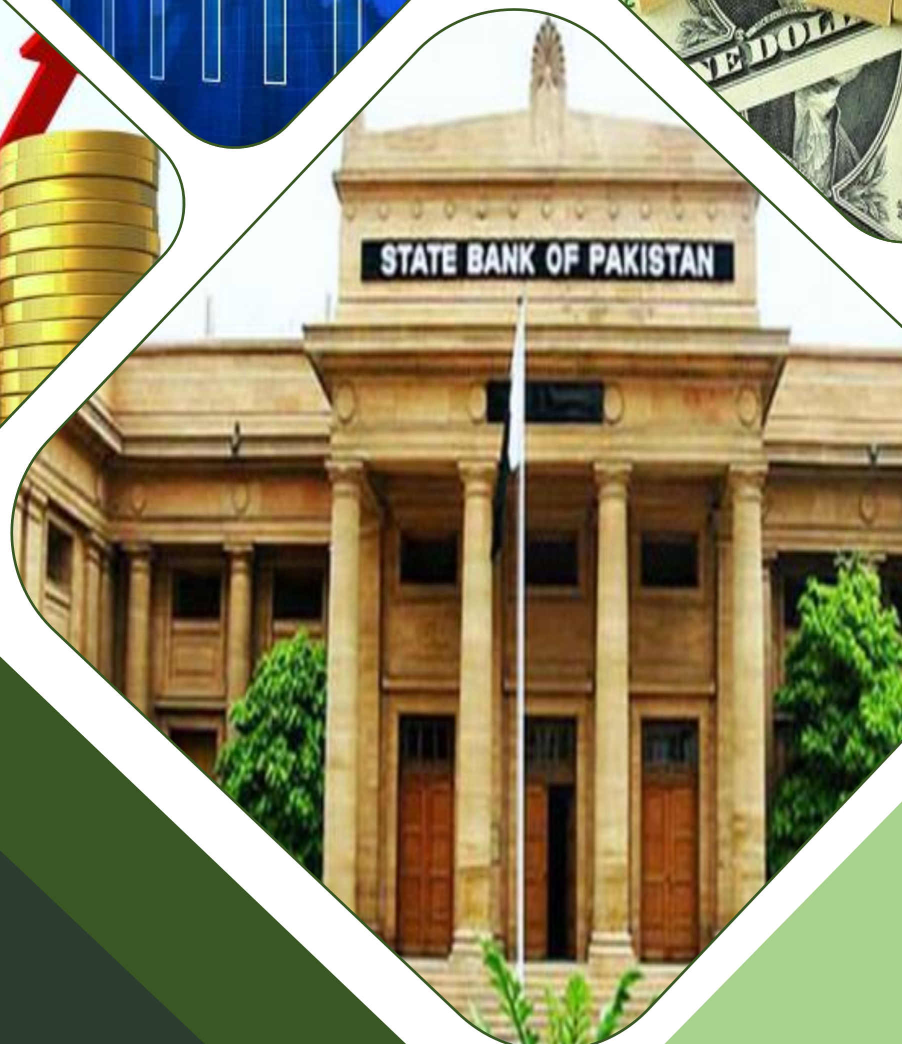
EMPLOYERS' FEDERATION OF PAKISTAN



Proposals for Federal Budget 2019-2020

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Federal Budget Proposals

2019-2020

Submitted to:

Decision Makers and Policymakers

Contributor:

Employers' Federation of Pakistan – Economic Council

Contents

The Employers' Federation of Pakistan

The Employers' Federation of Pakistan (EFP) is a well-reputed private non-profit entity which rightly established firm roots into the heart of all major economic activities that unfold in the country. It is not only a member of South-Asian Forum of Employers (SAFE), International Organization of Employers (IOE), and Confederation of Asia-Pacific Employers (CAPE) but it also takes immense pride in being an important constituent of the International Labor Organization (ILO), as well as an invaluable strategic partner of the Commonwealth Enterprise and Investment Council (CWEIC).

Today, the EFP boasts Pakistan's largest stakeholders' body with 1000 member corporations along with 30 leading industrial and chamber associations. On an aggregate, this spans a record of 3.5 million Pakistani workers' outreach. These accolades have justifiably earned EFP the statutory mandate to be recognized as an apex body and to lead all matters governing the economic, legal, and financial contours of Pakistan. Some of its work involves setting up B2B Councils with Pakistan's trade partners and industrial-academic linkages involving domestic and foreign experts, and hosting joint stakeholders' consultation sessions on various current issues.

The EFP is a strong advocate of human development, equal workers' rights, and transparent state institutions based on fair austerity and institutional reforms. We believe it is imperative to boost economic growth, reduce unemployment, upgrade standard of living, and eliminate poverty.

In order to achieve these objectives and to put 'Pakistan First' in the region and around the world, the EFP established the EFP Economic Council (EFP-EC).

The 'Economic Vision 2030' document and Trade Related Investment Policy Recommendations presented to the Ministries of Commerce and Finance, both published in 2018, are a testament to the high level of dedication by its board of renowned economists and country's leading industrialists, entrepreneurs, and research consultants.

Foreword

It has been generally observed that while making budgets, the policy makers ignore the genuine problems being faced by the industry which are the wheels of economic development and growth. The policy makers need to understand that the social and economic development is directly linked with the developmental activities of the industrial sector. Keeping in view the importance of the private sector, the *Employers Federation of Pakistan (EFP)* has decided to present budget proposals to policy makers as input in the Federal Budget 2019-20. EFP has always played its due role in supplementing the efforts of the government in achieving sustained economic growth through professional input on preparing policy documents and legislations related to trade, economy, corporate, and financial policies.

EFP budget proposals 2019-20 incorporate some valuable recommendations for bringing policy changes in taxation laws and proposing required amendments and steps to help augment the revenue base and bring down cost of doing business. This will provide an enabling environment for the private sector and businesses to flourish and to promote industrial productivity. The document also presents industry-specific tax issues and proposals prepared in consultation with industry experts and representative bodies, intended to assist the government in developing industrial policy.

The Federation expects that these proposals would merit attention of the government and policy makers who would give some serious thought to these proposals and incorporate them in the Federal Budget 2019-20. We believe that government must take some urgent measures to minimize the increasing gap between the revenue and expenditure for which broadening of tax base is quite imperative. It has also been proposed that the government expenditure should be reduced in order to minimize this gap. The government must enhance the role of local trade bodies in bringing efficiency in government delivery systems by reviewing their key economic decision-making and corporate governance processes; revamping of the tax administration and machinery; strengthening audit and review procedures, and suggesting actionable economic strategies.

EFP will always welcome the call from the government and regulators in playing its part towards building a stronger economy. It is hoped that the Ministry of Finance, Revenue and Economic Affairs, will find our budget proposals useful and relevant.

Majyd Aziz	**Ismail Suttar**	**Zakaria Usman**
President	Chairman	Chairman
EFP	EFP-EC	EC Budget Advisory Committee

Synopsis

The budget proposals are based to achieve the following objectives:

1. All fiscal recommendations are directed to generate employment in the country, especially in the medium and small towns and cities.
2. The expansion of industrialization in the country, in all segments i.e. large-scale manufacturing units, Medium and Small size industrial units and expansion of cottage industry is the most important objective.
3. Professional enhancement of the workforce in the country.
4. Strengthening of the social fabric in society.
5. A focus on creating employment in sectors which are the future drivers of job opportunities, as identified by the ILO. These sectors are health, education, and social care. These jobs cannot be replaced by technology and Pakistan needs to employ its labor in these sectors.

Executive Summary

The budget proposals contained in the document have focused on the following themes: broadening the tax base, reducing the cost of doing business, and simplifying tax procedures, the circular debt crisis, and economic development. The industry specific proposals include input from multiple sectors and address their budget related concerns.

The section discussing broadening of the tax base includes recommendations which include utilization of NADRA's data to identify potential groups who are not under the tax net. It contains suggested incentives to encourage NTN registration and rewards for filing returns. It also includes the need for enforcement of agriculture tax and retail tax.

The simplification of tax laws is discussed which include several procedures that can be consolidated, eliminated, and simplified. The back log of refunds and the issue of deferred claims, which have become a serious operational issue for many corporations, is also discussed. The problems with Withholding Tax and exemptions are also mentioned.

For the cost of doing business, tax procedures and laws which need an adjustment and which can lead to an improvement in the business activities including the promotion and growth of SMEs are discussed.

The Economic Development proposals provide input on how the government can finance the debt within the domestic context through sustainable investment, and measures for FBR to further improve its quality of work through research and development.

Lastly, the industry specific points are directed at specific products and the adjustments they require to improve their operations and business.

Measures for Broadening of Tax Base

1. Single Digit Sales Tax

Issue:

Sales tax duties are quite high at 17 per cent, along with additional sales tax of 3 per cent. The resulting high price of raw materials has pushed local suppliers and manufacturers to under-voice imports, often with official connivance.

Unjustified and ill-directed exemptions given to agricultural sector and inefficient mechanism of tax collection from real estate sector has exacerbated dependence on indirect taxes and surcharges. This is a pivotal point of our taxation policy.

Proposal:

A. According to the FBR's data, we are collecting approximately 90 per cent of the revenue from 10 major products. We, therefore suggest, in order to bring down the sales tax on industrial inputs the rate be gradually reduced by 1 per cent per annum to an eventual 9 per cent.

B. For the remaining regime, which contributes around 10 per cent to the revenue collection, culture of input adjustment and carry forward of input tax must be abolished. Moreover, GST should be collected at a non-adjustable 5 per cent rate.

Rationale:

Prevailing 17 per cent sales tax is too high, and being a consumption tax, it directly affects standard of living leading to tax evasion, corruption, and smuggling. The reduced GST will enhance economic activities and relieve the lower middle class.

2. NADRA's Data Utilization

Issue:

Due to inefficient or non-existent FBR system of identifying non-filers, people are often subject to undue notices which is tantamount to harassment. NADRA has an accurate database on indicators that can be used to correctly identify filers, which is not being utilized.

Proposal:

The database should be efficiently used with IT enabler tools to extract information of taxpayers available with electrical and gas distribution companies. FBR already has a list of 2.6 million persons who:

- Own property of 500 sq. yards and above,
- Own a motor vehicle of 1000 cc and above,
- Have taken two or more foreign trips,
- Maintain a bank account

The aforementioned criterion should be taken in account while hunting for non-filers. Moreover, people who do not have NTN numbers should also be brought under the tax net.

Rationale:

Rigorous use of NADRA's superior database is key to identifying non taxpayers.

3. Agriculture Tax Enforcement

Issue:
Revenue collection by the provinces on agriculture income is negligible. The share of agriculture sector in our GDP is 19 per cent but its share in taxes is only 1 per cent. It shows weak administration at provincial level in this sector.

Proposal:
Devise an ingenious strategy to carry out smooth coordination with the provinces to ensure gradual increase of its share in taxes.

Rationale:
According to our estimates, a well-coordinated effort carries the potential to stimulate Rs.400 billion to the provinces which can be utilized for health, education and social services in the respective provinces and thereby take load off from industrial sector that is paying 59 per cent of taxes.

4. Retail Tax Collection

Issue:
There are an estimated 2,100,000 retail shops in the country but the aggregate collection of tax from the retail sector is quite insignificant. This is primarily due to lower rate of literacy and complex taxation procedures and a growing mistrust on tax machinery.

Proposal:
Different slabs for simplified tax collection should be introduced to collect tax according to their size. The collection of tax from retailers should be based on progressive approach. We suggest a minimum tax of Rs. 10,000 from retail this segment.

Moreover, existing rate of sales tax of 7.5 per cent on the electricity bills of the small size unregistered retailers may also be increased gradually.

Rationale:
There is a need to tax every sector of the economy as per its true potential. It will not only increase the tax revenue but also improve documentation of the economy.

5. Incentive for Filing Returns

Issue:
It has been witnessed multiple times that the public gets deluded by government's schemes. They need encouragement to file returns which will simplify the documentation for FBR.

Proposal:
In order to motivate consumers to be active taxpayers, the FBR should introduce incentive schemes such as reinstating Consumer Lucky Draw Scheme after a thorough review of its Terms of Conditions.

Rationale:
Such activities will help augment the tax payers' base.

6. Incentive for National Tax Number (NTN) Registration

Issue:
Acquiring an NTN number carries less or no incentive to enter the filers' bandwagon.

Proposal:
Small amount of tax credit should be allowed to the new tax payers for first three years as an incentive for filing tax returns. The list may include all such persons and companies who have NTN numbers but did not file returns, as well as all new taxpayers obtaining NTN.

CNIC, Company's Incorporation Number, or Firm's Registration Number can be adopted as "Common Tax Identifier" in place of NTN.

All persons who have filed returns should be issued a "Common Tax Identifier" card and given preference at all times in cases, such as immigration, issuance of passports, driver's license, etc.
NTN should be made mandatory for all types of commercial activities in the country.

Rationale:
This is imperative to broaden the tax base.

7. Privatization of State-owned Commercial Enterprises

Issue:
The government is currently under massive public debt and fiscal deficit which are hampering the actualization of many important investment decisions.

Proposal:
To finance the fiscal deficit, we suggest the use of proceeds from privatization of the public sector commercial entities, especially loss-making government entities such as, PIA, Steel Mills, etc., by disposing shares of the government to all sick SOEs.

Rationale:
We support the privatization policy and believe that proceeds from privatization will help pay off debt.

8. Real Estate Valuation and the Black Economy

Issue:
Valuation tables of properties are not based on market prices which has spurred growth of the black economy.

Proposal:
A formula for determination of market value of the real estate must be evolved and for this purpose, market surveys can be a good option. In the meantime, the declared value of real estate should be doubled.

Other suggestions include:

- The transfer cost should be reduced from 10 per cent to 2 per cent so that the revenue collected by the government does not have any discrepancy and an incentive is also created for people to shift to the formal economy.

