IMF SEEKS RS225B MORE IN INCOME TAXES: GLOBAL LENDER ASKS PAKISTAN TO WITHDRAW SOME SALES TAX EXEMPTIONS

ISLAMABAD: The International Monetary Fund (IMF) has asked Pakistan to impose income taxes worth around Rs225 billion, while questioning the sustainability of the revenue performance due to a shift in policy to curb imports.

The IMF plan seeks to reduce the number of income tax slabs and withdraw income tax exemptions currently given under the second schedule of the Income Tax Ordinance that also include pensioners, according the government sources.

The Fund has also asked for withdrawal of sales tax exemptions to those whose revenue impact is in addition to Rs225 billion, the sources said, adding that the final decision to accept or reject the demands would be taken during the policy level talks with the IMF set to begin in Washington on October 13. During four days of the technical talks, the IMF has pressed Pakistan hard to increase the electricity prices on account of annual and quarterly adjustments in tariffs, as it termed the measures to contain circular debt insufficient, the government sources told The Express Tribune.

The demand for increasing taxes was surprising, particularly after the FBR exceeded its first quarter tax collection target by a margin of Rs187 billion, which has positioned it to achieve the annual target of Rs5.829 trillion.

The sources said that the IMF has asked Pakistan to increase the personal income tax rates for the salaried and individuals by scaling down the numbers of tax slabs and also urged the authorities to withdraw the sales tax exemptions. Majority of the salaried individuals were paying taxes, which according to the IMF were below their income levels, the sources said.

Responding to a question from The Express Tribune whether the IMF had asked for imposing personal income tax, FBR Chairman Dr Mohammad Ashfaq said that “it is an upfront issue and we are discussing it with the IMF”.

When press further whether these tax measures would be taken immediately, the FBR chairman replied that the matter was still under discussion and “our view is that if it needs to be done, it should be done from July next year”.

According to a commitment by Pakistan given in April, the government was supposed to reduce the number of income tax slabs to around five and rationalise the income tax rates for salaried and business individuals from July this year.

However, Finance Minister Shaukat Tarin had then refused to accept this demand. The sources said that the IMF was not convinced with the quality of the FBR tax collection and doubted that the healthy trend would continue due to curbing the imports.

Pakistani authorities projected that despite reducing imports, the annual import bill would still be around $72 billion. The IMF was of the view that the curbs might reduce the bill to $60 billion, they added.

The FBR showed a 44% growth in sales tax collection in the July-September period due to heavy reliance on import taxes. It collected Rs624 billion in sales tax in three months, up Rs190 billion or 80%.

However, almost entire increase came at the import stage, as the domestic sales tax collection remained almost flat. The FBR collected Rs200 billion in domestic general sales tax (GST) compared with Rs198 billion last year, after adjusting for refunds.

The IMF is urging Pakistan to immediately take revenue measures, while the Pakistani authorities are seeking time.

The IMF technical level talks will conclude on Friday (today) and the outstanding issues will now be decided during Finance Minister Shaukat Tarin visit to Washington, where policy-level talks will be conducted between October 13 to 15.

Tarin will leave Pakistan on Monday as finance minister but when he will return on October 24 his status will be reduced to adviser on finance, because the government could not get him elected senator within six months constitutional term.

Tarin had been appointed as ad-hoc Finance Minister for six months as he is not an elected member of the parliament.

Power Sector review

The IMF shared its initial assessment of the power sector that did not paint a good picture, according to people familiar with these negotiations.

The sources said that the IMF asked Pakistan to honour its commitment and increase pending annual tariffs for the month of June and July.

The Fund also asked for implementing the remaining quarterly adjustments after the government increased electricity prices by Rs1.69 per unit last week. The sources said that there was possibility the that in addition to increase in annual base tariff, the government will have to pass on 85 paisa per unit quarterly adjustment somewhere around December-January.

But the Fund was looking for immediate increase in tariffs on account of annual base tariff adjustment. The IMF also got an update on the subsidy rationalisation plan.

Last month, the National Electric Power Regulatory Authority (Nepra) approved the first part of three-phased subsidy rationalisation plan, envisaging creation of four new tariff slabs and a slight expansion in the definition of lifeline consumers to 100 units per month for gradual reduction of subsidies.

