RS550BN TAX GAP LARGELY FALLS IN FIVE SECTORS: FBR

ISLAMABAD: The huge sales tax gap of Rs 550 billion largely falls in food, beverages, tobacco, textile, wholesale and retail trade sectors.

According to the tax gap analysis issued by the Federal Board of Revenue (FBR) for 2022, the estimated sales tax gap is Rs 519 billion which is 24 percent of the tax collectable under current sales tax regime. The figure of Rs 519 billion has been worked out by the FBR on the basis of the "Consumption Approach-National Accounts Data."
On the other hand, based on the "Value Added Approach-Supply Data," the tax gap has been estimated at Rs 542 billion. However, the tax gap is around Rs 550 billion taking into account of the Consumption Approach-Supply Data. The methodology adopted by the FBR for calculating the sales tax gap revealed that the FBR has adopted the top-down approach to estimate sales tax gap. As a baseline methodology, the FBR considered National Accounts data for 2020-21 for calculation of sales tax gap. In this approach, the FBR initially determined the sales tax base by taking into account those sectors of the GDP that come within the ambit of sales tax collectable by the FBR. By applying 17 percent sales tax on selected sectors' GDP, first we calculate the gross tax collectable. The FBR subtracted the tax expenditure from the gross tax collectable to calculate tax collectable under the current sales tax regime. Next, gross tax collection is subtracted from tax collectable to calculate tax gap.

According to the constitutional scheme of taxation, the sales tax on goods comes within the ambit of the Federation while sales tax on services is within the ambit of the provinces. Therefore, the following sectors have been included to calculate the tax base for FBR related Sales Tax: Mining and Quarrying; manufacturing sector; electricity, gas and water supply and wholesale and retail trade sector. The data does not capture the underground economy. Since official underground economy estimates are not available, therefore, in this report we do not account for the underground economy for the tax gap calculations. The FBR has also excluded the agriculture sector as it is largely exempt from the sales tax. The economic activity in this sector largely comprises construction related services that fall within the provincial domain, therefore, we have excluded this sector from sales tax gap calculations. Since sales tax on services is within provincial domain almost all the services sectors are excluded from the sales tax gap calculations, the FBR report said.

For robustness check, the FBR has used the supply-use table which is a detailed input-output model of Pakistan's economy to estimate the potential sales tax. This supply-use table provides information on final consumption as well as production and use of goods and services in the economy. It includes detailed information on gross value added, the use of intermediate inputs, value of import and exports, value of government and private sector investment expenditures for each of the 35 sectors. The most recent supply-use table was available for the FY 2020 which has been used to estimate the sales tax gap. In this approach, the FBR has directly calculated sales tax gap.

Considering the same sectors, we apply FBR's statutory rates for 2020-21 to calculate the potential sales tax gap. Considering the same sectors, the FBR has used consumption approach to estimate the compliance gap. In this approach, by applying 17 percent sales tax on final consumption, first we calculate the gross tax gap which includes both tax expenditure and tax gap. Next, we subtract the tax expenditure from the gross tax gap to calculate tax gap under the current sales tax regime, the FBR added.

R 15-1-2023

PRESIDENT DIRECTS FBR TO AVOID 'FUTILE' LITIGATION

ISLAMABAD: President Arif Alvi has confirmed the key recommendations of the Federal Tax Ombudsman (FTO) to the Federal Board of Revenue (FBR) to issue instructions to field formations to avoid futile litigation and wastage of public resources (taxpayer's money).

In this regard, the president has issued an order against the FBR and upheld the FTO's recommendations. Through the new order, President Arif Alvi has dismissed the appeal filed by the FBR against the FTO. The complaint was lodged against the tax authorities of the FBR through tax lawyer Waheed Shahzad Butt wherein the complainant questioned the working of FBR being engaged in futile litigation in courts and wastage of precious exchequer resources.

FTO has issued directions to the FBR to issue administrative instructions to all field formations, communicating the ruling of Supreme Court. The FBR should also direct the Director General Internal Audit & FBR Member Legal to conduct random inspections of second appeals filed and reference so as to judge the rationale and strength of departmental cases pending at appellate & judicial fora. When contacted Waheed Shahzad Butt told this correspondence that it is duty of FBR to dispense justice and functionaries representing FBR are supposed to uphold the dignity of law. On the other hand, due to ongoing practice under the powers available with IRS officials, the process of law is being violated by some tax officials. It is well known that the government is the largest litigant in courts being a "compulsive litigant" because the expense is on the government. This happens because FBR offices involved in frivolous appeals are not personally responsible for the said litigation.

FTO order states: "order under section u/s 122(1) suffers from serious violations of legal provision, deviations from departmental norms and practices and arbitrariness. It is strange that cases wherein tax demand of Rs.678 million has been raised by the officer, the record is silent about material details/ discussion and reasoning.

