“Coal mining machinery, equipment, spares, including vehicles for site use, i.e. single or double cabin pickups, dump trucks and other related vehicles used for mining / ancillary activities, mining equipment including but not limited to dewatering equipment and its spares, power generation equipment and its spares and all other equipment and spares whether directly or indirectly related to the Thar coal mining project and ancillary activities meant for mine construction phase or extraction phase and imported for Thar Coal Field”*

### 23. Enhancing scope of sales tax exemption for import of machinery, equipment, vehicle and spares for coal mining projects operating in Sindh

#### Recommendation

Following amendment be made in entry 4 (Table-3) to 6th Schedule of the Sales Tax Act, 1990:

*“Coal mining machinery, equipment, spares, including vehicles for site use, i.e. single or double cabin pick-ups and dump trucks and other related vehicles used for mining/ ancillary activities, mining equipment including but not limited to dewatering equipment and its spares, power generation equipment and its spares and all other equipment and spares whether directly or indirectly related to the Thar coal mining project and ancillary activities meant for mine construction phase and/ or extraction phase and imported for Thar Coal Field”.*

## iii. Independent Power Producers (IPPs)

### 24. Tax on dividend by IPP’s – Section 5, Section 150, Division III of Part I of the First Schedule & Division I Part III of the First Schedule

Since 1994 dividend paid by Independent Power Producers (IPP’s) was subject to tax @ 7.5% under the repealed Income Tax Ordinance, 1979 (ITO, 79) this was also in line with the power policies announced by the government. This 7.5% was also the full and final tax in the hands of recipients and IPPs’ shareholders did not have to pay any additional tax when filing their tax

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returns. Changes have been introduced vide Finance Act 2019 whereby a discrimination has been created between the IPPs as follows:

- i) Tax rate of 7.5% on dividend paid by power generation industry has been restricted to power producers who do have mechanism of reimbursement of dividend as a pass-through item by Central Power Purchasing Agency (CPPA-G) under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement
- ii) Higher rate of tax of 15% or those IPPs who do not meet the above criteria. Hence, in case of power producers (having non-pass-through agreements with CPPA) and coal suppliers, that previously enjoyed reduced rate under clause (a), the tax rate has been drastically increased from 7.5% to 15% due to exclusion from revised clause (a).

### Recommendation:

- i. **Clause (a) of Division III of Part I of First Schedule as applicable before Finance Act 2019, should be reinstated, to include power producer companies (having non-pass-through agreements) and coal suppliers.**
- ii. **Similarly, amendment be made for the withholding tax rates specified in clause (a) of Division I of Part III of the First Schedule, by reinstating the position prior to Finance Act 2019.**
- iii. **The new clause (d) of Division III of Part I of First Schedule be removed being against the fundamental principles of taxation.**

## 25. Withdrawal of sales tax exemption on items meant for energy sector – [Serial 4, 5 & 6 Table-3, Sixth Schedule to the Sales Tax Act, 1990]

As a result of the passing of the Finance (Supplementary) Act, 2022 (“FSA”), the exemption provided to the power sector (“IPPs”) from payment of Sales Tax on the import of machinery and equipment provided under Table-3 of the Sixth Schedule to the Sales Tax Act, 1990 has now been withdrawn.

Under various power policies, the GOP has guaranteed the exemption of sales tax on the import of plant and machinery till the Commercial Operations Date of the IPPs.

### Recommendation

**Either the exemptions are restored or a proviso similar to the proviso inserted by the FSA in clause 132 Part I of the Second Schedule to the Income Tax Ordinance, 2001 be inserted.**

**(Provided further that the exemption under Serial 4, 5 & 6 Table 3 of the Sixth Schedule to the Sales Tax Act, 1990 shall be available to persons who entered into the agreement or letter of intent is issued by the Federal or Provincial Government for setting up an electric power generation project in Pakistan on or before the thirtieth day of June 2021 and who obtains a letter of support on or before the thirtieth day of June 2023)**

## 26. Exemptions and Reliefs to Water Projects:

### Recommendation:

**Proposed income tax exemptions to be provided to water projects, similar to those available to IPPs and green projects:**

- i. **Part I & Part IV of the 2<sup>nd</sup> Schedule to the Income Tax Ordinance New Clause 126P Part I of the 2<sup>nd</sup> Schedule: “Profits and gains of a company from a water processing projects/ water supply projects/ Waste to water/ desalination projects based on sea water/ untreated water or similar source of water.”**

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- ii. **New clause 146 Part I of the 2nd Schedule:** “Dividend received from a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule.”
- iii. **New Sub clause xxxv of clause 11A Part IV 2nd Schedule:** “Projects qualifying for exemption under clause (126P) of Part I of the Second Schedule.”
- iv. **New Sub clause 11F Part IV 2nd Schedule:** “The provisions of section 150 shall not apply in respect of dividend paid a project which is entitled for exemption under Clause 126P Part I of the 2nd Schedule.”