The new slab mechanism would lead in the next and third phase to the imposition of higher electricity rates and surcharges in a gradual manner or subsidy payments to the lowest income groups through the Ehsaas cash cards. The IMF has been informed that the second phase of subsidy withdrawal will be enforced from the next fiscal year.

The sources said that the IMF was also not happy with the performance of the power distribution companies. It argued that the structural plan for Discos did not deliver the desired results and these companies could not disconnect the electricity connection of the defaulters.

The IMF was of the view that the impact of formulation of new board of directors and appointment of chief executive officers were also not producing the results that could stem the losses being incurred by these companies.

The bottom line of the IMF’s assessment was that the pace of the power sector reforms was slow and it was not enough to stem the losses, they added. But the energy ministry officials were of the view that some power distribution companies have shown improvement in curtailing losses and in January 2023 new targets on technical and distribution losses would be given by the Nepra.

The IMF also asked for expediting the work on privatisation of the power sector. In spite of significantly increasing electricity prices, the circular debt has almost doubled within three years to Rs2.28 trillion due to the government’s failure to stem systemic losses, an energy ministry report showed. When the Pakistan Tehreek-e-Insaf (PTI) came to power, the circular debt was Rs1.148 trillion that has doubled within three years. The PTI had promised to bring the circular debt to zero by December 2020 but the numbers showed that there was an increase in both the flow and stock of the circular debt compared with June 2018.

The power distribution companies' uncontrolled losses added another Rs67 billion to the circular debt – up by 59% over the preceding year. This shows that the PTI government has failed in bringing improvement in governance of these power distribution companies, nor it could privatised them.
The IMF was informed that the issues of K-Electric and Azad Jammu and Kashmir electricity tariffs will be addressed by January next year. This will help reduce the circular debt by Rs170 billion.

TR 8-10-2021

SALARIED CLASS MAY BE EXEMPTED FROM FURTHER TAXES: IMF ASKS PAKISTAN TO WITHDRAW RS300B SALES TAX EXEMPTIONS

ISLAMABAD: The International Monetary Fund (IMF) has asked Pakistan to withdraw around Rs300 billion sales tax exemptions to qualify for the next loan tranche of $1 billion, taking the demand for the additional revenue requirements to over Rs525 billion.
The tax authorities have shown willingness to take back nearly Rs260 billion sales tax exemptions as a quid pro quo for not imposing additional income taxes on the salaried class, government sources told The Express Tribune on Friday.
Pakistani negotiators hinted at withdrawing the sales tax exemptions with immediate effect but requested the IMF to delay salaried class income tax-related measures till the next programme review that could take place around March, said the sources.
The Express Tribune had reported on Thursday that the IMF asked Pakistan to impose over Rs225 billion income taxes, including change in tax rates for the salaried class.
Demand for roughly Rs525 billion additional tax measures has been put forward by the IMF during technical-level talks that continued from Monday to Friday. Some of the power sector and budget-related issues remained pending, which would be discussed today (Saturday).
Subject to consent by the political leadership to take these unpopular measures, the government will have to promulgate a Presidential Ordinance to give effect to new tax measures. However, the final decision about the IMF conditions that Pakistan will accept is expected to be taken in Washington during the upcoming visit of Finance Minister Shaukat Tarin.
The sources said that the IMF authorities wanted to partially reverse the imbalance between the direct and indirect taxes by expanding the web of income taxes. At present, the collection of direct taxes is hardly 35% of the total taxes, which is putting undue burden on the lower middle-income groups.
One of the possibilities was that the government may try to impose income tax on these sectors, which under the Constitution and law cannot be taxed by the federal government, the sources said. They said that there was a possibility to tax some of these sectors without disturbing the constitutional arrangement.
The IMF or no IMF, the sales tax exemptions that are mainly availed by the influential lobbies cannot be defended and justified, the sources added.
The sources said that the goods that are entitled to zero-rating regime, complete sales tax exemptions and reduced tax rates came under discussion during these talks. The sources said that the tax authorities agreed to withdraw sales tax exemptions at the import stage but were reluctant to accept the demand to withdraw all domestic sales tax exemptions.
The authorities were of the view that many items will be charged at 17% sales tax at the import stage but few will be shifted to a zero-rating regime.
However, the final decision will be taken by Prime Minister Imran Khan.
The withdrawal of sales tax exemptions could fuel inflation, as the industrialists who have been availing these exemptions would prefer to pass on the impact on consumers instead of taking a hit on their revenues. Despite reduction in taxes on some of the construction materials, their prices have increased due to the weak regulatory regime in Pakistan.
There was also a possibility that the government may charge standard 17% sales tax on mobile phones to get additional revenue of Rs27 billion.
The tax expenditure report for fiscal year 2020-21 that the finance ministry released in June showed that the annual cost of tax exemptions being given to various segments of the society and foreign investors jumped to a new record of Rs1.31 trillion - an increase of over 14% within a year.
The government had lost Rs578.5 billion worth of revenue due to sales tax exemptions, which was Rs518 billion a year ago. There was 11.5% or Rs60 billion increase in the cost of sales tax breaks within one year. The share of sales tax exemptions were about 44% of the total tax exemptions.
An amount of Rs12.9 billion was lost on account of exemptions on products which were protected under the Fifth Schedule of Sales Tax Act. The fifth schedule relates to the zero-rated tax system.
There was a significant reduction in exemptions given to importers that dropped to Rs174 billion from Rs256 billion a year ago. The Rs156 billion exemptions were given on local supplies, which were three times more than the last fiscal year.
The government also charges reduced sales tax rates on various goods, which has cost Rs208 billion in this fiscal year – up from Rs83 billion a year ago. These exemptions are given under the Eighth Schedule of the Sales Tax Act, which allows imposition of lower than standard 17% sales tax.

