TAXATION SERVICES: FBR PLANS TECH-ENABLED OUTREACH INITIATIVE UNDER WB-FUNDED PRR

ISLAMABAD: The Federal Board of Revenue (FBR) plans to launch technology-enabled outreach initiative under the Pakistan Raises Revenue (PRR) programme through mobile tax facilitation stations to bring routinely used taxation services closer to the taxpayers' doorstep.

The FBR fielded a Mid-Term Review of the World Bank-funded PRR programme in October and November of 2022. The programme's savings would be utilised in launching IT-enabled outreach initiative in the area of taxpayer facilitation and behaviour nudges to promote tax culture. These interventions include, among other things, enhancing taxpayers' access to FBR's systems and solutions at or close to their own doorsteps with the aim to minimize the need to have them visit tax offices all across the country for routine processes in the similar fashion as NADRA's mobile vans. In an effort to reach out to taxpayers in emerging economic centers in Tehsils, districts and areas having limited accessibility, these 155 mobile tax facilitation stations will be standard/non-luxury vans.

The implementation of the initiative will be in accordance with government priorities and policies including Federal Cabinet's circular dated 7th July 2022 which outlined the austerity measures for FY 2022-23 and allows for procurement of such utility vehicles. Once the revised PC-1 is approved by CDWP and Ecnec, this initiative will be implemented in a phased manner. The services offered at these mobile tax facilitation stations will include routinely needed processes including tax registration, Income/ Sales Tax return filing, payment of taxes through bank card machines, applications for CPR correction and correction/ updates to taxpayer profiles etc. FBR plans to equip these mobile tax facilitation stations with all the required equipment including bank card machines, internet facility, biometric verification machines and tablets. The investment in upgraded IT infrastructure, electronic monitoring through scanners, track and trace system and ease of access to FBR systems by the taxpayers will move the FBR further towards the path of a modern and progressive revenue organisation.

R 17-2-2023

SC ORDERS BIG INDUSTRY TO PAY 4PC SUPER TAX

ISLAMABAD: The Supreme Court on Thursday ordered the large-scale manufacturing industries to pay a 4 per cent super tax. A three-member bench comprising Chief Justice Umar Ata Bandial, Justice Ayesha A. Malik and Justice Athar Minallah heard the federal government and the Federal Board of Revenue (FBR) appeals regarding the recovery of super tax. It should be noted that various industries had challenged the super tax levied in budget 2022-23 with retrospective effect after which the Sindh High Court invalidated the collection of the 10pc super tax from the last fiscal year.

Last year, Prime Minister Shehbaz Sharif announced a 10pc tax on major industries including cement, steel, sugar, oil and gas, fertilisers, LNG terminals, textiles, banking, automobiles, chemicals, beverages and cigarettes. Through the Finance Act 2022, the government introduced a new section C-4 in the Income Tax Ordinance to impose a super tax on high-income earners. Through this section, the FBR imposed a 10pc super tax on 13 sectors earning more than Rs150 million with restrospective effect from July 1, 2021.

The decision had since been challenged on various grounds in almost all the high courts of the country. Similarly, more than 100 petitions were filed in the Sindh High Court challenging the constitutionality of the provisions of the Finance Act 2022. The petitions stated that the federal government had also imposed a tax on past transactions in the Finance Act 2022. On Dec 22, 2022, the Sindh High Court declared the tax implementation invalid from the previous fiscal year and stated that the tax would be applicable from the current fiscal year.

However, the federal government and the Federal Board of Revenue (FBR) challenged the ruling in the Supreme Court. hile ruling on the above appeals, the Supreme Court ordered the payment of 4pc super tax to all the parties. Earlier on Feb 6, the Supreme Court modified the interim order of the Lahore High Court and directed taxpayers with higher income to remit 50pc of their super tax directly to the FBR within a week.