- Incentive to owners should be given by approximating collector's value to market value.

- Current rate of stamp duties should be proportionately reduced to market value vis-à-vis collector value.

Rationale:

A standard market value of real estate will remove all anomalies and cohesively reduce the base of the black economy.

Revamping the system in its entirety seems to be a rational way forward if direct tax collection is to be increased from the real estate sector.

9. New Research and Development Wing at FBR

Issue:

There is considerable back-log of unorganized data in FBR with numerous closed files and cases. These were never reopened because of negligence and lack of interest on part of the administration. This is one of the prime reasons behind hasty decisions and ineffective policy making.

Proposal:

A research and development wing should be created in FBR in collaboration with all relevant stakeholders and trade bodies to review the following:

FTAs / PTAs and double taxation treaties
Sectors with unreasonable tax liabilities to the exchequers, for example wholesalers, retailers, and transporters etc.

The Research and Development Wing will work independently and employ talented youth to study past records and best practices of other countries. They will assist the administration in identifying problems pertaining to FBR's operations and play a crucial role in recommending research-backed ideas for the revitalization of the tax mechanism.

Rationale:

The administrators neither have the time and capacity, nor the level of expertise to analyze the large data base for discrepancies and missing taxpayers.

Simplification of Tax Procedures

1. Harmonized Taxation Law - One Tax Authority

Issue:
The tax filing procedures are complicated and the FBR incurs huge administrative costs in the process. Multiple procedures also make tax evasion easy.

Proposal:
There should be one tax collection authority for the collecting of both federal and provincial taxes. Total number of taxes should be reduced to five and steps should be taken to separate tax collection from service provision.

Rationale:
This measure will reduce the frequency of tax payments, and reduce the cost of the procedure for the FBR and tax payers.

2. Uniform Duty Structure across Sectors

Issue:
The discrimination in taxes and duties between industrial and commercial sectors causes corruption, creates distortion in promotion of tax culture, and is prone to misuse. This motivates the unscrupulous commercial importers to import the raw material under the guise of manufacturers, thus, rendering the genuine commercial importers uncompetitive, making the national exchequer suffer heavy losses.

Proposal:
Same rate of duties for Trade and Industry.

Rationale:
There should be no discrimination in taxes and duties between industrial and commercial importers of raw material as it is ultimately consumed by the industry- either small, medium or large scale.

It is, therefore, recommended that the rate of duties for trade and industry (commercial importer and industrial importer) must be the same for providing a level playing field to the small and medium enterprises. Custom duties on intermediary products should be reduced so that our industry can import quality materials, components, and machinery from the rest of the world.

3. Separation of Tax Judicial System from Tax Collection Machinery

Issue:
Presently tax appellate authorities operate from the executive wing of FBR, which can create an opportunity for misuse of power and wrongly accuse tax payer of defaulting. This is not in line with the constitutional requirements and adjudicating officers should not be placed in subordination of FBR.

Proposal:
Appellate Forums should work under the respective High Courts. Moreover, in case of any false claims made in the court by tax appellate, unless otherwise proven wrong, there should be harsh penalties to discourage them from exercising discretionary powers to harass people in the future or make uncalculated decisions against taxpayers.

Rationale:
The power vested on the FBR must not overlap with that of judiciary. The two institutions must operate separately to maintain impartiality and transparency.

4. Risk-based Audits

Issue:
Sometimes audits are done repeatedly on the same persons or organizations which unnecessarily increase organization's costs.

Proposal:
Audits should be risk-based with one-month prior notice rather than arbitrary.
There should be exemption from audit for taxpayers who deposit 20 per cent or more in previous tax year. The tax exemption certificates to commercial importers and manufacturers should be issued automatically if their withholding tax is equal to that of last year.

Rationale:
To make the audit process less discretionary for officers and increase efficiency in collection and effectiveness of the audit process.

Rationale:
This will simplify the procedure for both the tax payers and the FBR, reduce cost of doing business, and encourage registration.

5. Further Tax of 2 per cent on Sales to Unregistered Persons

Issue:
Further tax of 1 per cent was introduced in the Finance Bill, 2013 on sales to unregistered persons which has been increased to 3 per cent in subsequent years. The law provides exclusion in certain conditions. However, for commercial importers, who pay in full and final amount in advance, the value addition sales tax is not excluded from the purview of further sales tax.

Proposal:
This inconsistency of the law can be removed by giving exclusion on similar grounds in other situations. Commercial importers should be excluded from application of further sales tax.

Rationale:
Since commercial exporters are already paying 17 per cent normal sales tax and 3 per cent value added tax at import stage, therefore 3 per cent further tax on unregistered supplies is an extra burden on them. The supplies of commercial importers to unregistered persons should be excluded from payment of further tax.

6. Input Tax Claims on 'Services' of Provincial Revenue Authorities

Issue:
FBR sales tax refund processing system disallows the input tax claimed on receipt of services on the premise that the PRA is not linked with the FBR system.

Proposal:
Immediate measures should be taken on priority basis to link revenue collection authorities of all provinces with the FBR system so that the input claims on services are electronically verified and allowed. FBR has already linked its database with Provincial Revenue Authority. It is suggested that other provinces should follow.

Rationale:
This will increase the efficiency of the process and make documentation less costly for filers, as well as for the FBR.

7. Simplification of Sales Tax Laws

Issue:
The policy makers are frequently making changes through SROs, Super Tax, General Orders and circulars which negatively impacts business conduct and the resulting uncertainty derails compliance.

Proposal:
It is proposed that all ad-hoc measures taken without the consultation of the concerned trade and industry be withdrawn or revisited. Efforts be made to simplify the sales tax law and procedures with the consultation of stakeholders.

Rationale:
Consulting relevant stakeholders will remove any misapprehension of new tax policies and make it easier for policymakers to communicate with the business community about the reasons behind implementation.

8. Redundant Sales Tax Special Procedure (Withholding) Rules, 2007

Issue:
Sales Tax Special Procedure (Withholding) Rules 2007 has become redundant after implementation of STRIVe. It is still applicable in those cases where the payer is not required to be a registered person but should be working as a Withholding Agent on behalf of FBR.

In such cases, where payment is made to a registered person but the buyer of goods is a withholding agent (e.g. Govt. entity, Insurance Company, Modaraba), withholding sales tax on their payments is applied which holds no merit.

Proposal:
STWH Rules may be rescinded or amended to make these applicable to payment to unregistered persons only.

Clause (xii) of Rule 5 of Sales Tax Withholding Rules, 2007 should be substituted as under:

> "Supplies made by any active taxpayer as defined in Sales Tax Act, 1990 to another registered person and any unregistered withholding agent including government departments and government agencies with the exception of advertisement services."

9. Exemption Certificate for Withholding Tax

Issue:
Entities whose transactions are exempt under 2nd Schedule are required to obtain Tax Withholding Exemption Certificates from Commissioner Inland revenue as directed by the higher courts. Acquiring an Exemption Certificate is a very time consuming and cumbersome process.

Proposal:
The entities enjoying exemption under specific clauses of 2nd Schedule including tax credits etc. should be clearly waived from any further specific exemption certificates for Withholding or Annual Tax as required U/s 159 of Income Tax Ordinance.

Rationale:
There is no need for statutory exempt on entities to obtain Exemption Certificate from the commissioner because the parliament has granted this status to them. Hence, no further certification is required from any other authority which is subordinate. This will reduce unnecessary operational and administrative burdens on taxpayers as well as tax machinery.

10. Withholding Tax on Locally Manufactured Vehicles

Issue:
Withholding Tax u/s 231B (3) on locally manufactured vehicles is being applied at the time of invoicing of locally manufactured vehicles.

The automobile manufacturers are unnecessarily burdened with collection of tax u/s 231(B) (3) with extensive administrative and reporting liabilities.

Proposal:
All motor registration authorities are already collecting Withholding Income Tax u/s 231B (1) and u/s 234 from vehicle owners, therefore, the same may be collected by them for locally manufactured vehicles as well.

Clause (3) of Section 231B should be omitted from Income Tax Ordinance, 2001

Rationale:
Collection of withholding income tax u/s 231B and data, upon registration stage by Excise and Taxation department of respective provinces will be streamlined and deposited at one level.

11. Minimum Tax Section 113 - Taxing the Already Taxed

Issue:
Minimum tax of 1.25 per cent is levied on turnover, and in case of selected manufacturers and distributors either it is not payable at all or at reduced rate up to 80 per cent. Through this regime, extra corporate tax is being charged that is effectively negating Section 57 which allows for losses in tax year to be offset against future profits.

Proposal:
To maintain a level playing field, it is proposed that the rate of the Minimum Tax be reduced from 1.25 per cent to 0.25 per cent on the total turnover and this should be applicable across the board without exemption or reduction.

Rationale:
It will simplify the procedure and not tax the already taxed businessmen.

12. Non-Congenial Environmental Authorities

Issue:
Textile mills are in the process of obtaining NOCs on the Environmental Management Plan from relevant EP Agencies. However, the sector is facing severe delays as it has to deal with non-congenial EPA staff.

Proposal:
The government should provide training and support programs concerned with compliance and environmental aspects.

Companies who delve beyond the EPA compliance should be rewarded and offered highest acknowledgement.

Free consultation and fee waiver should be granted for companies seeking to acquire international certification on environmental standards i.e. ISO-14001 or financial assistance be provided to build the required infrastructure under EPA regulations.

Rationale:
This will simplify environmental compliance procedures and help agencies better understand the challenges faced by industries to become environmentally compliant.

13. Non-Processing of Deferred Refund Claims

Issue:
All deferred refund claims which are not cleared through ERS are being manually processed by sales tax field officers. This is causing unnecessary delay in processing and issuance.

Proposal:
All such deferred refund claims of export-led industries should be sanctioned for 12 months without any pre-audit. However, the cheques should only be issued subject to post refund scrutiny.

Rationale:
Ideally, refund mechanism should be based on penalizing those who are non-compliant and involved in tax frauds. However, the export industry is tax compliant and should be rewarded and facilitated.

14. Issuance of Refund Bonds against Assessed Refund by FBR

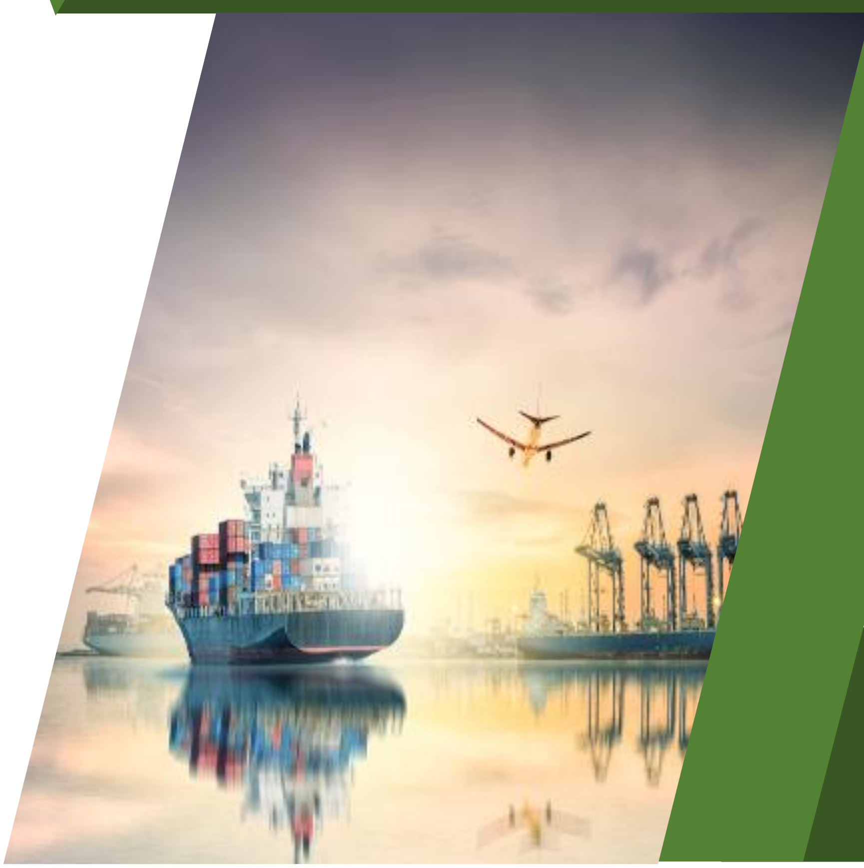
Issue:
Delay in issuing of refunds which causes cash flow problems for the companies and slows down their operations.

Proposals:
The government has already introduced the concept of issuing Refund Bonds, hopefully, the complete mechanism may be announced in the Federal Budget of 2020. We recommend that these refund bonds be issued to all companies where Sales Tax Refunds have been assessed. Furthermore, these bonds may be brought for trading in the primary market, with the result, the government's cash flow will not be disturbed even for giving 10 per cent interest.

Furthermore, the source of funds for buying these bonds should not be questioned as it is helping government, on one hand, to discharge their liability and, on the other hand, supporting the domestic industry to monetize their held-up refunds.

Rationale:
It will help companies to mobilize working capital for smooth operations and expansions.

Reducing Cost of Doing Business



1. Delays in Tax Refunds of Value-Added Export Sector

Issue:

Delays and back log in the DTRE and sales tax refunds is causing severe liquidity crunch for the value-added export industries.

According to Rule 307 of Custom Rules 2001, the DTRE facility for export is only available against advance receipts or irrevocable LC by importer. However, in case of exports to other countries, there is no such need. Moreover, due to weak foreclosure laws in Afghanistan it is impossible to push customers in Afghanistan to import against LCs or to provide hefty advances for longer timeframes. The stringent and unique conditions imposed on the exports to Afghanistan, result in a loss of huge potential to boost exports.

Proposal:

Repayment of tax refund claims should be digitized using the Expeditious Refund System (ERS) and issued within a refund time range of maximum 30 days.

