RS170BN MORE IN TAXES CRUCIAL FOR IMF DEAL, SAYS DAR: MEFP DRAFT RECEIVED, VIRTUAL TALKS TO CONTINUE • TAXES TO BE INTRODUCED WITHIN DAYS • DIESEL RATE TO GO UP BY RS10 PER LITRE IN NEXT TWO MONTHS

ISLAMABAD: Finance Minister Ishaq Dar on Friday announced the government would promptly introduce a mini-budget to generate Rs170 billion additional revenues in four months (about Rs510bn on annualised basis) and reform the power and gas sectors including through withdrawal of unbudgeted subsidies and tariff increases to stop flow of circular debt as prior actions agreed with the International Monetary Fund (IMF) to secure early disbursement of about $1.2bn tranche. Speaking at a hurriedly called news conference shortly after the IMF issued a bland end-of-mission statement, the minister said all matters with the fund had been settled in the final round held on Thursday and the mutually agreed terms were taken to the prime minister as a customary courtesy call-on by the IMF mission chief and resident representative through a video-link. “We have positively completed everything and there is now no confusion on anything,” Mr Dar said, adding the government on Friday morning also received from the IMF the draft Memorandum of Economic & Fiscal Policies (MEFP) that the government would go through this weekend and begin virtual meeting on it on coming Monday to take the process forward.

Mr Dar explained that under the standard procedure agreement on MEFP is followed by signing of letter of intent (LOI) and the staff-level agreement is announced and then taken to the executive board of the meeting for approval and disbursements. “This is standard process which cannot be shortened and hopefully they would not unnecessarily extend it,” the minister said, explaining that once this process was completed Pakistan would be entitled to $894 statutory drawing rights of the IMF with a calculated value of $1.2bn. “This will obviously be released to Pakistan once the executive board approves it,” he added.

In its brief statement, the IMF welcomed ‘the Prime Minister’s commitment to implement policies needed to safeguard macroeconomic stability’ and confirmed “considerable progress” to have been achieved on policy measures to address domestic and external imbalances“. Like its pre-visit statement, the IMF reiterated the key priorities as strengthening the fiscal position with permanent revenue measures and reduction in untargeted subsidies, while scaling up social protection to help the most vulnerable and those affected by the floods; allowing the exchange rate to be market determined to gradually eliminate the foreign exchange shortage; and enhancing energy provision by preventing further accumulation of circular debt and ensuring the viability of the energy sector. “Timely and decisive imp lementation of these policies along with resolute financial support from official partners are critical for Pakistan to successfully regain macroeconomic stability and advance its sustainable development,” the IMF said. It also confirmed “virtual discussions will continue in the coming days to finalise the implementation details of these policies”.

‘Indirect impact’ on common man

The finance minister said that under the agreed fiscal package, the government would have to impose Rs170bn taxes. “Our effort is that no tax should be imposed that directly affect the poor or burden the common man, although it would indirectly impact them,” he said and then confirmed that normal rate of sales tax would be “tinkered” with. hat would mean the commercial GST rate would increase from existing 17pc to 18pc on top of higher rates on sugary drinks. He said the taxation measures to be introduced within days through an ordinance or money bill depending on the parliamentary sessions would be “one-off”, but when questioned if it would be reverted to 17pc by fiscal year end, the minister remarked it “does not happen like that”.

Mr Dar, however, made it clear that the government did not accept imposition of GST on petroleum products and the IMF mission conceded, but they reminded that while PDL on petrol had reached Rs50 per litre peak, the “remaining Rs10 on HSD has to be increased in two instalments of Rs5per litre each on the first of March and April, respectively. We are committed to that and will honour that when the time comes”. Also, in the energy sector, reforms agreed by the cabinet would be implemented under which the flow of circular debt would be stopped both in electricity and gas sector and minimise untargeted subsidies.

“This is in the interest of Pakistan. Apart from sovereign commitments, it is our duty to fix these problems in the economy,” he said, adding that similar flow of about Rs260bn to Rs270bn circular debt to gas sector would be brought to zero. “This is also an understanding and agreement” with the IMF.

Subsequently, he said, the circular debt stock would be addressed though that is a separate process, which the government would follow in due course. He hinted that about Rs650bn revenue gap in power sector would be addressed through a combination of tariff increase or parked in circular debt and fiscal deficit. “This would not be Rs675bn that you people [journalists] have been writing about,” he said. The power sector produced about Rs3trillion worth of electricity each year, but the recovery was only Rs1.8tr, leaving a gap about Rs1.2tr, he explained.