Dawn 17-2-2023

FISCAL YEAR 2022-23: TAX TARGET RAISED TO RS7.64TRN

ISLAMABAD: Federal Board of Revenue (FBR) Chairman Asim Ahmad Thursday said the government will review the taxation measures of Rs170 billion taken through the Finance (Supplementary) Bill, 2023 in the coming budget and the FBR's annual target has been increased from Rs7,470 billion to Rs7,640 billion for 2022-23. At the conclusion of the Senate Standing Committee on Finance meeting held at the Parliament House on Thursday to review the Finance (Supplementary) Bill, 2023, he informed *Business Recorder* that the revenue collection target has been increased after additional revenue measures of Rs170 billion. The IMF is satisfied with the FBR's revenue collection performance, but we have taken measures of Rs170 billion to bridge the gap of deficit in other areas of the economy, Ahmad said.

The Senate Standing Committee on Finance deliberated and approved the recommendations on the money bill, which aimed to amend the laws relating to taxes and duties. Out of the total 15 members of the committee, only four members attended the committee including senators, Saadia Abbasi, Dilawar Khan, Mohsin Aziz, and the chairman of the committee.

The FBR chairman informed the committee that the FBR will issue a list of luxury items on which 25 percent sales tax would be imposed at the import stage. The FBR will issue the notification with the approval of the federal government. Mostly these are the same items, which were initially banned and later higher rates of regulatory duties were imposed on the import of these items. Ahmad revealed that the list of luxury items included cosmetics, imported vehicles, furniture, sanitary fittings, chocolates, home appliances, crockery, perfumes, and many others.

FBR Member Inland Revenue (Policy) Afaq Ahmed Qureshi said that the FBR has the power to increase the rate of sales tax after approval of the federal cabinet like powers to change sales tax rates on petroleum products. To a query, the FBR Member Inland Revenue (Operations) stated the FBR will not determine the fair market value of the shares proposed to 10 percent withholding tax at the time of sales of shares of companies.

The committee recommended a decrease in the Federal Excise Duty (FED) on juices from the proposed 10 percent to five percent. Senator Mohsin Aziz of the PTI made a hue and cry and rejected the money bill and Senator Saadia Abbasi of the PML-N apprehended that the taxation measures would result in inflation and will put an additional burden on the masses.

Senator Mohsin Aziz expressed concern about the Rs170 billion additional taxation measures, questioning whether it was just taxes or in fact, a Rs520 billion mini-budget. He argued that the government should explain why it took so long for the bailout deal and make public how many taxes were imposed due to pressure from the International Monetary Fund (IMF).

The FBR chairman stated that the prime minister has approved to giving a supervisory role of anti-smuggling to the FBR. The federal government will issue a notification to designate the FBR as the lead agency for supervision and coordination with other law enforcement agencies.

Furthermore, representatives of Murree Brewery and Shezan enterprises apprised the committee that the government has increased the FED on sugary fruit juices and squashes from zero to 10 percent and this sudden increase is not justifiable.

The FBR chairman commented that sugary drinks are injurious to health and owing to the WHO recommendations in this regard, the government has increased the FED on carbonated water from 13 to 20 percent, however, there was discrimination due to zero per cent FED on fruit juices.

Similarly, to curtail the usage of tobacco as per the global practices, the government has increased the tax per 1,000 cigarettes from Rs6,500 to Rs16,500.

The committee also recommended fixing the rate of the FED on region-wise basis on air tickets of business, first class, and club class. The airlines would not be able to effectively calculate the FED of 20 percent of the gross amount of each ticket due to the existing system available with them.

Senator Saleem Mandviwalla apprised the Finance Division that the Aviation Ministry has written a letter to the committee and expressed reservations on 20 per cent tax on Business Class and First Class tickets. The Aviation Ministry commented that the proposed tax is not workable because the fare of tickets are not static and vary from time to time. Senator Mandviwalla suggested that instead of imposing a 20 per cent tax, a definite amount should be fixed for each destination.

The Senate body was informed that the Ministry of Finance and Revenue has increased the GST from 17 to 18 per cent on products bearing a retail price. Ahmad, the chairman FBR stated that the FBR was not empowered earlier to increase the sales tax on these items and that was why the ministry put forward this bill which results in empowering the FBR to increase tax on items bearing a retail price.