**GST exemptions for water projects to be included in Serial 154 of the Sixth Schedule to the Sales Tax Act, 1990:**

- i. **Machinery, equipment, and spares meant for initial installation, balancing, modernization, replacement, or expansion of a water processing projects/ water supply projects/ Waste to water/ desalination projects based on sea water/ untreated water or similar source of water.**
- ii. **Construction machinery, equipment, and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.**
- iii. **This concession shall also be available to primary contractors of the project.**

### iv. Oil Refineries and Marketing Companies

#### 27. **Time limitation of carry forward of sales tax refund adjustment in light of Sales Tax on Petroleum Products – abolished through SRO 321(I)/2022 dated 1st March 2022:**

OMC industry has huge amounts of unadjusted sales tax carry forward balance as per sales tax returns majorly due to input taxes on transport services / hospitality services etc. Industry is unable to adjust such carry forward amount due to "0%" sales tax on sales of petroleum products. Therefore, it is important to reinstate this position by way of amendment of tax rate on petroleum products in line with powers given under Sales Tax Act, 1990. Moreover, it should also be considered that refund arising due to “0%“sales tax should be allowed to carry forward and be adjustable against the future tax liability for unlimited period. Also, special procedure rules should be introduced to facilitate this sector to obtain refunds which have been piled up as of date due to 0% sales tax rate on fuels.

#### **Recommendation:**

**Sales Tax applicable on petroleum products shall be reinstated, currently applicable at “0%” since March 2022 or extension in time should be allowed for adjustment under Rule 34 of the Sales Tax Rules, 2006.**

### v. Liquefied Natural Gas (LNG)

#### 28. **Advance tax on import of LNG**

#### **Recommendations**

**Section 148 (Part II of First Schedule):** A reduced rate of 1% as advance tax is collected by the Collector of Customs in case of designated buyer of LNG on behalf of Government of Pakistan to import LNG. The reduced rate should be allowed to all buyers of LNG.



## vi. Power Sector

### 29. Profits and gains derived by a taxpayer from an electric power generation project set up in Pakistan (Clause 132 of Part I of Second Schedule to the ITO 2001)

The Government through Finance Supplementary Act 2022 dated January 15, 2022 and Finance Act, 2022 by insertion of 6th proviso in Clause 132, Part I, of Second Schedule had restricted the income tax exemption only to such Independent Power Producers [IPPs] who entered into agreement with the Federal or Provincial Government or to whom letter of intent is issued by Federal or Provincial Government for setting up an electric power generation project on or before 30th day of June, 2021 and who obtains the letter of support on or before 30th day of June 2023.

#### **Recommendation:**

**The 6th proviso through which income tax exemption has been restricted to the persons who have agreements with the Federal and Provincial Governments is discriminatory in nature and it should be removed by allowing exemptions to the IPPs which were set up on or before 30th June 2021.**

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## G. ENGINEERING/ ELECTRICAL

### 30. Restoration of Sales Tax exemption

Sales tax of the following items withdrawn should be restored to promote energy conservation and protect the local industry.

#### Recommendation

Description	Reference	Withdrawn through
Local supply/sales of LED or SMD lights and bulbs [HS codes 8539.5010, 8539.5020, 9405.1030 and 9405.4020]	(Table II) under 6th Schedule, Serial no. 24	Finance Act 2021
Import of parts and components for manufacture of LED lights	under Table III of Sixth Schedule of Sales Tax Act	Finance Supplementary Act 2022

### 31. Reduction in Duties:

In order to facilitate the local importer, it is proposed to reduce the Custom duty for the following essential engineering items:

#### Recommendation

Description	Current CD	Recommendation	Rationale or Benefit
Transformers having a power handling capacity not exceeding 1kVA 8504.3100 Duty 16%	16%	3%	Transformers in this rating for more than 25kA short-circuit level and more than 1s time duration are not locally manufactured
Transformers having a power handling capacity not exceeding 500kVA Duty 20% 8504.3300	20%	3%	Dry type transformers in this rating which are not locally manufactured due to technological state of art
Motor parts 8503.0020 Duty 11%	11%	3%	Duty of Motor itself (8501.5390) is 0% whereas duty on its parts (8503.0020) is 11% which is not justified
Steel Structure 7308.9090	20%	0	Steel Structures meeting specification of substation of 220 kV and above are not locally manufactured. However, this item exists in CGO 2/2017, but the manufacture is no longer available
Additional custom duty (ACD)	ACD increased from 2% to 4% and 6%	ACD should be maximum 02 % on all slabs	Additional custom duty has been increased on items which already have higher duty rate of 11 % 16 % or more.