About Rs550bn is financed through budget while the remaining amount of Rs650bn has to be “reformed”, he said but hastened to add that the government to also had to protect consumers on the lifeline.

On top of that, funding for the vulnerable through Benazir Income Support Programme (BISP) would be increased to Rs400bn from existing Rs360bn under the understanding reached with the IMF to counter the impact of inflation till June 30, 2023. He said it should be kept in mind that the extended fund facility was agreed to and signed by the Imran Khan government in 2019 which was suspended or delayed for a few times and the PDM government led by Prime Minister Shehbaz Sharif was now implementing as sovereign commitment. That is why the IMF has also mentioned the prime minister's political commitment to honour sovereign agreement. This is the cost of last five years of misgovernance and incompetence that led to massive increase in debt burden and resultant debt servicing cost and a flood of inflation.

Track record

Responding to a question on low foreign exchange reserves with the central bank that stood at around $2.9bn, the minister said the commitments from friendly countries would materialize once the staff-level agreement was reached.

"There is nothing to worry about. Please also keep our track record in mind and not be disheartened," he said, recalling that Pakistan had recovered from as low as $414 million reserves after 1998 nuclear tests related sanctions when imports were $9bn and all liabilities were also met. "We are managing this with the support of the State Bank of Pakistan and have prioritised imports while also repaying about $3bn loans in recent days to a friendly country and commercial banks of another country. All those loans are in the process of rollover once the IMF programme is revived as has been the practice in the past. Our negotiations on that account are in the pipeline and perhaps the IMF agreement was awaited to materialize them", because it was not clear to them in which direction Pakistan was going, the minister explained. He said the availability of greenback and imports would "get back to business as usual once we receive $5bn to $6bn in coming days".

The minister apparently felt agitated when asked if it was because of the trust deficit on part of the finance ministry that the IMF had to take Prime Minister's commitment for policy actions and quote it in its end-of-mission statement when he said, "does it matter? Do I care", but then gained composure saying the government was led by premier. He said the loss of Pakistan's credibility and trust deficit was "also a factor", but it was because of the previous PTI government that not only dishonoured sovereign commitments but also reversed them in the face of looming no-confidence move last year. "That massively damaged Pakistan's reputation and credibility", he asserted.

Dawn 11-2-2023

NEW TAXES WORTH RS170B UNACCEPTABLE: FPCCI URGES GOVT TO PLUG REVENUE LEAKAGES FROM ELECTRICITY, GAS, LOSS-MAKING ENTITIES

LAHORE: The country's economy cannot sustain the imposition of Rs170 billion new taxes said the president of the Federation of Pakistan Chamber of Commerce and Industry (FPCCI) on Friday. while addressing the Lahore Economic Journalist Association (LEJA) discussion programme at FPCCI's regional office on Friday, FPCCI President Irfan Iqbal Sheikh said, "The country's economy is already suffering and cannot sustain the imposition of Rs170 billion new taxes through a mini budget on the direction of the International Monetary Fund (IMF)."

"Instead of imposing new taxes, the government should plug the loopholes of revenue leakages from electricity, gas and state-owned enterprises, and privatised loss-making entities," suggested Sheikh.

Urging the government to abstain from putting more tax burden on existing taxpaying businesses, he warned, "The business community will not accept any mini budget."

"For the last eight to nine months, no multi-national company (MNC) has been able to send their profit back to their principals. Such acts will shatter the confidence of investors and will hinder the inflow of Foreign Direct Investments (FDI)," he warned, urging the government to allow MNCs to repatriate their due profits.

Comparing the cost of production in various countries he said, "In China and Bangladesh, the cost of electricity per unit is 7-8 cents only while in Pakistan it is 20 cents. In addition to this, the markup rate in Pakistan is 17%, while it is 2.8% in China, 6.3% in India and 5.8% in Bangladesh." "With such a high cost of doing business, how will Pakistani products ever compete in the world markets," he lamented. "50% of the containers stuck at the ports have still not been cleared. Importers are now facing demurrages from shipping lines – charging about $120 per container per day."