Instant case is a classic example wherein despite glaring most and blatant violations of law, departmental norms, department instructions, filing of 2nd appeal and recourse to unending litigation appear to be the preferred choice of FBR's functionaries. Merit or no merits, right or wrong department has to stand by the order made by its officers is the rule of the game and this attitude itself is the breeding ground for unending maladministration".

President order stated "the recommendations of the FTO (i) issue administrative instructions to all field formations, communicating the ruling of Supreme Court and (ii) direct DGs Internal Audit & Member Legal to conduct random inspections of 2nd appeals filed and references so as to judge the rationale and strength of departmental cases pending at appellate & judicial fora, are unassailable in the circumstance of the matter.

Suffice it to observer that the Departmental Representative has informed that a Committee of Commissioners in every RTO, LTO etc have already been constituted by the FBR to examine the cases to be assailed before the High Courts and Supreme Court of Pakistan. In such circumstances, the FBR may enhance the scope/mandate of the said Committees to those cases in which appeal are to be filed before the appellant tribunal inland revenue (ATIR). Accordingly, the President, as per his decision, has been pleased to dispose of the representation of the FBR, President's order added.

AFGHAN TRANSIT TRADE GOODS - EXCESSIVE DOCUMENTATION CAUSING DELAY IN CLEARANCE OF CONTAINERS: PAJCCI

PESHAWAR: Director Pak-Afghan Joint Chamber of Commerce and Industry (PAJCCI), Ziaul Haq Sarhadi has expressed concern over excessive documentation and demand of irrelevant documents at Karachi sea port causing delay in clearance of containers imported under Afghan Transit Trade Agreement.

In a press statement issued here on Sunday, Ziaul Haq Sarhadi who is also President Frontier Custom Agents Association said the practice of excessive documentations is not only causing delay in clearance of goods, but also diversion of trade to sea ports of other countries including Cha Bahar and Bandar Abbas in Iran.

Zia said the Afghan traders have conveyed their concern and resentment to PAJCCI regarding demand of unnecessary documents during clearance of goods at Karachi port imported under the Afghan Transit Trade facility. Leading Afghan traders including Khan Jan Alkozey who is also Co-Chairman of PAJCCI, Youna Mohmand, President Afghanistan Chamber of Commerce and Industry and government representatives recently held a press conference in Kabul to raise this issue that is affecting the business, he added.

Zia said the Afghan businessmen said they are not facing such kind of hindrances while importing goods from other countries. He demanded the quarters concerned to take notice of this practice which is not only causing delay in clearance of goods, but is negatively affecting revenue generation due to shifting of business to ports of other countries.

Zia said thousands of people are associated with Pak-Afghan Transit trade from landing of imported goods in Karachi to its transportation from sea port to Afghanistan and if the business is shifted to other countries it would render hundreds of thousands of people jobless.

In the prevailing circumstances of global economic recession, it is necessary of the hour that our concerned departments should chalk out policies with focus on providing ease of doing business to promote commerce and trade and create livelihood for people, he stressed.

GOVT TO FACILITATE EXPORTERS FOR IMPORT OF RAW MATERIAL, OTHER ACCESSORIES: ISHAQ DAR

Federal Minister for Finance and Revenue Ishaq Dar said on Monday that the government will facilitate all exporters, including five previously zero-rated export-oriented sectors, for the import of raw material, parts and accessories to meet their requirements. "Export industry is one of the highest priority of our government," Dar wrote on Twitter. "Five (previously) zero rated export-oriented sectors and all other exporters will be given complete facilitation for import of raw material, parts and accessories to meet their export requirements," he added.

The statement comes as industrialists including exporters struggle to get their Letters of Credit (LCs) approved, as the country grapples with a desperate foreign exchange crisis. Thousands of containers packed with essential food items, raw materials and medical equipment have been held up at Karachi port.

A shortage of crucial dollars has left banks refusing to issue new letters of credit for importers, hitting an economy already squeezed by soaring inflation and lacklustre growth. "We've got thousands of containers stranded at the port because of the shortage of dollars," said Maqbool Ahmed Malik, chairman of the customs association, adding that operations were down at least 50%. State Bank of Pakistan (SBP) forex reserves last week dwindled to $4.34 billion – the lowest in nearly nine years – with obligations of more than $8 billion due in the first quarter alone.

The reserves are enough to pay for around a month of imports, according to analysts. Pakistan's economy has crumbled alongside a simmering political crisis, with the rupee plummeting and inflation at decades-high levels, while devastating floods and a major shortage of energy have piled on further pressure.