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Under SRO 1571(I)/2022 dated August 22, 2022, amendment was made in an earlier SRO 966(I)/2022 dated June 30, 2022, through creation of new serial number “582” for all types of Luminaires and Light fittings under HS code 9405.1190	RD @45%	eliminate RD	HS code 9405.1190 covers products ceiling or wall LED light fittings (designed solely with light-emitting diode) light source which are energy saving and energy efficient Products

## 32. Input Output Coefficient Organization (IOCO) Exemption

EDB (Engineering Development Board) is in process of withdrawing the IOCO exemption for SKD bulb and Downlight Assembly by June 2024, resulting in withdrawal of exemption of duties and taxes on import of said components.

### Recommendation

**Revive the IOCO exemption till Dec 30, 2024, or further, till Pakistan can produce the quality stuffed PCB/breadboard with required technical compliance by ensuring the smooth transition from International to Local manufacturing.**

33. The Finance Act 2020 declared only construction sector (person directly involved in the construction of buildings, roads, bridges and other such structures or the development of land) status as Industrial undertaking to enjoy benefit of imports of plant and machinery and other goods to be utilized in such activity as adjustable. This amendment does not include taxpayers involved in the execution of contracts and in providing engineering services in manufacturing, power producing and other industries and importing goods, raw material or plant & machinery.

### Recommendation

**It is recommended that taxpayers involved in execution of contracts and in providing of engineering services in manufacturing, power producing, and other industries are also included in the definition of “industrial undertakings”.**

Various imports are used in contract execution by companies which are not covered under Part I and II of the Twelfth Schedule, thus are also subject to minimum tax at highest rate of upto @ 6%. Further, the tax deducted on the contract execution under clause (c) of sub-section 1 of section 153 at the rate of 7.5% is also minimum tax on the income in terms of the provisions of sub-section 3 of section 153. it is obvious that there cannot be a double taxation of the same income, but it can be unnecessarily interpreted that the imports used in contract execution is subject to minimum tax at (i) the import stage and (ii) also on the income arisen of such contract execution. Due to such provisions taxpayer will be suffering minimum tax twice on the same income (i.e. maximum rate at highest rate of upto @ 6% at the time of import and 7.5% at the time of contract execution / income from such contract execution) and can lead to litigation.





## H. PHARMACEUTICAL

### 34. Restoration of zero-rated regime for pharmaceutical DRAP registered products falls under serial 81 & 82 of Eighth Schedule.

Pharmaceutical products are subject to 1% sales tax without allowing input tax adjustment (i.e. final liability for entire supply chain). Further, since the distributor is unable to claim the Input tax of 1%, hence the ultimate burden of this 1% sales tax is passed on to the Manufacturer in the form of enhanced distributor margin, resulting in 2% hit to the Manufacturer.

Since the pharma industry is regulated and price increase is rarely possible, this additional cost has adversely impacted the limited margins and commercial viability of the sector.

#### Recommendations:

**Pharma Industry should be brought back to zero-rated regime by restoring the position prior to Finance Act, 2022.**

### 35. Pending sales tax refunds under FASTER Pharma System

On 15th January 2022, the Federal Government, through Finance (Supplementary) Act, 2022 [Act, 2022], introduced zero-rated regime for pharma sector which was earlier exempt from sales tax. This entitled the pharma industry to claim refunds of input tax paid on purchases of pharma and medicaments related goods and services.

#### Recommendations:

**Refunds are stuck uptill now despite that the regime changed to 1% final sales tax liability. These refunds were supposed to be process in 72 hours as per rule 391 of Chapter V-B of sales tax rules, 2006. It is requested that refunds should be processed immediately as delay has heavily impacted working capital requirement of the industry.**

### 36. Abolished the Value added tax on import of finished pharma products [under Twelfth Schedule of the Sales Tax Act, 1990]

#### Recommendations:

**Currently value added tax @ 3% is levied on imports of finished product (Drug) through Twelfth Schedule on Pharmaceutical entities which should be abolished. This 3% tax becomes part of cost for an industry where prices are regulated by DRAP and cannot be passed on to the consumers due to final tax for entire supply chain. Moreover, 8th Schedule (as mentioned in point above) specifies that 1% sales tax is final tax liability then with this 3% value added tax, total sales liability increase to 4%.**