The FPCCI president suggested that the government focus on the cheaper sources like renewable, clean energy. For this, he suggested the government remove all duties and taxes on the import of solar panels and equipment to promote solar energy generation in Pakistan. He further stressed the need for coal power to be generated from local coal produced in Thar instead of importing expensive coal.

"The business community has almost completed the Charter of Economy and will present it to the government by the end of February," said Sheikh, adding that the government should FPCCI and other relevant stakeholders on board while making economic policy decisions so that they can be implemented easily.

"FPCCI has been actively engaged with all political parties in order to accommodate their input in the Charter of Economy," he said, adding that, "For the last 75 years, politics was the priority in Pakistan, now political parties should prioritise the economy first to stabilise Pakistan."

TR 11-2-2023

PBC UNDERSCORES NEED FOR TAXING UNTAXED SECTORS

KARACHI: Chief Executive of Pakistan Business Council (PBC) Ehsan Malik has forwarded suggestions to Federal Finance Minster Ishaq Dar that can be implemented quickly to enhance tax revenue from the un-taxed and under taxed sectors of the economy and to economize public expenditure to manage fiscal account.

In a letter to the Finance Minister, he urged the government to tax the untaxed sectors to meet IMF's requirements on fiscal deficit. The temptation hitherto has been to levy further taxes on those sectors that already pay taxes. PBC identified significant potential in taxation of agriculture, properties, wholesale, retail and by curbing under invoicing.

In proposing higher advance taxes on non tax return filers, PBC noted the tendency of the FBR to become over depended on this mode of tax revenue instead of pursuing those outside the tax net to file returns. However the current fiscal pressure calls for further penalizing non filers through higher advance taxes. Other suggestions included enhancing withholding tax on non-filers:

1:- Advance Income Tax on sale and purchase of property should be rationalized at 7 percent for both buyers and sellers who are non-filers.

2:-Section 7E- deemed rental income be extended to non-filers in addition to filers as at present.

3:-Advance income tax on electricity bills for non-filers having industrial, commercial and domestic connections should be significantly increased.

4:- Withholding/ advance income tax @ 20 percent of business class ticket should be charged to non-filers.

5:- For registration of motor vehicles by non-filers, advance tax depending on engine capacity be increased from the current Rs 600,000 –Rs 1,500,000/- to Rs 2, 000,000 - Rs 4,000,000/-

6:- While a consensus is required on mechanism for tapping the additional Rs 372 billion in the form of income tax on agricultural income, the FBR needs to link with provincial revenue authorities to ensure that the exemption claimed on agriculture income is only allowed once confirmation of agricultural income tax having been paid to the provinces is received.

Potential for increasing collection for un-taxed, under tax sectors:-

1:- True potential for taxation of real estate sector has been estimated at Rs 500 billion, in the near term the FBR values need to be corrected to reflect market values.

2:-The retail and wholesale sector has a potential for an additional Rs 234 billion which can be tapped not only by increasing advance income tax on electricity bills but also be ensuring proper implementation of sales tax under the VAT mode and through monitoring sales and income by a more aggressive implementation of the POS system'

3:- For the Rs 488 billion revenue lost due to under–invoicing, there needs to be Electronic Data Interchange (EDI) on import values with the major trading partners as well as better and more transparent valuations by Customs.

Austerity in public expenditures and reduction in consumption of energy

1:- A Rs400billion saving over the next 2 years is estimated if the federal and provincial governments and their affiliated departments and corporations implement a freeze on the purchase on new vehicles.

2:- Federal and Provincial governments need to agree on a mechanism for sharing losses incurred due to electricity and gas theft.

3:- All ministers/ departments/ functions devolved to the provinces should not have a federal equivalent.

4:- To conserve electricity, working hours need to be adjusted to make the most of daylight hours as well as charging a higher premium on electric units used during peak hours.

UNREGISTERED TIER-1 RETAILERS ASKED TO INTEGRATE WITH POS

ISLAMABAD: The Federal Board of Revenue (FBR) has directed 124 unregistered retailers (Tier-1) to integrate them with the FBR's Point of Sale (POS) system by Feb 10, 2023 to avoid denial to input tax credit.

In this connection, the FBR has issued Sales Tax General Order (STGO) 7 of 2023 here on Friday. Recently, Regional Tax Office Islamabad has sealed several retail outlets including big food retailers which failed to integrate with the FBR's POS system. The FBR has also wanted retailers that the input tax claim of the un-registered retailers would be disallowed without any further notice or proceedings. "Upon filing of Sales Tax Return for the month of January, 2023 for all hereby notified T-lRs not having yet integrated, their input tax claim would be disallowed as above, without any further notice or proceedings, creating tax demand by the same amount," FBR maintained.