The forex crisis has deepened the woes of textile manufacturers, which are responsible for around 60% of Pakistan's exports. They have suffered due to the country's energy shortages, damage to cotton crops during the floods, and a recent tax hike. Meanwhile, some factories have complained of a backlog of imported raw materials such as dyes, buttons, zippers and spare parts for machinery held up at the Karachi port. Meanwhile, Governor SBP Jameel Ahmad assured the business community of resolving the issue of restrictions on dollars soon, as manufacturers projected dim prospects regarding industrial production if import of raw materials remains blocked.

R 16-1-2023

APPELLATE TRIBUNAL RESERVES JUDGMENT IN FRAUDULENT IMPORT OF ELECTRIC BUSES

KARACHI: The Customs Appellate Tribunal has reserved the judgment in the case regarding fraudulent import of electric buses, which would be announced on January 18, 2022. However, the Customs is advised by the Tribunal to submit their comments after the announcement of judgment. It is interesting to note the hearing in the case was held on January 2th, and order is reserved on January 14th, 2022. Tribunal reserve the judgment, which will be announced on January 18, 2022. An official said the Tribunal is the graveyard for the cases involving government revenue. However, cases offering corruption and money making opportunities, such cases are swiftly decided.

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.

Meanwhile, Sindh government has inaugurated the electric bus service project in Karachi, despite the fact almost all the imported buses are still under confiscation by Customs. The project is launched with only six buses. M/s CAUSIS Mass Transit (Pak) Private Limited imported 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/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 15-1-2023

NUMBER OF MODEL COLLECTORATES RAISED TO 35 - FBR TRANSFERS, POSTS 25 CUSTOMS OFFICIALS

ISLAMABAD: The Federal Board of Revenue (FBR) has transferred and posted 25 officials of the Pakistan Customs Service (BS 18-20), including collectors of Customs, at its six newly-created Model Customs Collectorates.

The FBR has announced transfer and postings of collectors at its new collectorates established at the Islamabad airport, Khuzhdar, Dera Ismail Khan, South Asia Pakistan Terminal (SAPT), Karachi; Appraisement-West, Lahore; and Appraisement-East, Lahore. The total number of the Model Customs Collectorates now stands at 35, including seven offices of Chief Collectors of Customs.
As per the notification, 11 collectors of Customs have also been given new assignments. Muhammad Mohsin Rafiq (Pakistan Customs Service/BS-20) Collector, Collectorate of Customs Enforcement, Lahore, has been given the new assignment of Collector, Collectorate of Customs Appraisement (SAPT), Karachi.

Amjad-ur-Rahman (Pakistan Customs Service/BS-20) Collector, Collectorate of Customs Appraisement, Peshawar, has been transferred and posted as Chief, FBR headquarters, Islamabad.

Ambreen Ahmad Tarar (Pakistan Customs Service/BS-20) Collector, Collectorate of Customs Appraisement, Lahore, has been given the new assignment of Collector, Collectorate of Customs Appraisement (East), Lahore.

Munib Sarwar (Pakistan Customs Service/BS-20) has been given the new assignment of Collector, Collectorate of Customs Appraisement (West), Lahore.

Muhammad Ismail (Pakistan Customs Service/BS-20) Collector, Collectorate of Customs (Adjudication), Quetta, would now work as Collector, Collectorate of Customs Enforcement, Sargodha.

Naveed Illahi (Pakistan Customs Service/BS-20) Chief, FBR, has been given new assignment as Collector, Collectorate of Customs, Islamabad International Airport, Islamabad.

Muhammad Ashfaq (Pakistan Customs Service/BS-20) Director (Staff), Chairman Secretariat FBR (HQ), Islamabad, has been given new assignment of Collector, Collectorate of Customs Appraisement, Peshawar.

Syed Ali Abbas Gardezi (Pakistan Customs Service/BS-19) Additional Collector, Collectorate of Customs, Allama Iqbal International Airport, Lahore, has been given the new assignment of Collector, (OPS) Collectorate of Customs Enforcement, Lahore.

Syed Imran Sajjad Bokhari (Pakistan Customs Service/BS-19) Additional Collector, Collectorate of Customs Appraisement (East), Custom House, Karachi, would now work as Collector (OPS), Collectorate of Customs Enforcement, Khuzdar.

Naveed Iqbal (Pakistan Customs Service/BS-19) Director, (OPS) Directorate of Intelligence and Investigation, FBR, Peshawar, has been given the new assignment of Collector, (OPS) Collectorate of Customs, (Appeals), Karachi.

Muhammad Ahsan Khan (Pakistan Customs Service/BS-19) Additional Director, Directorate of Input Output Coefficient Organisation (South), Karachi, has been transferred and posted as Collector, (OPS) Collectorate of Customs (Adjudication), Quetta.

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