Bring uniformity in provision of DTRE facility for exports to Afghanistan.

Rationale:

By prioritizing refund claims of value-added export sector, the growth in exports can be increased by two-fold which will help close the trade deficit and revive the depressed business community and, hence, the economy.

Uniformity in DTRE for all countries (including Afghanistan) will thereby provide incentives to exporters to explore potential in neighboring countries where we have competitive advantage.

2. Exempt Goods Are Not Zero Rated

Issue:

Some sectors (e.g. meat and rice processing) are exempt from Sales Tax and they do not charge sales tax on their output and, hence, are not allowed to adjust their input sales tax.

Proposal:

Such sectors with exempted output should be "zero rated" to enable them to claim input sales tax. Rice and meat processing should be removed from Sixth Schedule and incorporated in 5th Schedule so that they can claim refund of sales tax paid on their inputs.

Rationale:

This will decrease the cost of doing business and increase competitiveness.

3. Input Sales Tax on Building/Office Equipment/Furniture/Vehicles & Services

Issue:

According to Section 8 of The Sales Tax Act, 1990 input Tax on building material/office equipment /furniture/vehicles and services is disallowed which is increasing the cost of finished products.

Proposal:
FBR should allow manufacturing companies to claim input sales tax on building material/office equipment/furniture/vehicles, and services to reduce cost and make export industry more competitive in international markets. For this purpose, Section 8 of the Sales Tax Act, 1990 should be omitted in the next financial bill.

Rationale:
Since all these inputs are used by manufacturers for business purposes, disallowance is resulting in increased cost of doing business. Although building material inputs are allowed to be claimed to the extent of manufacturing activities, however, FBR generally disallows them which is very harsh.

4. Withholding Tax on Supplies Made by Distributors of FMCG under Section 153 (1) (a)

Issue:
Rate of 2 per cent to 2.5 per cent is extremely high tax rates for the FMCG industry, which is discriminatory in nature.

Especially, when the government has allowed such exemption on various sectors of FMCG industry through various SROs.

Proposal:
It is recommended that the withholding tax rate be reduced from currently 2 or 2.5 per cent to 1.0 per cent for FMCG distributors in line with the withholding taxes applicable on the distributors of cigarette and pharmaceutical products.

Rationale:
Distribution of fast-moving consumer goods is a high turnover and low margin business. Accordingly, tax is being withheld at 2.5 per cent from distributors on account of supply of goods, which is higher than the net margins of distributors. Higher withholding tax than ultimate liability of distributors is resulting in tax refunds and cash flow issues detrimental to the business environment.

5. Tax Holiday for Expansions and New Projects

Issue:
The cost of doing business is high and it is extremely difficult for new businesses to grow and expand their operations to a point where they can make a significant contribution to the GDP.

Proposal:
Benefit of tax holiday should not just be for new projects but also for expansions.

Rationale:
The provincial governments should re-zone areas in and around urban centers, both for industrial and commercial use to help entrepreneurs invest in green field and other projects. There should be a holiday for all taxes and levies for three years for the newly registered companies, especially for SMEs.

6. Tax Credit on Investment in Plant and Machinery (SECTION 65 B (4))

Issue:
Section 65B provides that tax credit equal to 10 per cent of the amount invested for purchase of Plant and Machinery by the industrial undertaking between the 01-07-2010 and 30-06-2019 for the purpose of BMR of the plant and machinery already installed should be allowed.

Proposal:
It is proposed that where no tax is payable by the taxpayer with respect to the tax year in which such plant or machinery is installed or the tax payable is less than the amount of tax credit, the tax credit under this section may be allowed to be carried forward to 10 years.

Rationale:
It is generally observed that major installation takes substantial time and the investor should be able to carry forward the cost.

7. Advance Tax Liability - 72B of Part IV of 2nd Schedule

Issue:
Criteria for allowing exemption u/s 148 prescribed in clause 72B of Part IV of 2nd Schedule – higher tax liability of last 2 years should be discharged for getting exemption certificate is different from criteria for exemption u/s 153 i.e. tax to turnover ratio of last year.

Objective for discharging advance tax liability for getting exemption certificate should be based on current year's tax liability. However, according to the criteria established for exemption u/s 148 discharging advance tax is based on higher of last 2 years' tax liability.

Proposal:
To maintain uniformity, exemption under 148 should have same criteria as of section 153 i.e. tax to turnover ratio of last year as it is more realistic.

Rationale:
At the time of applying exemption the tax payer will pay according to the latest operating results of the company.

8. Regulatory Duty on Import of Foreign Manufactured HS Codes

Issue:
Regulatory duty on imports of HS codes which are not locally manufactured under Custom Act, 1969, has increased manufacturing cost due to which Pakistani exporters are unable to compete in international market. Furthermore, regulatory duty is not available for duty drawbacks.

Proposal:
Forthwith withdrawal of regulatory duty on import of raw material not manufactured in Pakistan.

Rationale:
It will promote the local industry and boost the exports of the country.

9. Section-65B on Tax credit for Investment

Issue:
Section-65B states:

> "Where a taxpayer being a company invests any amount in the purchase of plant and machinery, for the purposes of balancing, modernization and replacement of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it, credit equal to 10 per cent of the amount so invested shall be allowed against the tax payable by it in the manner hereinafter provided."

Proposal:
The threshold in terms of monetary value for the tax credit on investment under section 65 B should be enhanced from 10 per cent to 50 per cent.

Rationale:
This will boost capital available for investments and reduce the cost of doing business.

10. Turnover Taxation

Issue:
Turnover Tax at the rate of 1.25 per cent is on the higher side.

Proposal:
Government is requested to reduce the turn over tax to 1 per cent from 1.25 per cent to align taxation on normal income and export income (final taxation on exports proceeds) which will reduce cost of doing business and make industry competitive in international markets.

Rationale:
Turnover tax is on the higher side for the export-oriented textile sector as it increases the cost of doing business and reduces competitiveness given that this sector has no tariff protection unlike other industries operating in Pakistan.

11. Extra Tax Regime

Issue:
SRO 61(I)/2018 states:

> "Provided that extra tax under this rule shall not apply on supplies of lubricating oils made to registered oil market companies (OMCs) and to lubricating oil marketing companies registered with OGRA and those by OMCs and by lubricating oil marketing companies registered with OGRA to registered manufactures for in-house consumption."

Proposal:
Provided that extra tax under this rule **shall** apply on supplies of lubricating oils made to registered OMCs.

Rationale:
This will reduce the cost of doing business as well as reduce the number of tax heads.

Economic Development

1. Revival of Economic Growth

Issue:

After reaching an all-time high of 5.8 per cent in FY18, our GDP growth has declined significantly to estimated 3.5 per cent for FY19. The World Bank and other financial institutions have predicted an even further sliding to around 2.7 per cent in the next two years. The revival of GDP in this scenario, is one of the key challenges faced by the government that is struggling to collect revenues, create employment, and meet her economic targets. The markup rates have increased massively from 6.5 to 10.75 during the last one year which is one of the main reasons for this economic contraction.

Proposal:

We understand, the government can introduce subsidized markup rates for industrial sector where all kind of industrial landings can be offered at a discounted markup rate of up to 7 per cent. The government can continue with the higher markup rates for all the other landings to control inflation as per their monetary policy.

Rationale:

This will boost industrial activity, generate employment, improve revenue collection and alleviate poverty.

2. Tax Incentives to Advance Brownfield Projects

Issue:

Low or non-existing tax incentives for old and scrap projects is discouraging local investors which has slowed down GDP and employment generation.

Proposal:

After careful evaluation of developmental potential and socio-economic impact, a similar sales tax exemption on import of plant and machinery should also be extended to Brownfield projects. However, no exemption should be given on imports, if the equipment, machine, or part is locally manufactured.

Rationale:

Tax incentives will help direct flow of investment capital, offset any cleanup costs, and modernize and promote economic development by accelerating production efficiency of existing projects.

3. Incentives to Convert to Publicly Limited Company

Issue:

Major business houses are reluctant to enlist themselves as a 'public limited company' on the stock exchange market and fewer major listings are seen lately.

Proposal:

A special tax rebate may be announced on all new listings which attracts at least 7.5 per cent of the slab applicable and a one-time absolute amount of 50 per cent if the tax paid in the last assessment order is a deduction from current tax liability of the new company.

Rationale:
The increase in the number of listings will enable the stock market to expand which will encourage investments and savings in the economy.

4. Time Constrained Allotment of Land for Industrial Zones

Issue:
Allocation of industrial land often fails to materialize because investors often use them as a locked investment and not for intended projects.

Proposal:
Industrial zones to be made around small towns and tax holiday of up to five years to be granted to new companies and those existing companies that have relocated. However, the cost of land (non-transferable) should be fully borne by companies in the industrial zones in installment of over 5 years.

Furthermore, if the land allotted remains barren, or unused for purposes of building industrial zones and hence employment generation, for more than five years, then the government must seize it from current owner and transfer to a new owner who shall sign up to start a project within 03 years.

These new industrial zones can be built and developed by local and foreign players to recoup cost in their profit, i.e., on a lease of 25 years.

Rationale:
This will upscale industrialization and aforementioned propositions shall ensure timely realization of investments.

5. Branding through Purchase of Royalties for Value Added Exports

Issue:
Most of our exports are raw, unbranded and often of low value. They usually enter Pakistani market in branded form and make big money. This calls for rigorous idea generation and brand development which is evidently happening at a very slow pace and is one of the reasons behind low export growth.

Proposal:
The government should provide cash reimbursement and other incentives to encourage local buyers willing to purchase royalties from brands to set up franchises.

Rationale:
As much as development of local brands is important, positioning it in the international market is a long-term process which takes a minimum of 10 years. Hence, the short-term solution lies in creating lucrative opportunities for the investors to purchase royalties, so they can sell branded items primarily for export that will not only boost investment but also create employment opportunities.

6. Develop Vendor Industry Culture

Issue:
Many large corporations have consolidated and vertically integrated value-chains which does not allow small and medium enterprises culture to thrive and this, in turn, discourages jobs creation.

Proposal:
The government must create a policy to discourage vertical integration of large corporations to create space for small vendors to evolve.

Rationale:
A thriving vendor culture is imperative to encourage healthy competition and Small and Medium Industries will get a chance to grow. This will in turn induce demand for technical skills that will create employment, upgrade workers' skills, and make exports competitive.

Resolving the Circular Debt Crisis

Circular Debt Crisis – Current Scenario

The energy crisis, which largely defines the circular debt, accounts for an estimated Rs. 1362 billion out of the reported Rs. 1.4 trillion. As is known, circular debt is a direct result of high losses accrued to the electricity losses. The largest stake is that of theft, besides unmonitored disbursement of tariff differential subsidies to the tube wells installed in the agricultural sector and an inefficient distribution system. With loss of every one Rupee worth of unit, the quantity of electricity becomes a loss multiplier. All of this has led to a vicious circle of non-payments to the government from end-consumers, distributors and all the way up to the suppliers. In the present state where both global oil price hike and currency devaluation have brutishly marred the export competitiveness, the consistently high dependence on RLNG does not make sense. The imported fuel comprising of natural gas and oil is, by and large, heavily represented by the RLNG constituent at 43.5 per cent.

We understand that the government is currently working to resolve the issue of gas and petroleum products.
We recommend a proposal related to the segment of electricity which remains unattended.
We would like to define the wholesale electricity market, its background related to our country and our proposal.

Current scenario of circular debt consists primarily of gas, petroleum products and electricity.
We understand that the government is currently working to resolve the issue of gas and petroleum products.
We recommend a proposal related to the segment of electricity which remains unattended.
We would like to define the wholesale electricity market, its background related to our country and our proposal.

Background

We are generating over 32,000 MW, out of which 33 per cent is produced by IPPs (Source: Circular Debt Issues and Solutions by Senator Shibli Faraz, August 2018). However, we do not have the capacity to distribute even 20,000 MW. The government has to pay the institutions for the extra electricity that, in theory can purportedly be generated, even though it has not been distributed. The cost of increasing the distribution capacity by 5 per cent is in billions of dollars. We fail to understand why the government is focused on increasing generation capacity without any efforts to increase distribution capacity.

What is a Wholesale Electricity Market?

For the benefit of our decision makers, we are describing the wholesale electricity market:

In a Wholesale Electricity Market, electricity is treated as a commodity and sold and purchased through bids. These bids use supply and demand principles and the selling or buying is done in the form of short-term and long-term contracts called futures. For most major generators, these electricity futures and options are actively traded in markets for transmission congestion. The idea evolved in 1980, when the Government of Chile decided to privatize electric power system. Later, in 1990, Margaret Thatcher of UK carried forward the same model and privatized the electricity supply industry which was then replicated by the Commonwealth countries. However, it was the restructuring of payments done by Argentinean Government using the wholesale electricity market model that stands out as a noted example to follow *(Argentina's wholesale electricity market model is described in detail in the Annexure).*

For most major operators, there are markets for transmission congestion and electricity derivatives such as electricity futures and options, which are actively traded. These markets developed as a result of the restructuring of electric power systems around the world.

Create a Wholesale Market for Electricity

Issue:

The efficiency is calculated on the basis of the hottest day of the year. Around 10 per cent are underreporting their efficiency by 5 per cent. If it is 5 per cent on the hottest day of the year, then on cooler days of the remaining year, the underreporting is even more. This is being done by efficient plants, not the smaller players. Another 20 per cent are overstating their capacity because they have older units and their production capacity has declined.

Proposal:

Commoditize the electricity market in the form of futures. Any electricity generated in excess can be sold in the form of futures which can be bought and traded by people and they can be used to finance investments by the government.

- These energy futures can be traded in Pakistan Stock Exchange.
- The investors will be required to hold these bonds for at least one year.
- The bonds will be issued at 10 per cent markup; this amount to be treated as dividends and the income will be subject to tax applicable on dividends.
- These bonds can be pledged with the financial institutions.

