

## **INCOME TAX ON SALARIED PEOPLE: FBR IDENTIFIES RS28BN GAP**

**ISLAMABAD:** The tax gap for income tax on salaried income is approximately Rs28 billion and non-salaried approximately Rs755 billion, according to the tax gap report (2022).

The Federal Board of Revenue's (FBR) first report on tax gap analysis-2022 revealed that the corporate tax gap is estimated to be approximately Rs395 billion in 2020-21. The compliance gap in income tax is Rs730 billion which is 31 percent of the potential collectable income tax.

However, based on the Labour Force Survey, the FBR has calculated tax gap of salaried class of Rs31 billion. The information on individual incomes and tax data is required to estimate the income tax revenue potential.

The Household Integrated Economic Survey (HIES) is the national level survey which collects information on income and expenditure of individuals. The latest HIES is employed to estimate the income gap. The sample size of the HIES is 25,676 households with 116,499 individuals. In this survey, the FBR has individual reported income by type. Individuals report their type of work (paid, self-employed, family worker, agriculture) and their earnings for the previous month. They also report how many months they worked in the previous year.

The FBR has relied on their monthly income and calculated the annual income. Further, this annual income also includes income from other sources. Finally, using the individual-level estimates of taxable income for each observation in the sample, a tax calculator is used to estimate income tax liabilities based on statutory rates in 2019-20. Overall, the FBR has followed the following steps to estimate the tax gap: Calculate the gross annual income (excluding agriculture income); calculate the gross tax collectable by applying the statutory rates on gross income and subtract gross tax collection and tax expenditure from gross tax collectable to calculate the tax gap. For robustness, the FBR has used Labour Force Survey (LFS) to analyze the same tax gap for salaried individuals.

## **FBR PAID 60-70PC REBATE TO EXPORTERS DURING 2022-23**

**ISLAMABAD:** The Federal Board of Revenue (FBR) has automatically paid 60-70 percent of the customs duty drawback and rebate to the exporters through the low risk system during 2022-23.

Official sources told *Business Recorder* here on Wednesday that the FBR's rebate payment system is fully automated for the exporters. Under the risk-management system, all low risk cases of exporters are automatically sanctioned rebate. Nearly 60-70 percent of the rebate cases are cleared through the low risk system. There are around 30 percent rebate cases which require scrutiny. During the first six months (July-December) 2022-23, the FBR has paid duty drawback of Rs15.5 billion to the exporters through automated system.

In Karachi, Federation of Pakistan Chamber of Commerce and Industry (FPCCI) and Karachi Chamber of Commerce and Industry (KCCI) informed that they have no issue in payments of the rebates to the exporters. They also informed the FBR that the exporters are getting rebates on time, officials added.

## **ZERO RATING FACILITY: METER MANUFACTURERS OBJECT TO ISSUANCE OF TAX NOTICES BY FBR**

**LAHORE:** Field formations of the Federal Board of Revenue (FBR) are found issuing tax recovery notices to the electricity manufacturers in violation of the SRO on zero rating facility. They are of the view that the electricity meters are consumer durables and not eligible for classification as equipment. On the other hand, the meter manufacturers are contesting that their product is not a consumer durable but equivalent to an equipment eligible for zero rating of sales tax under SRO No 530(I)/2005 dated 6th June 2005.

Sources from among the meter manufacturers said the metering equipment can be for different purposes. In relation to machinery, they said, equipment that measures temperature, speed, pressure etc, are also in the nature of metering equipments.

According to them, power supply is a crucial factor for the operation of plant and machinery. Therefore, electricity meters should be classified as equipment used in the operation of the industrial process at the tax payer's premises.

They have lamented that the FBR officers were not acting fairly in dealing with taxpayers and to abide by the law governing tax matters. They said the tax authorities leave no stone unturned in withholding benefit accrued to taxpayers under the law which leads to needless wastage of time and resources of both the department and taxpayers. Not only this, they stressed, a frivolous litigation on such matters also end up on waste of time of tribunals as well as higher courts.

It may be noted that field formations of the Board are involved in creating fake demands against taxpayers without sharing audit reports with them. The formations create fake demands in tonnes while most of them are challenged and turned down by the courts, costing millions of rupees to both the taxpayers and the Board in terms of litigation. For the tax year 2021-22, said the sources, the Board had assigned a target of Rs 85 billion to the Large Tax Office (LTO) Lahore and the LTO staff had generated 90 percent fake demands to appease the Board pressure.

They said the field formations were under severe stress because of the fact that the higher authorities from the Board were pursuing them to create fake demands in order to ensure maximum tax generation. Accordingly, tax authorities at the level of field formations ignore prerequisites for issuing tax notices.

Similarly, the field formations are found least bothered about the fact that majority of the tax matters are already decided and settled by the competent forums simply because that the Board was maintaining no data bank of tax matters adjudicated by the courts of law and both the departmental representatives and their legal councils are found unaware of whether the court already took up a particular decision or not.