TR 9-10-2021

ONLY 70 TO 80 PAKISTANIS IDENTIFIED BY FBR SO FAR

ISLAMABAD: The Federal Board of Revenue (FBR) has so far identified only 70-80 Pakistanis named in the Pandora Papers having offshore companies in tax havens aboard. Sources told *Business Recorder* Friday that the data of the 700 Pakistanis having offshore companies has not been updated on the ICIJ website. Once the data is available on the ICIJ website, it would be easy to identify these persons, their CNICs, and declared addresses. So far, the FBR's offshore tax zones have identified 70-80 Pakistanis named in the Pandora Papers.

Sources said that many of the owners of the offshore companies might have availed the Assets Declaration Scheme (2018) of the PML-N, and the Assets Declaration Ordinance 2019 (2019) of the PTI government. They apprehended that the current FBR exercise would have the same fate as had happened in the case of Panama Papers. Tax experts are of the view that the FBR effort will prove to be an exercise in futility just like it had in the past.

According to the sources, it is a time consuming exercise because tracing the persons and their actual available addresses is not an easy task. When contacted, tax experts told this scribe that the FBR has not taken action against the Pakistanis appearing in the Panama Papers in 2016. The new exercise would face the same fate as had happened in case of the Panama Papers.

In 2016, Director General, Intelligence and Investigation Inland Revenue had sent out tax notices to 336 individuals out of total 444 while 133 had responded to these notices. Certain constraints were there before starting the assignment on the Panama Leaks, because incomplete information was published by media. However, 444 cases were found by Intelligence & Investigation, accordingly FBR investigated and traced down 303 addresses. He further said that notices were issued under section 176 of the Income Tax Ordinance, 2001, to these individuals. At the same time, the Securities and Exchange Commission of Pakistan (SECP) has found that no direct investment has been made by the companies registered in Pakistan in the offshore companies listed in Panama Papers. It was revealed that no direct investment had been made in off-shore companies by the companies registered in Pakistan relating to identified individuals as per the financial statements available at SECP. The available record reflects, prima facie, the investments as mentioned in the Panama Papers were made by the persons in their individual capacity and same has not been routed through any company's accounts.

The Companies law does not restrict the companies from making investments in foreign jurisdictions. However, an investing Company has to comply with the relevant provisions of the Ordinance at the time of making such investments which inter alia includes approval from the board of directors and approval from shareholders only in case of associated companies. Hence, there is no other bar or restrictions on making foreign investment as per laws administered by SECP, it said.