Furthermore, the source of funds for buying these energy futures should not be questioned as it is helping government, on one hand, to discharge their liability and, on the other hand, supporting the domestic industry to monetize their held up refunds.

Rationale:

The proposal is based on the principal that the current agreements will not be disturbed and the government will continue to honor all their commitments. However, the operations system is recommended to fall in line which serves the interest of the country.

By providing a market and avenue to sell the electricity generated, the overstatement of efficiency will decline because the institution can only sell what they report.

The underreporting institutions who are using their own electricity in their group companies, and getting paid for it by the government will only get paid for the numbers they report and they will not get an incentive to underreport their efficiency because they will not get paid for it anymore.

The government does not have enough financing sources for augmenting the distribution system. The futures will be a source for the government to earn and invest in the system. For anybody willing to sell futures, will have to get a forensic audit done which is verified by international players and this will systematically make audits mandatory.

The benefit will be that more than Rs. 500 billion will be injected in the economy and a major portion of this amount will eventually be transferred from informal sector into the formal sector and the whole amount will be in the tax net and the economy will be documented to this extent for all times in future.

The rent-seeking class will have an opportunity to invest in this environment where the property market, stock market, and other avenues are doing very well.

Annexure

Argentina's Wholesale Electricity Power Model

The deregulating and privatization of the vertically integrated structure of the Argentina's electric power sector initiated in the early 1990s that led to the creation of the wholesale electricity futures market. The focus was on revamping the generation, transmission, and distribution services. This was, by and large, done due to the mighty influence of political motives behind management as well as the 1980 hyperinflation episode. Not only this, during that time, electricity theft and blackouts were also rife. The first piece of legislation was seen in the form of 'Law of State Reform' which legitimately curtailed government's direct involvement in the operations of the power industry. Then, in 1992, the Electricity Regulation Act, which we believe was the keystone for the ambitious reform and privatization plan of the DISCOs and GENCOs, a legal framework was laid to upscale efforts to reorganize and privatize various public enterprises and of virtually all commercial activities run by the state. This led to the emergence of independent sector regulator, Natcional Regulador de la Electricad (ENRE), and other institutional authorities that inevitably formed part of the Wholesale Electricity Market, known as Mercado Electrico Mayorista (MEM) and its independent operator, Compania Administradora del Mercado Mayorista Electrico S.A. (CAMMESA). In the 3 years that followed, more than 25 state-run power companies were privatized and conventional generation (thermal and hydroelectric) were sold separately, making each privatized company an independent power producer.

The 1992 Act, introduced competition in the electricity generation sector and served as the genesis for today's efficient power structure that exists in, Argentina, today. Under this act, electricity producing companies are not allowed to own majority shares in the transmission companies. The transmission companies must provide open access to their systems for all power generators and are, hence, barred from generating or dissipating power. In fact, the distribution companies, which form part of the MEM are organized as regional monopolies and purchase electricity from the MEM in the form of contracts. The power market in Argentina, has low barriers for independent power producers, supplier groups, and even customers who are free to contract electricity directly from generators and hold liberty to participate in the MEM.

How the Power Market Structure Works?

The distribution and transmission networks operate under 95-year concessions and contracts which are renewed every 15 years. In the Greater Buenos Aires area, electricity distribution is regulated under 99-year contracts and strong incentives are given to the distributors to reduce high energy losses emerging from inefficiency and theft. Any third-party participation in the network is negotiated, rather than regulated. For regulated customers that include all residential, and small commercial and industrial users, the electricity tariff is adjustable at end of every quarter. Outside the capital, other provinces have Independent System Operators (ISO) which follows the principles set out in the 1992 Act.

The electricity generated by all the sources, including the IPPs are purchased and sold in the MEM where all participants, regardless of stature, must adhere to the rules of the market laid down by the ENRE. The MEM, consists of:

- Term market, with a clearly defined structure of price, quantities and conditions which are negotiated between buyers and sellers.
- Spot market with hourly prices that take into account economic production costs.
- Balancing market. However, it must be noted that individual power generating companies are prohibited from participation.

The hourly spot prices are estimated by the CAMMESA that uses costs declared by the MEM. This 'centralized load dispatch' starts at the Ezeiza node, where CAMMESA calculates short-run marginal price as based on the variable prices of plants and hourly demand of the system. Using Locational Marginal Pricing (LMP), as done in U.S.A., each plant of the interconnected system is assigned a specific node with a specific factor set to it which determines the final prices after taking into account the various restrictions and technical losses in the transmission system.

Impact on the Power Sector of Argentina?

Despite the increased market shares over the year, the concentration ratio remained lower than most European and North American markets. In the highly competitive MEM, the average capacity of an IPP is 1000 MW with the largest ones having not more than 1400 MW. Statistically, the share in total capacity per unit constitutes only 6 per cent of the total installed capacity allowed.

44 per cent of the representation of the MEM is in the hands of EDENOR, EDUSUR and EDELAP. Whereas, the rest, 54 per cent (or majority) is divested into the hands of the provincial governments.

The installation of increased efficient capacity and constant planning through Public-Private-Partnership (PPP) on improving operating efficiencies batted down prices of the wholesale market, MEM. The average price per MWh ranged from $10 to $45.

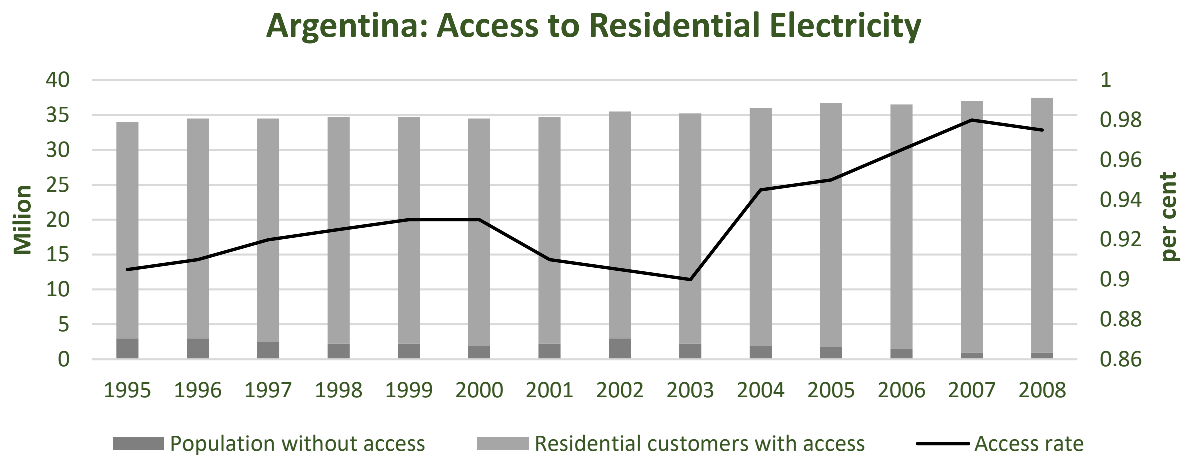
The access to electricity supply, based on the 1992 Act, spans over 95 per cent of the total population with 70 per cent electrification in isolated areas. All those households and consumers who were consuming free (albeit illegal) electricity, were forced to pay the tariffs.

The privatization dramatically improved customer service quality and in 2004, the number of load-shedding events per customer dropped to 20 per cent. The system losses, up to 2004, dropped from 25 per cent in 1993 to 11 per cent in 1997.

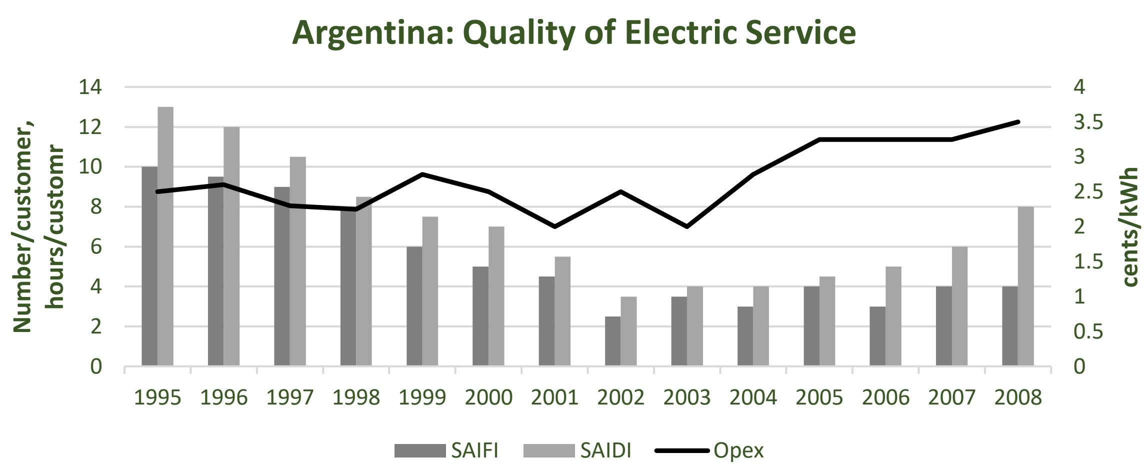
Before the unfortunate 2002 Economic Crisis and the resulting devaluation of the Argentinean Peso against US Dollar, when the government froze price, the electricity tariffs remained as low as 2.5 cent per kWh for a residential consumer and for industries, 1.3 cents per kWh. This price drop was possible because, in comparison to Pakistan (hydel: 28 per cent, other source: 9 per cent), Argentina's generation mix comprises a significantly higher 33 per cent of hydel which lowered spot prices in market and improved efficiency.

As a result of the success of the 1992 Act and the MEM, along with increased share of the renewable energy into the energy mix, carbon emission remained relatively stable, averaging around 0.3 and 0.4 tons/MWh.

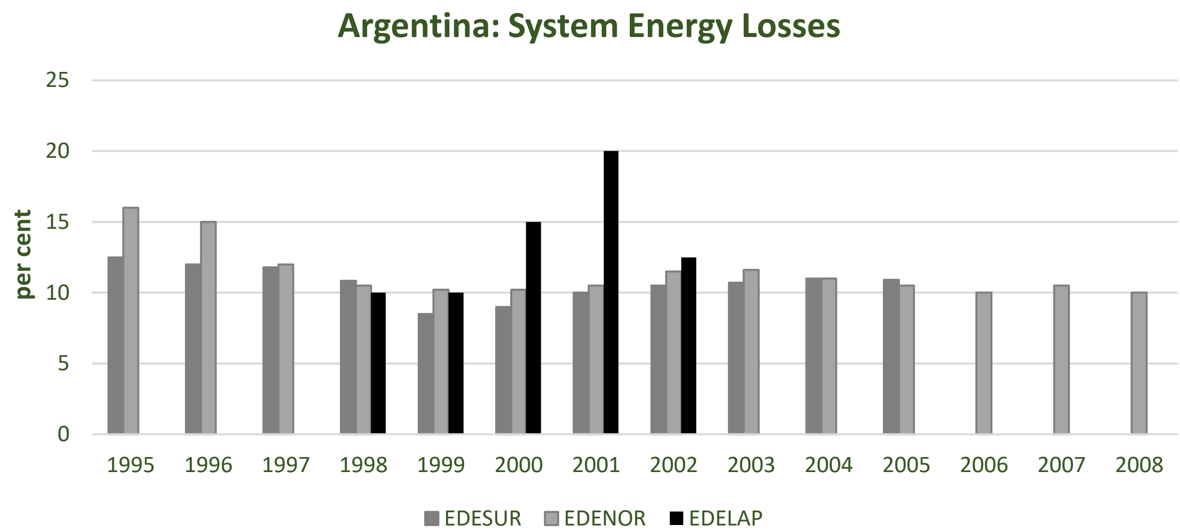
Source: *Power Market Structure, World Bank Report, 2013*



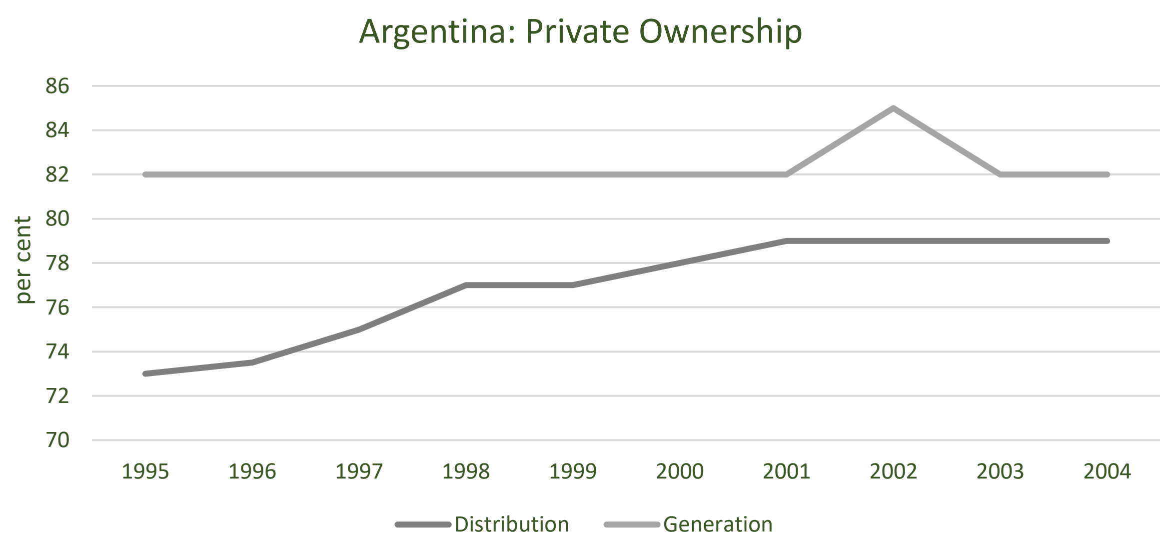
Source: *Power Market Structure, World Bank Report, 2013*