The FBR's STGO revealed that the said big retailers are required to be integrated with the Board's POS system. The list of 124 identified retailers revealed that the big retailers are not registered with the sales tax department for the purpose of the POS and they are also not depositing collected sales tax from consumers into the national exchequer. Last month, the FBR had issued a list of 81 big retailers (Tier-1), which are required to be integrated with the FBR's POS system and were denied 60 percent input tax credit in case of non-integration.

The number of big retailers (Tier-1) now stood at 124, which are required to be integrated with the POS system. The board has decided to raise sales tax demand against these big retailers (Tier-1), who are still not integrated with the FBR's POS system by the deadline of Feb 10, 2023.

The Finance Act, 2019 added sub-section (6) to section 8B of the Sales Tax Act, 1990 ("the STA, 1990"), whereby, a Tier-l Retailer "(T-1R)" who did not integrate its retail outlet in the manner prescribed under sub-section (9A) of section 3 of the STA, 1990 during a tax period, its adjustable tax for that period would be reduced by 15 per cent.The figure of 15 per cent has been raised to 60 per cent vide Finance Act, 2021. In order to operationalise this important provision of law, a system-based approach has been adopted, whereby, all Tiers who are liable to integrate but have not yet integrated, with effect from July-2021 (Sales Tax Returns filed in August 2021) are to be dealt with as per the procedure laid down in STGO No I of 2022 issued on 3rd August 2021.

The procedure of exclusion from this list of identified Tier-I shall apply as laid down in STGO 17 of 2022 dated May 13, 2022, the FBR added.

SC ASKS GOVT TO CURB CURRENCY SMUGGLING

ISLAMABAD: The Supreme Court directed the federal government to take measures to control the smuggling of foreign currency out of the country.

A three-judge bench, headed by Chief Justice Umar Ata Bandial and comprising Justice Ayesha A Malik and Justice Athar Minallah heard the Federal Board of Revenue (FBR)'s petitions against the Lahore High Court (LHC)'s order regarding the imposition of super tax. The bench clubbed the petitions against the SHC's verdict in the instant matter. During the proceeding, Faisal Siddiqui informed the bench that right now he is representing the FBR. He said he would also represent the federal government if the country defaulted. Upon that, the chief justice interrupted him, and said the country was "not going bankrupt". "The government needs to adopt measures to stem foreign currency smuggling. Everyone needs to improve themselves in the better interest of the country," he added. He remarked that the FBR imposed the super tax in "good faith". At the start of the hearing, Faisal Siddiqui told the court that the LHC had suspended the implementation interim order in its final verdict for 60 days. However, the chief justice said they have not received the final order.

Barrister Farogh Naseem, representing the companies, argued that all petitions of the FBR against the LHC's interim order had become ineffective, especially after the announcement of the provincial court's final decision. CJP Bandial said it was also known that Shell Pakistan, one of the petitioners, paid taxes in millions of rupees. The Supreme Court, on February 6, had modified the LHC's interim order and directed the high-income earners to pay 50 per cent of the due liability with regard to the Super Tax within seven days.

TAX OFFICIALS ASKED TO UPDATE PERSONAL PROFILES

ISLAMABAD: The Federal Board of Revenue (FBR) has directed all tax officials to update their personal profiles under the human resource information system (HRIS).

In this regard, the FBR issued instructions to all directors general/ chief commissioners Inland Revenue and chief collectors/ directors general/ collectors Customs on Friday. According to the FBR's directive to the field formations, the HRIS data is not being updated by most of the field formations of FBR despite, repeated instructions issued by the Board from time to time.

The competent authority, taking a serious view of the matter, has desired that all Heads of field formations shall ensure updating of HRIS data on a daily basis without fail. For this purpose, the available IT staff would be trained forthwith by the respective field formations, so as to ensure the sanctioned strength of each office is matched with the budget order and is updated immediately on transfer of any post in or out of the office concerned.

In case of transfer (in/out) or retirement or death or removal/ dismissal or any other penalty, etc., as the case may be, the entry thereof should be made in HMS system on the same day, so as to ensure that working strength in each cadre shown in HRIS data is updated on a daily basis.

R 11-2-2023