Senator Saadia Abbasi rejected this provision of the bill. Moreover, the chairman committee apprised that the sales tax on cellular devices worth US$200 to US$500 have been increased from 17 per cent to 18 percent and the sales tax on cellular devices exceeding US$500 have been increased from 17 to 25 percent.

Senator Mohsin Aziz suggested that a ban should be imposed on luxury items being imported from abroad rather than increasing taxes on them, also this tax will only encourage the smuggling of these items.

In reply, Dr Aisha Ghaus Pasha, State Minister for Finance and Revenue, commented that the ministry intended to put a ban on the import of luxury items but could not do so because of restrictions of the WTO and as far as smuggling of these luxury items is concerned, the FBR is in collaboration with Frontier Corps and other agencies to curb the smuggling of said items along the western border.

Additionally, the FED on per kilogramme of cement has been increased from one rupee 50 paisas to two rupees, the Senate body was told. While discussing the proposed tax on functions and gatherings, the FBR chairman apprised that individuals have to pay 10 percent withholding tax to avail the services of banquet halls.

Mandviwalla said the majority of banquet halls are not even registered with the FBR.It was further recommended that before imposing tax, the government should make efforts for the registration of marriage halls. Senator Mandviwalla reiterated that this bill will only burden the taxpayers of the country. He proposed that the government should take measures to bring non-taxpayers under the ambit of the FBR.

R 17-2-2023

EXPERTS QUESTION SALES TAX RATE INCREASE WITHOUT PARLIAMENT APPROVAL

KARACHI: Federal Board of Revenue (FBR) has increased the sales tax rate to 18 per cent from 17 per cent through a notification issued on February 14, 2023, which has to be approved by the parliament. According to a commentary issued by PwC A F Ferguson Chartered Accountants, the standard rate of sales tax has been increased from 17 per cent to 18 per cent through SRO 179(I)/2023 dated February 14, 2023.

The amendment through SRO 179 is not applicable on goods subject to sales tax at retail price as specified in the Third Schedule to the Sales Tax Act, 1990. The SRO is dated February 14, 2023, in view of which it seems that enhanced rate is applicable from February 14, 2023. However, in view of the fact that the SRO was made public on February 15, 2023, keeping in view the principles laid down by the Supreme Court of Pakistan in its judgement reported as 2022 PTD 232. “The applicability of SRO from February 14, 2023 can be questioned,” according to the chartered accountancy firm. Furthermore, the legitimacy of increase of rate through SRO can also be questioned in view of various judgments which have ruled that power to levy tax remains with the Parliament.

The Finance (Supplementary) Bill, 2023 besides incorporating the effect of SRO 179, has also proposed to increase sales tax rate from 17 per cent to 18 per cent for the goods specified under the Third Schedule which will be effective from the date on which the Act takes into effect. It has further been proposed that Federal Government may by notification in the Official Gazette, charge sales tax, on goods specified in Third Schedule, on such higher rates as may be specified. It is expected that a separate notification in this respect will be issued later for certain goods specified in Third Schedule. On the other hand, tax practitioners have shown concerns over the issuance of the notification by the FBR, stating the increase in tax rate is mandate of the parliament. They said that years back the Supreme Court of Pakistan in an order had clarified that the government had not authorized to impose or increase tax rate without approval of the Majlis e Shoora.

The tax practitioners said that the Supreme Court in the case of Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi vs Federation of Pakistan, 2013, cleared the ambiguity that tax would be imposed only through parliamentary approval. In this case, the apex court ordered: “The Government is not authorized to impose or increase Sales Tax from 16% to 17% on the value of taxable supplies, i.e. by inserting in the Finance Bill (Money Bill) 2013-14 a declaration under section 3 of the Provisional Collection of Taxes Act, 1931 [hereinafter referred to as ‘the Act, 1931’] as such declaration neither has the status of legislation nor sub-legislation, therefore, it has no force of law.” Syed Rehan Jafri, President, Karachi Tax Bar Association (KTBA) said that the issuance of SRO by the FBR to increase the sales tax was unlawful. “The application of enhanced sales tax rate may be challenged as the apex court had already issued clear remarks in such cases.”