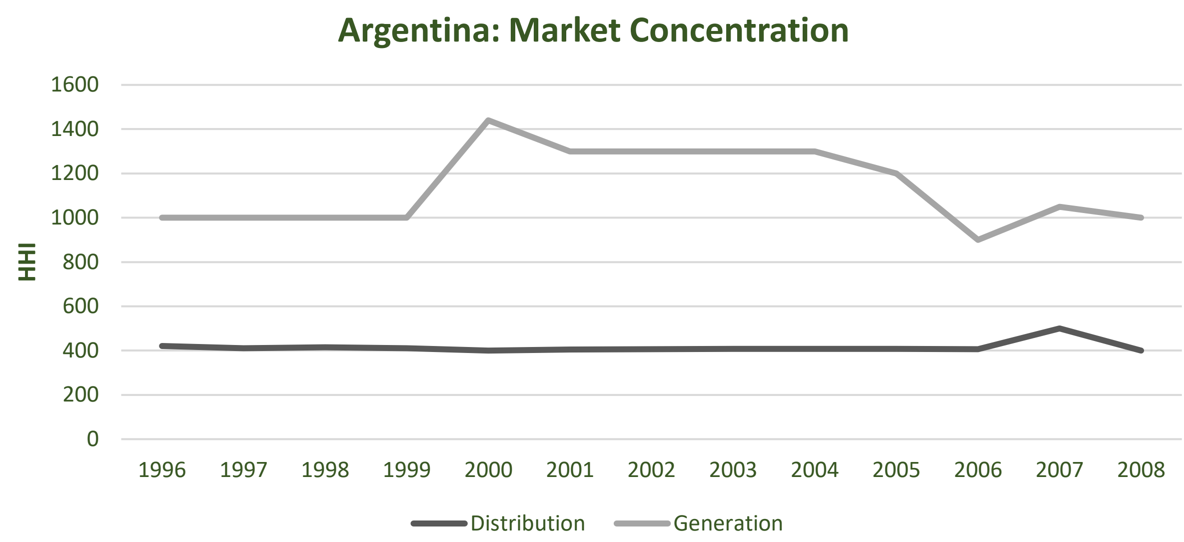
Source: *Power Market Structure, World Bank Report, 2013*
Note: *Opex = operational expenditures/costs; kWh = kilowatt-hour; SAIDI = System Average Interruption Duration Index; SAIFI = System Average Interruption Frequency Index*



Source: *Power Market Structure, World Bank Report, 2013*
Note: *EDELAP = Empresa Distribuidora La Plata; EDENOR = Empresa Distribuidora Norte; EDESUR = Empresa Distribuidora Sur*



Source: *Power Market Structure, World Bank Report, 2013*



***Source**: Power Market Structure, World Bank Report, 2013*

<u>Caution Case:</u>

The Deregulation of Electricity Wholesale Market in California

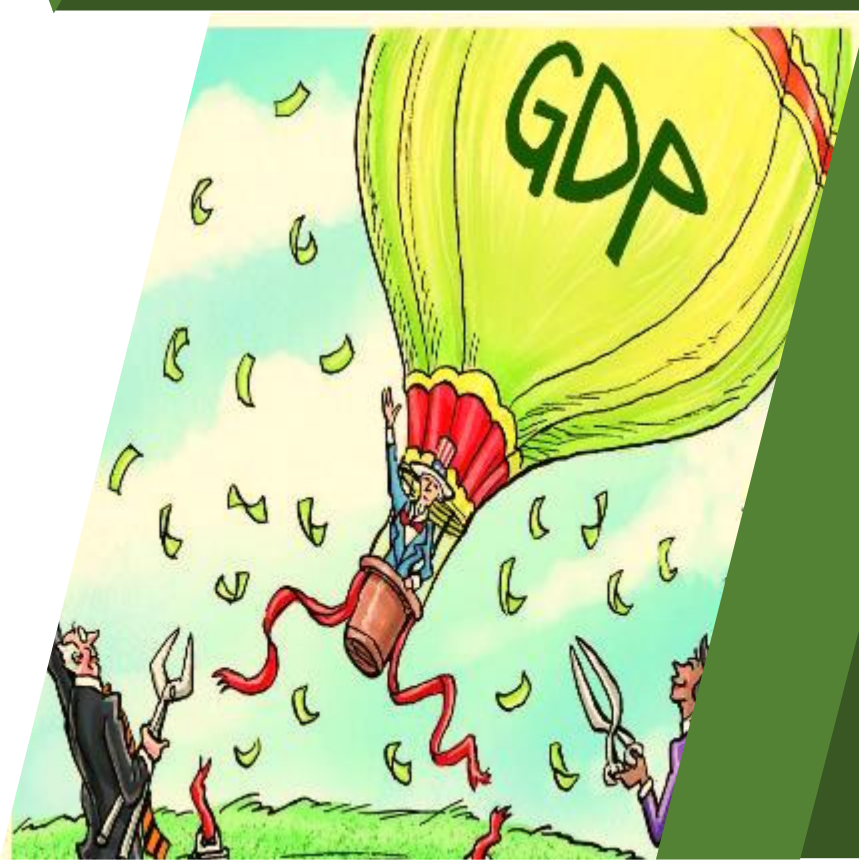
The government must keep in mind that excessive deregulation and a dearth of audits in the energy sector, especially when it is being traded in the market, can lead to a disaster. Case in point is the deregulation of the Electricity Wholesale Market in California. According to a report published in 2001 by Critical Mass Energy & Environment Program,

"Enron's business model was built entirely on the premise that it could make more money speculating on electricity contracts than it could by actually producing electricity at a power plant. Central to Enron's strategy of turning electricity into a speculative commodity was removing government oversight of its trading practices and exploiting market deficiencies to allow it to manipulate prices and supply."

According to the consumer watchdog website, the energy suppliers were allowed to overcharge approximately $23 billion from consumers for five years under this law.

The case for energy futures is entirely being made to help the government solve the circular debt issue and also create a source of financing for themselves. It does not in any way encourage deregulation of energy trading or energy suppliers.

Industry Specific Recommendations



Textile Industry

1. Tariff Barriers

Bangladesh and ASEAN countries exporting to China enjoy minimal tariff barriers, whereas, Pakistan is faced with higher tariff rates. E.g. Export of cotton yarn from Pakistan under (HS5205-1100, HS5205-1200 and HS5205-2200) faces Tariff @ 3.5 per cent vs. 0 per cent for Bangladesh and ASEAN countries.

Ministry of Commerce needs to take this matter up with China and to eliminate this anomaly to bring Pakistan at par with Bangladesh and ASEAN countries.

This will increase the competitiveness of our exports and provide a level playing field with Bangladesh and other ASEAN countries.

2. Cotton sourcing issues for textile spinning sector

In absence of good quality, expensive or shortage of Pakistani cotton we are compelled to import cotton which faces exchange risk and manufacturing bond issues both of which make textile spinning sector uncompetitive.

Government to facilitate the textile spinning sector with following measures: 1) State bank of Pakistan needs to allow importers forward cover on imports to lock cost and mitigate risk, 2) Simplify the process to obtain Analysis Certificate from IOCO (Input Output coefficient organization), the absence of which impacts exports.

3. Make procedures to facilitate and make it easier to sell yarn to domestic buyers who make value added exports.

Allow the adjustment of raw material imports brought into manufacturing bond for sale of yarn to weavers/garment manufacturing exporters. This will incentivize both the spinning industry and the entire value chain including the fabric and garment manufacturers.

4. Duty drawback on exports not paid out.

Duty Drawback incentive provided by the previous government to incentivize exports are not being paid out against legitimate exports achieved so far. Subsidies totaling Rs.226 million are pending since January 2017 and is causing hardship to the exporters.

The Government is requested to make pending payments outright or issue bonds against this or issue bonds in a similar manner as is being considered for Sales Tax Refunds.

5. Textile Printing:

- Textiles and articles thereof are subject to zero rated sales tax vide S. No. 2 of the table of SRO 1125(I)/2011. The consumables used in printing of textiles i.e. various categories of dyes and pigments and Nickel screens used in Rotary & Digital printing machines are also subject to zero rated sales tax vide S. No. 43 to 54, 72 and 114 of the table of SRO 1125(I)/2011.

- Conventional printing of textiles through rotary printing machines is, now, being replaced by the digital printing. Digital fabric printing is a relatively new technology, now, being used more extensively. Most commercially available fabric is rotary screen printed; each print run is typically several thousand yards.

The main advantage of digital printing is the ability to do very small runs of each design (even less than 1 yard) because there are no screens required for printing purposes. Designs can be created digitally which provides an ease in the preparation of design work thereby ensuring efficiency and flexibility.

- The inks used in digital printing are formulated specifically for each type of fiber (cotton, silk, polyester, nylon, etc.). During the printing process, the fabric is fed through the printer using rollers and ink is applied to the surface in the form of thousands of tiny droplets. The fabric is then finished using heat and/or steam to cure the ink (some inks also require washing and drying).

- There were only 40 digital printers in Pakistan up to the year 2015 but its number has now reportedly increased to 135 (Approx.) at the end of 2017. With the increasing number of digital printers, the import of digital printing inks has gone up from 200,000 Kg (Approx.) in 2015 to 750,000 Kg (Approx.) in the year 2017. It may be mentioned that digital textile printing inks are classifiable under PCT Heading 3215.1190 and 3215.1990 and these have exclusive use in the textile sector. Further, prices of such inks are much higher than ordinary printing inks.

- The composition of digital printing ink is very close to the reactive dyes of heading 3204.1600. It serves the same purpose / function that is performed by dyes in the traditional screen-printing process. However, digital printing inks are classifiable under different headings viz; 3215.1190 to 3215.1990 as against the traditional dyes that fall for classification under PCT heading 3204.1600.

- In view of the above, it is requested that the digital printing inks classifiable under heading 3215.1190 and 3215.1990 may please be allowed facility of zero-rated sales tax by including the same in the table of the SRO 1125(I)/2011. It is imperative to provide the same treatment to digital printing inks used by the textile industry as are currently available to traditional dye-stuff, in order to incentivize the use of value-added digital technology used by the textile industry. This will give a boost to the textile sector, a major foreign exchange earning sector of our economy.

- It is, therefore, requested that necessary amendment in SRO 1125(I)/2011 may be notified to include the digital printing inks along with their P.C.T. Codes.

Dairy Industry

Issue	Proposal	Rationale
Dairy products including milk, cream, butter, and concentrated milk and cream were categorized as zero rated since 2006 under Sales Tax Act, 1990. However, zero rating regime was abolished through Finance Act 2015 & 16 and these dairy products were subjected to Exempt taxation/ 10 per cent taxation. HS codes; 0401 0402 0403 0405 1901.9090	It is proposed to re-transpose the dairy products to the 5th schedule of the Sales Tax Act 1990 & continue the zero-rating facility for the dairy sector. Introduction of exempt regime has reversed the trend of packaged milk industry growth and has resulted in rapid decline of almost 12 per cent in the industry volumes in 2018 only. Continued trend of this scale will severally impact new investments in the sector and may result in exit of some manufacturers leading to lost jobs, and the market share will again eventually rest with undocumented and untaxed loose milk.	Restoration of zero-rating regime will help restore the volumes of the packaged milk industry and better profitability. The share of revenue loss for the government will be partially compensated by increase in direct taxation share due to improved profitability. Historically, milk-based products are kept in sales tax zero rated regime since 2006 which naturally depicts the intention of the Federal Government to keep such products of daily necessity in affordable price range of general public. Zero rating tax policy will help the industry with a better room to manage prices and inflationary pressures will not be passed on to the consumers.
Through Finance Act 2015, Federal government imposed 10 per cent sales tax on milk powders sold in retail packing which negatively impacted the manufacturing of such products. The price sensitivity of the product is evident from the nose dive in sales of full cream milk powders in retail packing after imposition of 10 per cent sales tax. HS code; 0402	Taxation of milk and cream concentrated e.g. locally produced full cream milk powder should be taxed in line with liquid milk counterparts. Just like liquid milk, milk powders are consumed in liquid form as both are essentially alternatively usable product. The powder format is not a luxury but a necessity for many prices' sensitive lower middle-class families.	Taxation of milk powders has deprived the powder segment a fair and level playing field as retention of milk in powder form is imperative for dairy industry in times of milk inadequacy; especially in lean period due to better shelf life available for powder products. In our knowledge, Pakistan is the only country having inconsistent sales tax for dairy products in locally produced liquid and powder categorizes where liquid milk is exempt and concentrated milk (powder form) is being taxed at 10 per cent.
Regulatory duty was imposed on various items with an objective of reducing imports bill by curbing imports of luxury and non-essential items. However, basic raw material for dairy industry such as milk powder and whey have also been subjected to imposition of 25 per cent	Regulatory duty should be withdrawn or its rate should be minimized on import of raw material for dairy sector and should be restricted to imports of luxurious items only. Alternatively, duties can be minimized by introduction of quota system by placement of	Import of milk powders is imperative for production of various dairy products in times of milk insufficiency, especially in summers, when local supply is not enough to meet demand. Relaxation of regulatory duty on raw material consumed in production of essential dairy

regulatory duty which has adversely impacted the cost of doing business.	these items under Part III, Fifth schedule of the Customs Act, 1969. Quota can be restricted for registered manufacturers of dairy products only and can be allowed as a proportion of fresh milk purchases of those manufacturers.	products will help local manufacturers to be competitive and the benefits will be passed on to the consumer while bringing down inflation.