## **FBR STARTS VIRTUAL ASSESSMENTS OF IMPORTED CONSIGNMENTS**

**ISLAMABAD:** The Federal Board of Revenue (FBR) has started virtual assessments of imported consignments without involving Appraisers/Examiners to clear low risk cargo through machines. Senior FBR officials told *Business Recorder* here on Wednesday that one of key Customs reforms under process is the automated assessment or virtual assessment through machines. Machine-based assessment is being done for simple consignments excluding complicated consignments where human intelligence is required.

The simple consignments like single commodity and non-risk cargo is cleared through the machines. Around 10 percent of the consignments falling under the category of yellow channel are assessed by the machines target is to take it to 20 percent by end June 2022. Officials stated that the third major reform initiative is revamping of valuation of imported goods. The valuation rulings require a time period of 3-4 months for consultation, hearing, processing and finally issuance of the ruling. On the other hand, market prices keep on changing quickly. Under the new system made operational, the international market published prices can now be directly entered into the system without going through the process of issuing the valuation ruling.

The new module has been developed under which the electronic data of the international prices is coming which is helping in better assessment of imported goods. By June 30, 2023, the FBR is planning that the readily made available market prices of yarn, fiber, commodities metal, plastics and all would be digitally connected to directorate's Customs system, they said.

The third major reform initiative has been done on the enforcement side, we have cracked down on the Khapias and we have made two dozen arrests of Khapias who are frequent flyers. The crackdown resulted in slow down of outflow of foreign currency, top FBR officials added.

R 12-1-2023

## **TOTAL FINE/PENALTY OF RS884MN IMPOSED ON IMPORTER**

**KARACHI:** Collector Adjudication Feroz Junejo has imposed fine and penalty of another Rs442 million on M/s CAUSIS Mass Transit (Pak) Private Limited for fraudulent mis-declaration of value of imported electric buses to evade legitimate government revenue. With this order-in-original total fine/penalty imposed on the importer has reached to Rs884 million.

The importer willfully attempted to manipulate Customs import data to get imported buses cleared at suppressed values going forward, which would result in a continuous loss of revenue to the government. After due deliberations, Collector Adjudication established the charge of mis-declaration of value, and ordered confiscation of the imported buses. However, an option is given to the importer to redeem goods on payment of a fine equal to 35% of the value of offending goods to the tune of Rs440.5 million.

A penalty of Rs1.0 million is also slapped in the importer for fraud. A penalty of Rs200,000 is also imposed on Customs agent, M/s Haris Enterprises.

M/s CAUSIS Mass Transit (Pak) Private Limited imported 50 units of low floor electric buses fully built drive away condition with rechargeable lithium-ion battery from M/s Causis General Trading LLC, Dubai and sought clearance through authorized customs clearing agent M/S Haris Enterprises under PCT heading 8702.4090 by claiming exemptions of Customs duty and Sales Tax at a declared value of \$45000/unit C&F Karachi.

The importer paid upfront amount of duties and taxes to the tune of Rs.41.2 million. The importer/clearing agent also uploaded Commercial Invoice issued by the consignor to the consignee and Packing List at the time of submission of foresaid goods declaration.

On the directives of Collector Appraisalment East Mr. Amir Thahim, Additional Collector Omar Shafique, Assistant Collector Saifullah Khan assigned Senior Preventive Officer Malak Muhammad Hashim to verify/check as to whether the importer has correctly declared their values and other particulars/specifications of the goods.

As evidence of identical/similar goods was not available in 90 days data and the declared per unit value of the impugned buses was found abnormally low when compared with the diesel and hybrid model buses which are cheaper than electric buses being latest technologies involved, available in the database and in view of credible information that the importer are trying to evade huge amount of duty/taxes as large number of buses are anticipated to be imported in the next few months and they will try to create evidence in this regards for a much lower value in comparison with the actual value as they or their related party has imported previously 2 buses at abnormally low values and managed to get them cleared on that abnormally low value.

The importer/clearing agent and the concerned shipping agent were asked to provide all relevant documents including documents submitted at the port of loading as no local agent of the manufacturer of the impugned buses in the country for ascertaining MRSP as per procedure laid down under CGO 14/2005 pertaining to assessment of vehicles was available.

Accordingly, the goods were assessed in the light of evidential export GDs i.e. \$214,300/unit calculated after adding freight etc. While assessing the aforesaid buses, the assessing officer declined the exemptions of Sales Tax claimed by the importer in the Sixth Schedule and levied 1% CVT which was not applied earlier.

M/s. CAUSIS Mass Transit (Pak) Private Limited and the agent M/s Haris Enterprises knowingly and willfully attempted to evade legitimate duty and taxes by declaring untrue value in the goods declaration on the basis of fabricated and grossly under invoiced value of the goods.

CN 11-1-2023