The issuance of SRO has created confusions amongst the tax practitioners because the amendments sought through Finance Supplementary Bill, 2023 are different from the notification. “The SRO noted the new tax rate will not be applied on the certain provisions of the Sales Tax Act, 1990,” said Zeeshan Merchant, a senior tax consultant. On the other hand the finance bill explained plenty of changes to sales tax rates, he added.

PR 17-2-2023

SHC ALLOWS SPECIAL FEDERAL EXCISE REFERENCE APPLICATIONS OF 2009, 2014, 2016

KARACHI: An appellate bench of High Court of Sindh decided Special Federal Excise Reference Application filed in the year 2009, 2014 and 2016 in favor of the applicant companies. Khalid Javed Khan advocate lead the counsels appearing for the applicant companies and submitted that issue before the court pertains to non-payment of Federal Excise Duty on purported payment of franchise fee to the Principal abroad. He further submitted that this issue has already been decided by the Supreme Court of Pakistan in Civil Petitions No. 1742 & 1743 of 2014 in favor of the tax payers.

The bench perusing the order of the tribunal found that it has been observed/ decided by the Customs, Excise & Sales Tax Tribunal's bench I, Karachi that there is nothing on record to show that respondents have paid for services either to the Pepsi Cola International (Pvt) Ltd, Hattar which is a Pakistan incorporated company or to Pepsico Inc USA therefore no question of any amount payable by way of Excise Duty for services rendered arises. The bench then allowed the reference applications with order to send the copy of judgment to the FERA tribunal.

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COS PLEAD CASE BEFORE PM: 10PC FED ON JUICES TO INFLICT REVENUE LOSS ON FBR

ISLAMABAD: The imposition of 10 percent Federal Excise Duty (FED) on juices will actually result in revenue loss to the Federal Board of Revenue (FBR) due to shrinking of business size and volumes in the remaining period of 2022-23.

In a collective representation to Prime Minister Shahbaz Sharif on Thursday, the national and multinational companies pleaded their case before the PM. The formal juice industry has an annual turnover of above PKR 59 billion with an estimated investment of Rs40 billion and employs over 5,000 employees in the value chain.

In line with local regulations (such as Punjab Food Authority), fruit drinks have minimum eight per cent fruit content, nectars have 25-50 per cent fruit content and pure juices have 100 per cent fruit content. In fact, fruit juices are promoted as healthier options by Food Authorities across the country for consumption in schools and colleges, they said.

The juice industry is playing an integral role in the development and protection of fruit farmers. Fruits have a high rate of wastage and farmers have to sell their produce at very low prices during peak season due to inadequate storage facilities and a lack of effective processing or preservation techniques. The juice industry, by timely procuring fruits (like Mango, Kinnow, Apple, Guava, etc) from the farmers, at a good rate, prevents significant food wastage in the value chain. This also results in the farmers' uplift and prosperity.

According to the industry, the industry procured an estimated 100,000 tons of mango, apart from other fruits, for conversion into pulp from local farmers. In 2019 with the imposition of five per cent FED on fruit juices, the industry took a major hit that resulted in shrinking of the industry size by 23 per cent in 2019-20, almost four times the impact.

The juice industry of Pakistan also has a high concentration of smaller players that are undocumented and hence not paying any applicable taxes. The imposition of FED will impact the affordability of the products produced by documented players, resulting in a large proportion of consumers shifting to low-priced, low-quality and possibly unsafe alternatives offered by the undocumented sector. This will impact the government through a loss of tax revenue. In addition, a shrinking business size would create more unemployment, not just within the industry but also negatively impact farmers linked with the industry. Furthermore, tax collection through the application of any additional tax (FED) on fruit drinks and juice products would not have a favourable impact on revenue collection as the business volume would shrink again as happened in 2019-20 while five per cent FED was imposed.

The industry, after the withdrawal of five per cent FED in June 2021, had found its growth momentum and any tax distortion at this time will again disrupt this growing segment. The industry has urged the government to withdraw the 10 per cent FED on juice, as historically such steps had adverse impacts on the industry and consequently the rural economy and the government's revenue collection, it added.

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