Automobiles Industry

Issue	Proposal	Rationale
Exemption for payment of tax u/s 148 is not allowed or trading imports being subject to tax under Final Tax Regime. However, CBUs imported by Automobile manufacturers fall under Normal Tax regime as per section **148(7) (C)**. The HS codes of CBUs are not considered while issuing exemption certificate u/s 148, being classified as trading imports. Even after discharging advance tax liability for getting exemption u/s 148; Automobile manufacturers have to pay tax u/s 148 on CBUs at import.	Exemptions issued on IRIS portal u/s 148 should also consider HS codes of CBUs imported by Automobile Manufacturers, being taxed under NTR.	CBUs imported by Automobile manufacturers fall under NTR and exemption u/s 148 would be available in accordance with the spirit of the law. It will eliminate payment of advance tax in twice on same CBUs (once at the time of getting exemption & then again at import stage).
Duty of Compressor has been increased from 5 per cent to 35 per cent which should be reverted as there is no local facility available in Pakistan. (Refer to SRO 565). Increase in manufacturing cost due to which local industry will become unable to compete with imported vehicles.	Withdrawal of regulatory import duty on raw material not manufactured in Pakistan.	It will promote the local industry.

In 2017, 100 per cent LC Margin is imposed by State Bank on import of CKD falling under HS Code 8703 & 8711 and all auto parts. Huge funds remain stuck and results in heavy financing cost.	Eliminate LC Margin on said HS codes.	It will promote the local industry. Nonproductive expenses (like financing cost) will be curtailed.

Engineering Industry

Issue	Proposal	Rationale
Increased cost of raw materials from an anomaly in sales tax where the basic raw material polypropylene (H.S. code 3902.1000) is imported at standard 17 per cent sales tax, whereas the finished products are imported and locally supplied on zero or reduced-rate sales tax.	Adjust Customs Duty and Regulatory Duty as recommended (see Appendix).	Encourage and promote Pakistani products in the domestic and international market but will also encourage further expansion of the domestic manufacturing sector. Furthermore, this will save valuable foreign exchange of at least 6 million US dollars annually. (1) Foreign exchange savings. (2) Promote local manufacturing. (3) Encourage further expansion in local industry (4) Create jobs and increase employment. (5) Create capital investment (6) Increase Government revenue.
Local manufacturing is more than country demand for PCT Codes 5911-9090 and 8421-2100. An increased import and/or regulatory duty will encourage investment in domestic manufacturing and create jobs.	Adjust Customs Duty and Regulatory Duty as recommended (see Appendix).	Encourage and promote Pakistani products in the domestic and international market but will also encourage further expansion of the domestic manufacturing sector. Furthermore, this will save valuable foreign exchange of at least 6 million US dollars annually. (1) Foreign exchange savings. (2) Promote local manufacturing. (3) Encourage further expansion in local industry. (4) Create jobs and increase employment. (5) Create capital investment. (6) Increase government revenue.

Deletion of the exemption of customs duty on Hot Rolled Coils under Serial NO. 88 of SRO 565(I)/2006 dated 5.6.2006 has resulted in the Custom Duty of raw material (Hot Rolled Coils) and finished product (welded pipes) to be the same and hence there is no cascading effect. This has seriously put the local industry at a disadvantage due to the existing tariff structure between the raw material	Tariff protection may be given to the welded pipe manufacturers Hot Rolled Steel Coils HS Code 7225.3000 attracts 11+2 per cent customs duty & 17.5 per cent Regulatory Duty) and the finished goods which attracts same customs duty (Steel Pipes HS code 7305.1900 attracts 11+2 per cent customs duty & 17.5 per cent Regulatory Duty).	Will result in duty on imported pipes is at least 10 per cent more than its raw material (Hot Rolled Coils).
Local raw material manufacturer of Hot Rolled Coils (Pakistan Steel Mills) was unable to benefit. More than 90 per cent of line pipe is for oil and gas sector. The API quality requires for large diameter pipes to be of over 1500 mm width and 10mm thickness but these HR Coil production cannot be produced by Pakistan Steel Mills given the resources. Hence 100 per cent raw material needs to be imported	RD imposed on Welded Steel Pipes should be at least 25 per cent. The pipe manufacture who used HR coil as raw material have has APL-5L License to manufacture API quality lines pipes should be exempted from RD in light of evidence from client requirements and which is beyond capability of PSM	Unjustified to impose RD on import of HR coil as same not being manufactured domestically but RD should only be imposed on import of steel welded pipes because domestic industry is fully capable of producing them
The SRO gives concession to certain organizations on the import of plant, machinery and equipment including capital goods but some take advantage of SRO and import items which are locally manufactured. Thereby curtailing incentive for local producers to compete with the finished goods being imported at zero duty and sales tax	Imports of finished welded pipe under said SRO be withdrawn in upcoming budget. Local pipe manufactures should be allowed to import HRC under the SRO 678(I)/2004 dated 7.8.2004 with exemption from CD and RD on Hot Rolled Coils	Local manufacturers will not be affected
Local industry is fully capable of producing multilayer coating application on bare steel line pipes as per international standards.	Separate HS Code be defined for coated pipes with CD of at least 5 per cent more than that of bare pipes	The anti-corrosion and flow efficiency coating is applied on steel line pipes which enhances their life span up to 50 years and the CD on import will ensure value addition of over 20 prevails.

a. Increase Customs Duty for the following Products

Product	Current Custom Duty	Proposed Custom Duty	Imports	Current exports (units of 10-inch equivalents)	Capacity (units of 10-inch equivalents)	Country demand (units of 10-inch equivalents)
String Wound Filter Cartridges	11 per cent	20 per cent		1,200,000	2,808,000	792,000
Spun Bonded Filter Cartridges	11 per cent	20 per cent		56,320	3,360,000	3,600,000
Activated Carbon Filter Cartridges	16 per cent	20 per cent			244,200	180,000
Synthetic filament Textured yarn - made of polypropylene	11 per cent	15 per cent	2,880 tons	5.5 tons	1,500 tons	3,660 tons
'Synthetic filament yarn - made of polypropylene	11 per cent	15 per cent	315 tons	34 tons	5,520 tons	5,088 tons
'Synthetic filament yarn twisted - made of other synthetic material	11 per cent	15 per cent	216 tons	30.5 tons	1,920 tons	2,580 tons
'Synthetic staple fiber - made of polypropylene	11 per cent	15 per cent	80 tons		432 tons	3,600 tons
Twine, cordage, rope and cables- made of polypropylene	20 per cent	30 per cent			360 tons	600 ns

b. Regulatory Duty on Imports

Product	Current Custom Duty	Proposed Custom Duty	Capacity (units of 10-inch equivalents)	Country Demand (units of 10-inch equivalents)
String Wound Filter Cartridges	0 per cent	5 per cent	2,808,000	792,000
Spun Bonded Filter Cartridges	0 per cent	5 per cent	3,360,000	3,600,000
Activated Carbon Filter Cartridges	0 per cent	5 per cent	244,200	180,000
Synthetic filament Textured yarn - made of polypropylene	0 per cent	5 per cent	1,500 tons	3,660 tons
Synthetic filament yarn - made of polypropylene	0 per cent	5 per cent	5,520 tons	5,088 tons
Synthetic filament yarn twisted - made of other synthetic material	0 per cent	5 per cent	1,920 tons	2,580 tons
Synthetic staple fiber - made of polypropylene	0 per cent	5 per cent	432 tons	3,600 tons
Twine, cordage, rope and cables- made of polypropylene	0 per cent	5 per cent	360 tons	600 tons

<table>
<tr><th colspan="9">COMPETITIVENESS & EFFICIENCY IMPROVEMENT EXERCISE, BUDGET YEAR 2019-20</th></tr>
<tr><th colspan="9">CHANGES IN CUSTOMS TARIFF RATES</th></tr>
<tr><th>S#</th><th>PCT Code</th><th>Description</th><th>Proposed PCT Code</th><th>Existing Rate of Duty</th><th>Proposed Rate of Duty</th><th>Suggested to be Changed through SRO or in Tariff</th><th>Brief Justification / Rationale for change</th><th>Quantify benefit to consumer/ industry</th></tr>
<tr><td>(1)</td><td>(3)</td><td>(4)</td><td>(5)</td><td>(6)</td><td>(7)</td><td>(8)</td><td>(9)</td><td>(10)</td></tr>
<tr><td>1</td><td>7208. 9090</td><td>Flat- rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated.</td><td>7208. 9090</td><td>CD=11 +2 per cent; RD=12 .5 per cent</td><td>CD=11+2 per cent; RD= 0 per cent</td><td rowspan="3">When prices were low (< $400/ton, Gr X-70), RD was imposed to protect Pakistan Steel via. SRO 246 (1) / 2015, SRO 601 (1) / 2015. RD should now be removed through amendment in the same, as prices have again increased (> $680/ton, Gr X-70) and Pakistan Steel is almost closed.</td><td rowspan="3">1. Common practice all over the world is to protect the local industry.
2. Countries in this region give tariff protection to the indigenized engineering goods up to the extent of 20 per cent.
3. In all other types of pipes, the local manufacturers are given protection of 10-15 per cent, except the large diameter welded steel pipes manufacturers.</td><td rowspan="3">Due to award of more than two lac tons of line pipe to foreign line pipe manufacturers, several hundred million foreign exchange have been paid to them.</td></tr>
<tr><td>2</td><td>7225. 3000</td><td>Flat- rolled products of other alloy steel, of a width of 600 mm or more. Other, not further worked than hot- rolled, in coils</td><td>7225. 3000</td><td>CD=11 +2 per cent; RD=17 .5 per cent</td><td>CD=11+2 per cent; RD= 0 per cent</td></tr>
<tr><td>3</td><td>7305. 1900</td><td>Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406.4 mm, of iron or steel, Other.</td><td>7305. 1900</td><td>CD=11 +2 per cent; RD=17 .5 per cent</td><td>CD=21+2 per cent; RD=25 per cent</td></tr>
</table>

Steel Industry

CHANGES IN RULES/PROCEDURES					
S#	Existing rules/ procedures along with SRO/CGO No & Date	Suggested Change	Position after suggested change	Brief Justification/ Rationale for proposed change	Change, if any, required in the Act, other SRO or Rules to implement this proposal
(1)	(3)	(4)	(5)	(6)	(7)
1	Bare pipes and Coated pipes are imported against same HS code i.e. 7225.3000. A fresh HS code through a SRO is to be created for Coated pipes	Separate HS Code needs to be defined for coated tubes and pipes having circular cross- sections. Custom duty on coated pipes should be 5 per cent more than that of the bare pipes	For HS code 7225.3000, CD: 11+2 per cent For proposed new code for Coated pipes, CD: 16+2 per cent	Local industry has capability to provide coating as per international standard; Coating adds value of over 20 per cent. Therefore, import of coated pipes should be imposed with higher duties	New HS code to be incorporated through an SRO.
2	Concessionary SRO-678 was amended through a SRO 878 allowing import of equipment, machinery, raw material etc. for LNG project	This SRO should also be applicable on local line pipe manufacturers for LNG project.	For local line pipe manufacture rs importing HRC for LNG project, CD: 0 per cent	The local pipe manufacturers are also importing Hot Rolled Coils to manufacture line pipes for LNG projects and therefore, this SRO should be applicable on local pipe manufacturers as well.	SRO 678 should be amended through a fresh SRO to include local line pipe manufacturers in list of raw material importers exempted from CD.
3	The organizations, taking the advantage of SRO 575(I) / 2006 dated 5.6.2006 and SRO 678(I) / 2004 dated 7.8.2004, import such items/goods which are also manufactured locally	Imports of finished welded pipes should be withdrawn against these SROs.	If they import the welded steel pipes, it should be at the normal rate of duty CD: 11+2 per cent	Because of import of line pipes as machinery & equipment, local manufacturer is out placed.	SRO 575 & SRO 678 should be amended through a fresh SRO banning imports of goods/items that can be manufactured locally

Caustic Soda Industry

1. Electricity Tariff for Chemical Sector (Chlor-Alkali Manufacturers):

Caustic Soda is an energy intensive product where the electricity is contributing about 55~60 per cent of the total cost. Unfortunately, the rate of electricity in our country is very high as compared to other Caustic Soda manufacturing countries of the world. It is (3) three times higher than China, South Korea and Japan; (6) Six times higher than Middle East countries including Saudi Arabia and Approx. (3) three times higher than USA. Similarly, it is two times higher than European Union countries.

As per ".IHS Chemical Market Advisory Service" Following table shows the electricity rates in the international market.

Sr. No.	Country/Region	Electricity Price Unit: US Cents/Kilowatt Hour
1	USA	3.20
2	West Europe	6.39
3	Middle East	1.79
4	North East Asia	4.19
5	Pakistan	10.15

Natural gas is a primary source of energy and the industrial sector consumes a sizeable share of it whereas we are making it expensive through unpopular measures like GIDC (Gas Infrastructure Development Cess) etc.

It is requested that Government may consider a special reduced electricity tariff for Chemical industry keeping in view the importance of this sector. With subsidized electricity tariff, we can provide cheaper raw material to the allied domestic industry and contribute our share in the economy. It will not only help to increase the export potential of allied domestic industry but also enable us to export our surplus production in overseas markets.

List of our exportable products is as follows:

Sr. No.	Product Name	PCT Heading
1	Caustic Soda Liquid	2815.1200
2	Caustic Soda Flakes/Solid	2815.1100
3	Hydrochloric Acid	2806.1000
4	Ferric Chloride	2827.3900
5	Calcium Chloride	2827.2000
6	Magnesium Chloride Hex hydrate	2827.3100

2. Export subsidy on Inland Transportation for Chemical Sector:

Chlor-Alkali industry of Punjab is around 1,200 KM away from Karachi Port and we are experiencing a very heavy transportation cost on our export consignments. Due to this reason Product cost increased and ability to compete with international suppliers in the export markets is restricted.

In order to facilitate export of chemical sector, it is requested to please allow 50 per cent inland freight subsidy on each consignment of chemical Industry.

It is suggested that Government may calculate a standard transportation rate on Export quantities after consultation with the stakeholders and reimburse Export Inland Transport subsidy to Exporters through State Bank of Pakistan.