### 37. Entry no. 166 of the Sixth Schedule

#### Recommendations:

**In addition to charitable hospitals, the scope of exemption provided under Serial no 166 of the Sixth Schedule should also be extended to Government Institutions, Departments and Hospitals.**

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## I. TELECOMMUNICATION

### 38. Rationalization of Advance Tax on Telecom Services

Advance tax on telecom services was reduced via Finance Act, 2021 from 12.5% to 10% for FY 2021 and to 8% for future years. However, through the Finance (supplementary) Act, 2021 the rate of withholding tax increased from 10% to 15%. Increased tax hampers the affordability of mobile service which is a critical service for entire population and more than 70% population of Pakistan lives below poverty line. Telecom service is also critical for economic growth of a country.

Additionally, Pakistan has the widest gender gap in mobile ownership (34%) and mobile internet use (43%) as compared to its regional peers. Sector-specific taxes increased cost of mobile services which lays a strong impact on the poorest consumers especially women, lessening their ability to become mobile broadband subscribers. Since more than 70% population lives below the poverty line and the percentage of return filers is also nominal so the implementation of withholding tax to entire subscriber's base is not logical. Further, the reduction in withholding tax will also promote the affordability of internet and data services to the low-income group people.

#### **Recommendations:**

**Rate of advance tax on subscribers should be abolished completely as majority of the subscriber's base falls below the taxable limit or the withholding tax reduction made through Finance Act, 2021 should be reinstated i.e. 8% effective Fiscal Year 2024.**

### 39. Revamping of Withholding Tax Regime

There will be no loss of revenue to the exchequer as the tax collection mechanism will be simplified in terms of real time payment of advance tax under Section 147 on a quarterly basis. Furthermore, this measure will also make the tax claims and its verification mechanism more transparent with minimum operational hassles as maintaining the thousands of records especially for advance tax on utility bills and imports is itself a very cumbersome procedure.

#### **Recommendations:**

- i. WHT regime should be totally revamped for telecom sector and tax should be collected in advance tax mode u/s 147 on quarterly basis.**
- ii. Companies appearing in ATL and having obtained exemption certificate by discharge of full year tax liability in advance should be dispensed with requirements to obtain separate withholding tax exemption certificates under 151, 234, 235, 236, 236G and 236H.**
- iii. Payments to non-residents cannot be processed without obtaining an exemption certificate from Commissioner (within 30 days of request). To facilitate timely payments the period of 30 days under 152(5A) shall be curtailed to 15 days and in the absence of any confirmation within 15 days request shall be deemed to approved.**

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## *OICCI Industry Specific*

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### 40. Coercive Recovery Measures

The change is to ensure that a fresh demand notice is issued to the taxpayer after an appellate order for which the period for making the payment shall be curtailed to 7 days instead of 30 days.

To ensure that no recovery steps are taken before the decision on appeal filed before the Commissioner (Appeals) or alternatively where no appeal has been filed before the Commissioner (Appeals). The proviso is being introduced to ensure that a clear period of seven days is provided to the taxpayer after the decision in appeal before coercive recovery measures can be adopted.

#### **Recommendations:**

**Where any tax amount is payable under any order issued by the Commissioner, a notice u/s 137 shall be served upon the taxpayer and amount shall be paid within Thirty days from the date of service of the notice;**

- i. Notice for recovery of tax from person holding money on behalf of taxpayer u/s 140 shall not be issued where appeal is pending before CIR(A) subject to condition that 10% of tax demand has been deposited ii) Where any tax amount is payable under any order issued by the Commissioner, Commissioner (Appeals), the Appellate Tribunal or the High Court, a notice u/s 137 shall be served upon the taxpayer and the amount shall be paid within Thirty days from the date of service of the notice. However, in case of an order by the Commissioner (Appeals), the Appellate Tribunal or the High Court, the time of Thirty days shall be curtailed to Seven days.**
- ii. Notice for recovery of tax from person holding money on behalf of taxpayer u/s 140 shall be not issued in following cases:**
  - a) where appeal is pending before CIR(A) or appeal has not been filed.**
  - b) Further, where decision has been made before the lapse of seven days from the date of receipt of an order by the Commissioner (Appeals), the Appellate Tribunal or the High Court.**