INTERFERING IN JUDICIAL PROCESS OF COMMISSIONERS: NO ORDERS ISSUED TO FIELD FORMATIONS: FBR

ISLAMABAD: The Federal Board of Revenue (FBR) Friday clarified that the FBR has never issued instructions to field formations/ Commissioners (Appeals) for interfering in the judicial process of Commissioners (Appeals). Through the instructions issued here on Friday, the FBR has further clarified that the instructions issued to the Commissioners (Appeals) are of advisory nature and do not place Commissioners IR (Appeals) under the administrative control of Chief Commissioners.

According to a clarification issued by the FBR here on Thursday, while explaining the reason of writing the letters, FBR referred to the Video Link Conference of Commissioners Appeals held on 10th August, 2021, which was chaired by erstwhile Special Assistant to PM on Finance & Revenue Dr. Waqar Masood and the then Chairman FBR Asim Ahmad wherein it was directed that a quarterly review meeting may be conducted by Commissioners (Appeals) with the relevant Chief Commissioners of field offices to highlight legal and factual shortcomings of orders passed by the officers in field formations.

R 9-10-2021

FBR HAD DIRECTED ALL COMMISSIONERS (APPEALS) TO REPORT TO THE HEADS OF REGIONAL AND LARGE TAX OFFICES: FBR ISSUES CLARIFICATION ON NEWS ITEM

Federal Board of Revenue (FBR) has issued a clarification about a news item appearing in Daily Express Tribune wherein it is alleged in the news story that FBR had directed all Commissioners (Appeals) to report to the heads of Regional and Large Tax Offices.

FBR has clarified that the news item reflects misunderstanding and out of context reference of Legal Wing's letters dated 11th and 20th August, 2021. While explaining the reason of writing the letters, FBR referred to the Video Link Conference of Commissioners Appeals held on 10th August, 2021, which was chaired by erstwhile Special Assistant to PM on Finance & Revenue Dr. Waqar Masood and the then Chairman FBR Asim Ahmad wherein it was directed that a quarterly review meeting may be conducted by Commissioners (Appeals) with the relevant Chief Commissioners of field offices to highlight legal and factual shortcomings of orders passed by the officers in field formations.

The said news report is based on incorrect appraisal of facts, as no such directions have been issued with the purpose to interfere in the judicial process of Commissioners (Appeals). FBR has further clarified that the office of Commissioner (Appeals) is an independent judicial forum. The instructions are of advisory nature and do not place Commissioners IR (Appeals) under the administrative control of Chief Commissioners or field formations. The purpose of the instructions was to highlight legal and factual shortcomings of orders of the officers to help improve quality of assessment orders. This will help reduce unnecessary litigation, as weak assessment orders do not stand the test of appeal and burden the taxpayers as well as the department with unnecessary litigation. FBR has further clarified that in view of the increasing workload of the Commissioners IR (Appeals), the said letter is also being withdrawn to allow them to concentrate more on timely disposal of pending appeal cases.

FBR PR 7-10-2021

FTN HOLDERS: PSW EXPANDS SCOPE OF 'SUBSCRIPTION MODULE'

ISLAMABAD: The Pakistan Single Window (PSW) has expanded the scope of its recently launched "subscription module". This will enable online subscription and customs registration of Free Tax Number (FTN) holders that include federal and provincial government departments, diplomatic missions, non-governmental organisations, public hospitals, universities, and research institutes etc.

The FTN holders are no longer required to visit Customs offices for obtaining WeBOC user IDs, which are now issued electronically through the PSW platform. The new system reduces the average time of customs registration from 10 days to few minutes and is integrated with the NADRA, the FBR, and other government databases for electronic validations and verifications.

All FTN holders are requested to get themselves registered with the PSW to avail online customs and regulatory clearance services as they become available on the PSW platform. Member Customs (Operations) Syed Muhammad Tariq Huda noted the benefits of improved efficiency through time and cost savings and said he was pleased to see the PSW services now being extended to the public sector. "Customs has always been at the forefront of reform and technology driven innovation in public sector and we are proud to be the lead agency of Pakistan Single Window. Its full implementation will indeed transform how international trade is managed and regulated in Pakistan".