3. Customs Tariff on Chlor-Alkali Products:

Caustic soda is one of the most basic chemical industries of Pakistan and this product along with its co-products is being utilized in 85 per cent industries of the Pakistan. Major raw material of Caustic Soda industry is Electricity and its share in the manufacturing cost is 55~60 per cent.

Unfortunately, the rate of electricity in our country is very high as compared to other Caustic Soda manufacturing countries of the world.

We suggest implementing the below mentioned tariffs on Caustic Soda:

a. The Import duties for Caustic Soda Flakes, Caustic Soda liquid, Hydrochloric Acid and Liquid Chlorine should be maintained at same rate for the Fiscal Year 2019-20**:**

Sr. No	Product Description	PCT CODE	Current Customs Duty (per cent)	Suggested Tariff Rate (per cent)
1	Caustic Soda Flakes	2815.1100	20	20
2	Caustic Soda (Liquid)	2815.1200	Rs.4,000/LMT	Rs.4,000/LMT
3	Hydrochloric Acid	2806.1000	11	11
4	Liquid Chlorine	2801.1000	11	11

Sr. #	Description	PCT CODE	Current Customs Duty (per cent)	Suggested Tariff Rate (per cent)	Proposal	Brief Justification/ Rationale for change	Quantify benefit to consumer/ industry
1	Hetron Resin 197-3 DR 444	3907.9100	20	3	Request for reduction in customs duty	Not being manufactured Locally. It is highly corrosion and heat resistant. Good fire retardant.	Reduction in cost of production
2	Arbocell BWW 40	3912.9000	11	3	Request for reduction in customs duty	Not being manufactured Locally. It is thickening agent for fiber reinforcement and is	Reduction in cost of production

						environment friendly.	
3	Activated Carbon	3802.1000	11	3	Request for reduction in customs duty	Not being manufactured Locally. It is used to remove the poisonous and contaminated substance.	Reduction in cost of production
4	Plate Type Heat Exchangers (Nickel ,Titanium Pladium, Stainless Steel)	8419.5000	20	3	Request for reduction in customs duty	Not being manufactured Locally due to special material.	Reduction in cost of production
5	Centrifugal Pumps (FRP ,Titanium ,Nickel , Stainless Steel)	8413.7090	20	3	Request for reduction in customs duty	Not being manufactured Locally due to special material	Reduction in cost of production
6	Poly propylene Pipes & Fittings	3917.2200	20	3	Request for reduction in customs duty	Not being manufactured Locally due to special specifications and sizes.	Reduction in cost of production
7	Air Compressors	8414.8090	16	3	Request for reduction in customs duty	Not being manufactured Locally	Reduction in cost of production
8	Nickel Pipes & Fittings	7507.2000	16	3	Request for reduction in customs duty	Not being manufactured Locally due to special material	Reduction in cost of production
9	15 MO3 Material	7304.1900	16	3	Request for reduction in customs duty	Not being manufactured Locally due to special material.	Reduction in cost of production

10	Absorption Chiller	8418.6990	20	3	Request for reduction in customs duty	Not being manufactured Locally	Reduction in cost of production
11	Mechanical Seals	8484.9000	20	3	Request for reduction in customs duty	Not being manufactured Locally	Reduction in cost of production
12	PTFE Expansion Bellows	7307.1990	20	3	Request for reduction in customs duty	Not being manufactured Locally due to special material.	Reduction in cost of production
13	PTFE Sealing Cord	3926.9099	20	3	Request for reduction in customs duty	Not being manufactured Locally	Reduction in cost of production
14	Air filter for Gas Engine	8421.3990	20	3	Request for reduction in customs duty	Not being manufactured Locally	Reduction in cost of production

4. Implementation of Regulatory Duty (Finished Products):

Chlor-Alkali Industry is sufficiently fulfilling demand of local industry of Pakistan by supplying Caustic Soda and co-products. Local industry has sufficient capacity to fulfill the demand of National Industry.

Due to nominal custom tariff in the year 2018-19 or zero Customs Tariff under FTA's with some countries, Imports of these products hampering local industry. We hereby request that Regulatory duty should be imposed to safeguard the interest of national Industry. List of items are as follows:

S. No.	Product	HS Code	Customs Duty (2018-19)	Existing Regulatory Duty (2018-19)	Proposed Regulatory Duty 2019-20
1	Bleaching Powder	2828.1010	3 per cent	5 per cent	15 per cent
2	Calcium Chloride	2827.2000	3 per cent	5 per cent	15 per cent
3	Nickel Chloride	2827.3500	3 per cent	5 per cent	15 per cent

4	Magnesium Chloride	2827.3100	3 per cent	5 per cent	15 per cent
5	Ferric Chloride	2827.3900	3 per cent	5 per cent	15 per cent
6	CO2	2811.2100	3 per cent	5 per cent	15 per cent
7	Magnesium Sulphate	2833.2100	3 per cent	5 per cent	15 per cent

5. Implementation of Regulatory Duty: (Imported Inputs/Raw Materials)

Sr. #	Description	PCT CODE	Existing Regulatory Duty (2018-19)	Proposed Regulatory Duty 2019-20
1	15 MO3 Material	7304.1900	5 per cent	0 per cent
2	Absorption Chiller	8418.699	25 per cent	0 per cent
3	PTFE Sealing Cord	3926.9099	10 per cent	0 per cent

6. Changes in Rules and Procedures (Imported Raw Materials & Inputs):

Sr. #	Existing rules/ procedures along with SRO/CGO No & Date	Status (Product/ Input Material)	Impact after suggested change	Brief Justification/ Rationale for proposed change	Change, if any, required in the Act, other SRO or Rules to implement this proposal
1	Products of Sr. no.462 to 472 of CGO No. 02/2017 dated 19-Apr-2017	Screws, Machine Screws, Bolts of Iron or steel, Threaded Nuts of Iron or steel	Smooth procurement & custom clearance of shipments avoiding detention and demurrages due to delayed clearances, Optimum cost of production	s these items does not manufactured locally, so at the time of custom clearance of shipment custom officials revised the rate of duties which cause unnecessary delay & higher duty rates.	5th & 8th Schedule should be allowed
2	Products of Sr. no.405 of CGO No. 02/2017	Stainless Steel Flanges			5th & 8th Schedule should be allowed

	dated 19-Apr-2017				
3	Products of Sr. no.164 to 167 of CGO No. 02/2017 dated 19-Apr-2017	Pipes and tubing, Hoses, vulcanized rubber, Hoses, vulcanized rubber, not reinforced or Combined, Hoses, vulcanized rubber,			5th & 8th Schedule should be allowed
4	Products of Sr. no.905 of CGO No. 02/2017 dated 19-Apr-2017	Products along with serial no. Mentioned in column (2) are manufactured with special material such as nickel, titanium, SS 316, TFE/EPDM/TEFLON/FRP/ and sizes & specifications are not being manufactured locally.	Gears, power transmission	Smooth procurement & custom clearance of shipments avoiding detention and demurrages due to delayed clearances, Optimum cost of production	5th & 8th Schedule should be allowed
5	Products of Sr. no.888 to 903 of CGO No. 02/2017 dated 19-Apr-2017		Gate Valves/ Sluice Valves, Ball Valves, C.I. Gate Valves, Globe Valve, also known as Steam Valve., Strainer Valve also known as (Filter), Butterfly Valve, Stop Valves,		5th & 8th Schedule should be allowed

6	Products of Sr. no.613 to 630 of CGO No. 02/2017 dated 19-Apr-2017		Centrifugal pumps (Submersible), Self-Priming, Centrifugal, High-Pressure Pumps, Self-Priming, Centrifugal (Non-Clog) Trash Pumps/ Irrigation pumps, Combined Normal and High Pressure Fire Pump, Gland Pump. Centrifugal Single stage end suction top discharge horizontal Shaft Tool mounted Pump.		5th & 8th Schedule should be allowed
7	Products of Sr. no.778 of CGO No. 02/2017 dated 19-Apr-2017		Air Filters / Oil Filters		5th & 8th Schedule should be allowed
8	Products of Sr. no.139 to146 of CGO No. 02/2017 dated 19-Apr-2017		Tubes, Pipes & Hoses, Rigid of Polymers of, ethylene, PE Gas Pipe Fittings, Hoses, polypropylene, rigid, Glass Reinforced Epoxy (GRE) Pipes, Fittings, plastic		5th & 8th Schedule should be allowed

7. Transit Trade to Central Asia through Afghanistan:

Afghanistan is a vital route for transit trade with Central Asian countries and it has become a large market for Pakistani exports.

- **a.** Afghanistan complains that Pakistan's policies are major obstacles in the Transit Trade with frequent changes in rules.
- **b.** Pakistan accuses Afghanistan that Afghan traders' blatant misuse of ATT is leading to rampant smuggling and the closure of domestic Industry.

Government should take up the matter with all stakeholders to ease out the trade through Afghanistan transit route by trade friendly rules and cost cutting measures i.e. elimination of transit fees, one window operation for customs and other formalities at borders along with development of better infra-structure at this route.

8. Revamping of Trade Model with Afghanistan Similar to Wagha – Lahore Border Trade Model with India:

Afghanistan is a sizeable market for most of Pakistani products. Exporters are facing problems to explore this market due to sensitivity of border and frequent changes in rules by the authorities to improve the Border management with Afghanistan.

Transportation is major issue for Pakistan-Afghan trade. It is difficult for exporter to find such vehicles which fulfill all requirements to take materials into Afghanistan.

This is not only increasing transportation costs but also hampering bilateral trade activities.

Below are the Pakistan exports figures to Afghanistan which depicts that Pakistan exports are showing declining trend:

Year	2013	2014	2015	2016	2017
US$ Million	1,998.10	1,879.10	1,722.20	1,369.80	1,390.10

- **Source: FPCCI**

We suggest that trade model Similar to Wagha – Lahore Border Trade Model with India should be adopted to ease out the export and import trade with Afghanistan.

This will help:

a. To boost the trade activities and reduce the cost of transportation.
b. Help to reduce the chances of smuggling and better border trade management.

9. Addition of "INCOTERM" Ex-Work in Customs Books/GD Filling System:

It is pertinent to highlight here that all INCOTERMS 2010 are recognized and implemented across the world in international business and trade but in Pakistan, the following "INCOTERMS" are being used in export/import business:

1) CIF 2) C&F 3) FOB

Currently, we are very facing very serious problem in terms of export of our goods to Afghanistan, which may cause not only to hamper export activities but also to decrease foreign exchange reserves of Pakistan. As per customs officials that **INCOTERM "Ex-Works"** does not exist in Pakistan's Customs Books/GD Filling System, due to this reason exporters cannot use **INCOTERM "Ex-Works"** on export documents**.**

Therefore, you are requested that INCOTERMS 2010 "Ex Works" may kindly be incorporated in Pakistan's Customs Books/GD Filling System in the upcoming budget to grow business and trade activities so that such apprehensions in future may be avoided. On the other end, it is one of the utmost priorities of the Government of Pakistan to facilitate the business community by framing such terms, rules & regulations in order to promote and grow export business activities in the best interest of the nation.

10. Elimination of Under-invoicing and Mis-declaration in Imports:

It is being witnessed that Pakistan does not offer any substantial protection to its manufacturing/ industrial sector, specially the industry which deals in the products of international trade.

a. The government may fix values of imported goods on standard values rather than declared values by importers. Through this measure mis-declaration by importers could be discouraged.
b. It is very easy to share information through web-based portals between trading countries at Government level to eliminate the under-invoicing and mis-declaration related matters.

This will not only protect the local industries but also help to increase the tax collections.

11. Reforms in the General Sales Tax (GST):

An effective indirect tax system needs to evolve if Pakistan has to keep up with the pace of commercial and technological change. **Direct tax net needs to be broadened Instead of increasing the General Sales Tax rate as done in previous years**. Sales Tax Rate applicable in Pakistan is already at higher side as given below in the table:

Country	GST Rates	Pakistan Higher by
Pakistan	17.0 per cent	-
India	12.36 per cent	4.64 per cent
Indonesia	10.0 per cent	7.0 per cent
Hong Kong	0.0 per cent	17.0 per cent
Singapore	7.0 per cent	10.0 per cent

12. Single Taxation System for General Sales Tax:

Dual taxation system in the country is hampering trade activities i.e. Sales Tax is implemented by both Federal Government and Provincial Governments. Business community is facing issues to handle such dual taxation system. Dual taxation i.e. (General Sales Tax) is badly affecting buying power of end users. This has not only increased the cost of doing business but also hammering business activities.

Business community is already contributing a lot in the national exchequer in shape of taxes. We always acknowledge the Government business friendly policies.

It is humbly requested that a single taxation system for General Sales Tax should be adopted to boost the business activities and to increase the buying power of end users i.e. (Industries/ Consumers).

13. Proposals to Curtail Smuggling:

Smuggling is very serious issue which is not only hampering the local industry but causing heavy losses to National exchequer. We do propose the following to overcome this issue to safeguard the local industry. It will ultimately enhance the revenue and economic development.

- Documented Economy.
- Special Law Courts: should be formulated for speedy trial of smuggling cases.
- Some Extra arrangements for border management to be taken with neighboring countries.

14. Proposals under Import Perspective:

- Necessary steps should be taken to promote regional trade and to avail the benefits of proximity instead of importing the goods from Europe & other countries at high prices.
- Reduction in duty/taxes may be allowed to increase capacity of the existing plants to fulfill the demand of the country indigenously and to reduce the import bill in order so that the hard earned foreign exchange

may be saved and spent on the other development projects. The increase in capacity should also include the volume for export to the neighbor countries.

- To encourage investment and local business activities, an additional duty may be imposed on the items which are produced in the country.
- Concrete and environment friendly steps should be taken to overcome energy crises.
- Industry should be facilitated in terms of special concession in duty / taxes to set up captive power plants.
- Maintenance of law and order in the country.
- Special incentive may be announced to for vocational/technical institutions.
- Special arrangements/incentive may be taken for the transportation of coal via train to the plant site.
- Since Govt. has special focus to promote textile industry, therefore preference may be given to supply uninterrupted Gas to the local industries as per their requirement, manufacturing material for textile industries.