## J. TOBACCO

### 41. Illicit Cigarette Trade & Excise Duty:

Description/ Current	Recommendation	Rationale or Benefit
Illicit cigarette trade in Pakistan causes an annual loss in excess of PKR 300 billion to the national exchequer. The primary cause of the increase in illicit cigarette trade is the excise-driven price gap between tax-paid and tax-evaded cigarettes. The unprecedented excise hike in February 2023 has further widened the price gap between tax-paid and tax-evaded cigarettes, causing tax-paid volumes to substantially down trade to tax-evaded brands.	Curtail further excise increases which will reduce/maintain the price gaps between legal and illicit products, likely to result in a shift of adult consumption from illicit to legal products, with corresponding government tobacco revenue increases. Such trends were observed previously during fiscal years 20-21 and 21-22 (when a tax freeze was implemented)	This shall help provide a level playing field for the legitimate players and thus increase cigarette excise revenue.

### 42. Manufacturing & transportation of cigarettes from non-tariff to tariff areas:

Description/ Current	Recommendation	Rationale or Benefit
The manufacture of illicit cigarettes in non-tariff areas especially in the region of Azad Jammu and Kashmir continues to be the biggest pain point and a challenge to resolve. The constitutional ambiguities and inconsistency in legislation with regards to the constitutional status of AJ&K and the tax treatment on the movement of goods between territories are still unclear and as a result, a high magnitude of non-tax paid cigarettes are entering Pakistan.	To curtail supplies of taxable goods brought from tax-exempt areas into taxable areas, It is proposed to implement SRO 96(I) issued in 2021 at the earliest.	The illicit operators take full advantage of this legal loophole and we understand that a number of registered cigarette manufacturers in Pakistan have manufacturing facilities in AJ&K.

### 43. Enforcement of Brand Excise Licensing

Description	Current	Recommendation	Rationale or Benefit
Brand Licensing	Sales Tax General Order (STGO) (07/2021) Issued	STGO 07/2021 be enforced in letter and spirit	The objective of this licensing regime is to ensure that the 200+ brands being sold in the market illegally are registered with FBR and any brands not registered be confiscated.

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### 44. Import Policy Order:

Description/ Current	Recommendation	Rationale or Benefit
Amendments in 2020 that prohibited custom clearance of cigarettes that do not comply with local packaging and labelling requirements.	Compliance is to be ensured as the legislative angle is covered.	The market is flooded with several Genuine Non-domestic Brands (imported) without Graphical Health Warnings. Oxford Economics '22 states that 10% of illicit consumption is in the form of smuggled brands widely available at different price points

### 45. Track & Trace (T&T) – Tobacco:

Description/ Current	Recommendation	Rationale or Benefit
T&T System is a landmark initiative supported by the IMF, aimed at achieving much-needed improvements in the collection of sales tax and digitization in major sectors of the economy, including tobacco. However, since its implementation in July 2022, credible outcomes/gains have yet to be seen as many local players are under a stay order against the system and it is mainly implemented by 2 multinational companies which were already contributing 98% of total tobacco taxation	Ensure that the T&T system is implemented across the board and is supported by continuous and sustainable enforcement	T&T system was introduced as a measure to control illicit cigarette trade – as such only 2 multinational companies have implemented the solution thereby increasing their cost of operations, whereas the companies which evade taxes have refused to implement T&T.

### 46. FED ACT, 2005 – Section 19 – Subsection 2(d)

Description	Current Penalty	Recommendation	Rationale or Benefit
Penalty for selling below MLP for Cigarettes	Rs 20,000	<ul style="list-style-type: none"> <li>Rs 50,000</li> <li>Extend jurisdiction of Police to take cognizance of this offence and make enforcement simpler to increase effectiveness of law</li> <li>To be declared a nonbailable offence</li> </ul>	Increasing penalty for selling cigarettes below minimum legal retail price will avoid tax evasion and strengthen enforcement.

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### 47. Increase in Adjustable FED on Unmanufactured Tobacco

Description	Current Levy	Recommendation	Rationale or Benefit
Unmanufactured Tobacco	Rs 390/Kg	Rs 500/Kg	Documentation Measure: Higher adjustable levy on un-manufactured tobacco will increase cost of business for tax evading brands. This does not impact the farmers rather the companies involved in tobacco procurement.

### 48. Implementation of GLT Monitoring:

Description/ Current	Recommendation	Rationale or Benefit
Ensuring compliance with monitoring receipts, processing, wastage, storage and issuance of unmanufactured tobacco at Green Leaf Threshing Units	It is proposed to ensure true implementation of SRO 1149/2018 at the Green Leaf Threshing units (GLTs)	End-to-end documentation of unmanufactured tobacco for sale, transfer and/or self-consumption will help curtail illicit trade at grassroot level.