The PSW is an electronic platform, which allows its users to conduct cross-border trade and all ancillary activities through a single, online portal. Once implemented, the PSW will allow parties involved in trade and transport to lodge standardized information and documents at a single-entry point for all import, export, and transit-related regulatory requirements.

SINDH E&T DEPARTMENT COLLECTS OVER RS29.27BN IN THREE MONTHS

KARACHI: Sindh Excise and Taxation (E&T) department on Friday said it has collected over Rs 29.27 billion taxes from July 2021 to September 2021.

According to the details, the department in the current financial year from July 2021 to September 2021, collected Rs 29.27 billion taxes as against Rs 21.021 billion, collected during the preceding period.
The department has collected Rs 2649.608 million under motor vehicle tax, Rs 24.36 billion as infrastructure cess, Rs 27.72 billion as professional tax, Rs 671.88 million as property tax, Rs 24.156 million as cotton fee, and Rs 5.356 million as entertainment duty.

MINIMUM TAX RATE OF 15%: MILESTONE GLOBAL CORPORATE TAX DEAL FINALLY GETS AGREEMENT: OUT OF THE 140 COUNTRIES INVOLVED, 136 SUPPORTED THE DEAL WITH DEVELOPING COUNTRIES KENYA, NIGERIA, PAKISTAN AND SRI LANKA ABSTAINING FOR NOW

PARIS: A global deal to ensure big companies pay a minimum tax rate of 15% and make it harder for them to avoid taxation has been agreed after Ireland, Estonia and Hungary agreed to sign up to the elusive landmark accord.

The agreement aims to end a four-decade-long "race to the bottom" by governments that have sought to attract investment and jobs by taxing multinational companies only lightly and allowing them to shop around for low tax rates. Negotiations have been going on for four years, moving online during the pandemic, with support for a deal from US President Joe Biden and the costs of COVID-19 giving additional impetus in recent months. Out of the 140 countries involved, 136 supported the deal with developing countries Kenya, Nigeria, Pakistan and Sri Lanka abstaining for now.

The Paris-based Organisation for Economic Cooperation and Development, which has been leading the talks, said that the deal would cover 90% of the global economy. "Today we have taken another important step towards more tax justice," German Finance Minister Olaf Scholz said in a statement emailed to Reuters. "We now have a clear path to a fairer tax system, where large global players pay their fair share wherever they do business," Scholz's British counterpart Rishi Sunak said.

The agreement will set a minimum corporate tax rate of 15% and let governments tax a greater share of foreign multinationals' profits.

US Treasury Secretary Yellen called the deal a victory for American families as well as international business. "We've turned tireless negotiations into decades of increased prosperity - for both America and the world. Today's agreement represents a once-in-a-generation accomplishment for economic diplomacy," Yellen said in a statement.

The OECD said that the minimum rate would see countries collect around $150 billion in new revenues annually while taxing rights on more than $125 billion of profit would be shifted to countries where big multinationals earn their income.

The deal aims to prevent big groups from booking profits in low-tax countries like Ireland regardless of where their clients are, an issue that has become ever more pressing with the rise of tech giants that easily do business across borders.

Ireland, Estonia and Hungary, all low tax countries that had held out, dropped their objections this week as a compromise emerged on a deduction from the minimum rate for multinationals with real physical business activities abroad. But some developing countries seeking a higher minimum tax rate say their interests have been sidelined to accommodate the interests of richer countries like Ireland, which had refused to sign a deal with a minimum tax rate higher than 15%.

Argentine Economy Minister Martin Guzman said on Thursday that proposals on the table forced developing countries to chose between "something bad and something worse".

The OECD said that the deal would next go to the Group of 20 economic powers to formally endorse at a finance ministers' meeting in Washington next Wednesday and then on to a G20 leaders summit at the end of the month in Rome for final approval. However, there remains some question about the US position which depends in part on tough domestic tax reform negotiations going on in Congress. Countries that back the deal are supposed to bring it onto their law books next year so that it can take effect from 2023, which many officials close to the talks describe as extremely tight.

R 8-10-2021