15. China Pakistan Economic Corridor (CPEC) and Interests of Local Industry:

The China Pak Economic Corridor is a fusion of multiple developments in the global, regional, bilateral and domestic contexts. The ultimate objective is peace, prosperity and well-being of the people of the two countries, the region and the world. This is a fate changer project for Pakistan. Through this mega project Pakistan will become the hub of business and trade in Asia, and Western China will penetrate into Asian and European markets. It will cater to the needs of all federating units of Pakistan through proper rail and road network and multiple projects on energy within the next three to four years.

But this may also be a great challenge for the local industry of Pakistan. Pakistan has already had an FTA with China which allows Chinese products to be imported on concession/reduced tariff rates. China has a competitive advantage over Pakistan economy due to cheaper energy cost and better infrastructure as compared to Pakistan. This may be major threat to the local industry of Pakistan.

Due to trading via land-route Chinese products may become cheaper than the sea-route based trading and ultimately local industry will face a great challenge in terms of competition with cheaper products.

To get the maximum benefits of this mega project and to safeguard the interests of local industry of Pakistan, we do suggest that projects which will be set up in the Economic Zones under CPEC i.e. (Joint ventures/Direct Chinese Investment) should be bound to purchase the locally-produced raw material rather than importing the raw material to ensure the 100 per cent production or supply capacity utilization of local manufacturing units through some legislation or agreements since abundant production capacities are available in the local industries. This will boost the economic activity in the country which is an ultimate goal of the whole nation.

Fisheries

Fisheries is one of the most neglected sectors. The exports of sea food from Pakistan are in a constant decline for the last few years mainly due to decrease in catches and the absence of any incentives offered by the government for this export oriented industry. The government needs to provide incentives for import of value addition plants, in the form of grants and loans which will enhance our exports.

Thematic Areas	Issue	Proposal	Rationale	Outcome
Zero rate facility	The industry is highly export	Just like the other five export oriented	This will lead to an increase in the	The exports would certainly increase

	oriented with a huge potential for expansion	industries; textile, leather, marble, sports goods, and surgical goods, the fisheries should also be given a zero rate facility.	export of semi-finished seafood products together with value added products if incentives are offered.	and it is expected that processor will be able to attract foreign joint venture partners who always watch for government policies with the view to incline towards a specific trade.
Conducive Business Environment	BMR and up gradation of plants	Plant and machinery used in production of fresh seafood like Plate Freezer, Blast Freezer, condensers, trays, food chemicals	It is not clarified in the Tariff sections	Enhanced exports and better value added products
Skill Development	Unskilled staff	Technical education and training if the fields of food safety and seafood production aligned with global standards	Trained labor will work efficiently, conduct more formal trade, and improve international positioning	Increased volume, sales, and competitive products
Domestic Market Access	Seafood is healthy and can be made available at lower prices locally	A lot of low value fishes are exported which could be sold locally	Seafood availability in local markets at competitive prices	Internal job creation and growth of the sector
Trade facilitation for SMEs	Exhibitions, seminars, and seafood to be included in the new FTA deliberations,	At least made at par with India and ASEAN countries	Increase seafood exports to China	Get higher returns and a bigger export bill

Timber Industry

The allied items dealt by the Timber Industry mainly include Wood Veneer, Chipboard / Particleboard, Fiberboard; Medium Density Fiberboard, Hardboard, Door-skin, Soft board and Plywood etc. covering under chapter 44.

We hereby forward our recommendation to FBR for elimination of taxes on wood & timber and wood Chip (44.01, 44.03 & 44.07) and for tariff rationalization of wood based panel boards, referred to as Wood Veneer (44.08), Chip / Particle board (4410), Fiberboard; Medium Density Fiberboard, Hardboard, Door-skin, Softboard (4411) and Plywood (44.12).

These wood-based Panel boards as mentioned above importable under chapter 4410, 4411 and 4412 are of intermediate nature or comprises of work in process products manufactured from wood and timber. This is mainly used by construction & housing industry which finally provides impetus for the growth of more than thirty other related industries including steel, electrical, sanitary, furniture, doors, architectures and interior industry etc. We all know well that to promote the housing sector, Government is striving very hard to encourage low cost housing in the country. In this regard we would like to submit the following budget proposals for the kind consideration of the Government. This of course will not only encourage the users, cottage handicraft industries, craftsmen and mass industrial furniture industries, laminating industries and door industries but at the same time it will save the country from further deforestation and would help in collection of more taxes.

Presently duty structure on wood and wood-based products is as under:

Exhibit: A

PCT Code	Description	Present CD	Present S. Tax	Present W.H. Tax 6%	Total Impact up to Warehouse
44.01	Wood Chip	3% + 2%	(17%+3%)	6%	40% of CNF
44.03 & 44.07	Wood and Timber	3% + 2%	(17%+3%)	6%	40% of CNF
44.08	Wood Veneer	11%+2%	(17%+3%)	6%	56% of CNF
44.10	Chipboard /Particleboard	16% + 2%	(17%+3%)	6%	56% of CNF
44.11	Fiberboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances. Medium density Fiberboard (MDF):				
4411.1200	Of a thickness not exceeding 5mm.	11% + 2% +5% (RD) =18%	(17%+3%)	6%	56% of CNF
4411.1300	Of a thickness exceeding 5mm but not exceeding 9mm	11% + 2% +5% (RD) =18%	(17%+3%)	6%	56% of CNF
4411.1400	Of a thickness exceeding 9mm	11% + 2% +5% (RD) =18%	(17%+3%)	6%	56% of CNF
	Other :				
4411.9200	Of a density exceeding 0.8g/cm2	16% + 2% =18%	(17%+3%)	6%	56% of CNF
	Of a density exceeding 0.5g/cm2 but not exceeding 0.8g/cm2:				
4411.9310	Not mechanically worked or surface covered	16% + 2% =18%	(17%+3%)	6%	56% of CNF
4411.9390	Other	16% + 2% =18%	(17%+3%)	6%	56% of CNF
4411.9400	Of a density not exceeding 0.5g/cm2	16% + 2% =18%	(17%+3%)	6%	56% of CNF
4411.12	Ply Wood	(20%+2%)	(17%+3%)	6%	60% of CNF

You may well imagine that when a raw material (wood & timber) is very rare and not freely available, neither proper forestation exists in Pakistan, nor timber has any competition with any local product or manufacturers. What is the purpose of imposing sales tax and withholding tax on wood and timber of all sorts? It may also be pertinent to point out that timber based semi-finished products mentioned in the above table attracting higher levels of duties, Sales Tax, and W.H.T. where the liberal trade of these product shall be promoted to stop deforestation immediately.

In order to rationalize duty structure of wood & timber and wood chip 44.01, 44.03 and 44.07 and wood-based panel boards covering under chapter 44.10, 44.11, 44.12 we submit the following:

Exhibit: B

PCT Code	Description	Proposed for 2019-20 Budget
44.01	Wood Chip	Duty, Sales Tax and Withholding tax on wood chip may be abolished completely to bolster local MDF, Particleboard, hardboard and other wood-based panel board industry
44.03	Wood and Timber	Duty, Sales Tax and Withholding tax on wood and timber in all forms (log/Sawn) be abolished completely
44.07	Wood and Timber	
		Proposed CD
44.08	Wood Veneer	11%
44.10	Chipboard /Particleboard	11%
44.11	Fiberboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances. Medium density Fiberboard (MDF):	
4411.1200	Of a thickness not exceeding 5mm.	11% and No RD
4411.1300	Of a thickness exceeding 5mm but not exceeding 9mm	11% and No RD
4411.1400	Of a thickness exceeding 9mm	11% and No RD
	Other :	
4411.9200	Of a density exceeding 0.8g/cm2	11%
	Of a density exceeding 0.5g/cm2 but not exceeding 0.8g/cm2:	
4411.9310	Not mechanically worked or surface covered	11%
4411.9390	Other	11%
4411.9400	Of a density not exceeding 0.5g/cm2	11%
4411.12	Ply Wood	11%

With the above changes of 0% Customs Duty and 0% Additional Customs Duty on import of wood & timber and wood chip with no Sales Tax and WHT, no RD on import of MDF Board importable under PCT 4411.1200, 4411.1300 and 4411.1400, removal of Additional Customs Duty and reduction of Customs Duty to 11% on all other PCT Heads of Fiber Board (4411), Particleboard (4410) and Plywood (4412), following purposes are likely to be served: -

Duty, Sales Tax and Withholding tax on wood and timber in all forms (log/Sawn) be abolished completely on 44.01, 44.03 and 44.07 will help us stop deforestation and will pave way towards GREEN Pakistan. Ministry of Climate change has also recommended to Chairman, FBR for abolishing all form of taxes on wood and timber vis a vis proposed reduction of CD to allied items covered under chapter 4408, 4410, 44.11 & 44.12.

Local producers of wood-based panel boards covering under chapter 44.10, 44.11 & 44.12 would be encouraged to import their major raw material (Timber & Wood Chips) instead using the local resources. This will save deforestation which is increasing day-by-day and is adversely affecting the environment.

Fiber Board (44.11), Particleboard (44.10), and Plywood (44.12) being an intermediate product will attract rationale duty rate of 11% instead present effective duty of 18% or more

This would provide cheaper input for the housing industry which finally encourages growth of more than 30 industries.

Custom duty on Decorative printed paper covered under 48.11 currently attracts 19% CD + 2% + 5% RD and Raw Plain decorative paper covered under 48.05 currently attract 16 % CD + 2%. This paper is used by downstream industries for laminating wood-based panel boards, we propose to reduce Custom duty on Decorative Printed Paper and Raw Plain Decorative Paper to cumulative 5% CD with No Regulatory Duties.

Our above-mentioned proposals are in line with the policy guidelines available in the draft Tariff Policy 2019, also quoted hereunder:

The tariffs on raw materials, intermediate goods and machinery will be gradually reduced; the additional customs duty and regulatory duties on raw materials, intermediate goods and machinery will be reduced

Furthermore, Fiber Board (44.11), Particleboard (44.10) and Plywood (44.12) is not a finished product and cannot be used as an end product or finished product anywhere and it is used by downstream industry such as laminators, furniture or door manufacturing to make finished products. Therefore, as an intermediary product the cumulative effective tariff rate of 16% + 2% or more is actually on a higher side and needs to be reduced as given in the draft Tariff Policy.

Moreover, Regulatory Duty and Additional Customs Duty should also be removed. The tariff Policy 2019 also contains an important principle "Tariffs as trade policy instrument" which means tariffs will not be imposed or maintained for the reason of revenue of the government but will be used as an instrument of trade policy. Following this principle, the government should not always consider the revenue implications of any reduction in Customs Duty. Rather, the consideration should be the overall impact of the reduction in duties on trade that surpass economical or environmental benefit. Wood based Panel boards and or Fiberboards are used as an input by export-oriented industry. Hence, the import of quality wood-based panel boards and or Fiberboards at reduced prices will help in increasing competitiveness of such industry.

We must also mention that Forest reserves in Pakistan according to FAO Report 2015 is 2.1 percent. Whereas, in India, it is 23 percent, and 45 percent in Russia and 22 percent in China. To save its forest reserves, India imposed a duty rate of 10 percent on wood-based panel board but effective duty in India is zero percent for imports from ASEAN. Similarly, China with a 22 percent forest cover, encourages import of wood-based panel boards at zero percent. The highest tariff protection provided in Pakistan to the wood based panel board industries that are liable to cumulative 16 percent Customs Duty or more plus 2 percent Additional Customs Duty and 17 percent + 3 percent sales tax are further adding to the miseries which puts Pakistan on the map as NON-GREEN COUNTRY with highest rate of deforestation in Asia and second highest in the world.

Thus, there is a need to eliminate duty, Sales tax and WHT on wood & timber and wood chip covered under Chapter 44.01, 44.03 and 44.07 and reasonably reduce duty to cumulative 11% on import of Particleboard (44.10), Fiber Board (44.11), and Plywood (44.12) as proposed above. After the proposed changes, duty rates will not reduce the existing tariff protection of 13% ((16%+2% - (3%+2%)) of any local wood-based panel board industry and instead will still remain 11% (11% - 0%) which is sufficient. Therefore, on the basis of above submissions, it is requested to accept our proposal for the reduction of Customs Duty and removal of Regulatory Duty and Additional Customs Duty, removal of sales tax and WHT as given in the foregoing table (Exhibit B).

EFP – EC Budget Advisory Committee

Zakaria Usman – Chairman, Budget Advisory Committee

Majyd Aziz – President, Employers' Federation of Pakistan

Ismail Suttar – Chairman, Employers' Federation of Pakistan – Economic Council

Asif Aziz Zuberi – CEO, Aaj TV, Publisher and Director, Business Recorder

Mehmood Arshad – Founder, TAWUN, Chairman, Pak Qatar and Pak Philippines Business Forum

Shahid Ahmed Khan – CEO, Merit Packaging Ltd.

Ghani Osman – Chairman and CEO, Ghani Osman Securities Pvt. Ltd.

Shaukat Ahmed – Former President, Karachi Chamber of Commerce and Industry

Zeeshan Merchant – Advocate High Court, M.M. Merchant & Company

Arshad Shehzad – CEO, Taxperts Pakistan

Akhtar Hussain – Barrister, Senior Associate at Taxperts Pakistan

Abdul Qadir Memon – President, Pakistan Tax Bar Association

Munawwar Shaikh – Income Tax Lawyer

Dr. Ayub Meher – Advisor, EFP - EC

Abdullah Ali Khan – Economic Coordinator, EFP - EC

Iraj Rashid – Research and Development Coordinator, EFP - EC

Ayesha Awan Younus – Diplomatic Coordinator, EFP – EC