

**KTBA's SEMINAR ON  
FEDERAL BUDGET 2021**

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## **OVERVIEW OF REVENUE BUDGET**

- Target of Rs. 5,829 billion for FY 2021-22 is higher by 24%, from expected collection of Rs. 4,700 billion for outgoing year.
- Government expects to collect incremental revenue of more than Rs. 1,100 billion through:

	<b>Rs in billion</b>
- Growth + Inflation (5.02% + 8.20%)	600+
- Revenue measures	250+
- Administrative efforts	200+

## **HISTORY & GROUND REALITIES**

- Ratio of Direct Taxes (DT) to total taxes is 38% for last 10 years. It requires paradigm shift.
- Withholding tax comprises 27% (out of 38%) of DT, which in effect becomes indirect tax.
- 7 - 8% is voluntary payment of DT.
- It leaves approx. 1 – 2% of DT which is effort based collection through recovery of demand etc.
- Sales Tax (ST) collected at import stage is around 55% of total ST collection.
- Out of total tax collection, approx. 45% of taxes are collected at import stage.
- Tax to GDP contribution:

<b>Sectors</b>	<b>GDP</b>	<b>Tax%</b>
Agriculture	19%	0%
Large Scale Manufacturing (LSM)	19%	35%
Services (other than wholesaler / retailer)	42%	24%
Wholesaler / retailer	19%	3%

## **CHALLENGES**

- Government estimates of growth and revenue measures are often unreliable / unsustainable.
- Implementation of track and trace system in Cement, Fertilizer, Sugar and Cigarettes sectors, is in vogue for last many years.
- POS integration – approx. 50 billion – strong political will is required to implement it.
- Consistency in economic policies.

## **MAJOR TAX REFORMS INTRODUCED BY FINANCE BILL 2021**

There are many proposals made in the Finance Bill which are business friendly and addresses issues which were unresolved for last many years.

- Rate of turnover tax reduced from 1.5% to 1.25% whilst also allowing carry forward of minimum tax in case of loss. MT on SEZ also withdrawn whereas limits of non taxability for individuals and AOP enhanced to 100 million.
- Simplified Tax Regime for small manufacturers (SME) having turnover upto Rs. 250 million, with option for FTR:

<b>Turnover</b>	<b>NTR</b>	<b>FTR</b>
Upto 100 million	7.5%	0.25%
100 million – 250 million	15%	0.5%

- Telecom sector declared as industrial undertaking with tax withholding rate reduced from 8% to 3%.
- Taxation of export of services @ 1%.
- Capital gains tax on listed securities reduced from 15% to 12.5%.

## **MAJOR TAX REFORMS INTRODUCED BY FINANCE BILL 2021**

- Adjustment of rental income against business losses allowed.
- Provincial WWF / WPPF payments allowed as deduction.
- Updation of tax profile abolished.
- Power of enquiry for revision of assessment abolished.
- Completion of assessment proceedings (after SCN) now time bound (120 + 90 days).
- Revision under section 122A – time bound (120 days).
- Mechanism of ADRC made more effective with automatic stay of demand.
- Power of CIR to reject lower estimate withdrawn.
- Automated issuance of exemption certificate (within 15 days) for all companies.

## **MAJOR TAX REFORMS INTRODUCED BY FINANCE BILL 2021**

- Ten withholding provisions have been withdrawn; including withholding on cash withdrawal and banking transactions by non-filers.
- Filing of reconciliation of withholding taxes with return would improve consistency and transparency in withholding audits.
- Automated issuance of refunds without filing of refund application.
- Concept of E-hearing and e-filing of appeals introduced.
- Ten years tax holiday for investment in Special Technology Zone (including Dividend / CGT for investors) with no taxes on import of technology equipment.
- Ten years tax holiday for deep conversion refineries (both new /existing).

## **SALARIED CLASS / INDIVIDUALS**

- Interest income above Rs. 5 million taxable at normal rates (previously Rs. 36 million); withholding @15% (previously 10%) for interest income below Rs. 500,000.
- Exemption for medical allowance / reimbursement withdrawn, which needs to be reconsidered.
- Interest income distributed by Provident Fund above Rs. 500,000 taxed @ 10% – conflict with 6<sup>th</sup> Schedule needs to be addressed.
- Rental income taxable at normal rate.
- No tax on transfer of assets via gift / inheritance etc. to non-resident relative.
- Giftee allowed to claim FMV of gifted assets, after holding period of 2 years.
- Individuals have been made withholding agent for payment of commission (having turnover of Rs. 100 million).



## **ENFORCEMENT MEASURES**

- Non-declaration of business bank account in registration form would now result into prosecution.
- Deliberate concealment of income (being non-declaration of receipt / assets etc or claim of excessive deduction) would result into arrest even before any adjudication process. This provision needs to be rationalized and should not be applied in case of filers.

## **CONSTRUCTION / REAL ESTATE**

- Concept of business income clarified.
- Capital gains above Rs. 5 million taxable at normal rate with benefit of holding period.
- Dates of construction package extended vide Amendment Ordinance, ratified.
- Excess of sale proceeds over depreciable immovable property, now taxable under the head capital gains, with benefit of holding period based computation.

## **DISTRIBUTORS, WHOLESALE AND RETAIL SECTOR**

*A. Purchase (236G & H) – withholding @0.1% - 0.5%:*

- 9 new sectors added into the withholding regime

*B. Withholding on sale / turnover tax @0.25% for 6 sectors:*

- Anomaly of distributor resolved.
- Requirement of registration within 60 days replaced with ATL.
- Retailers required to integrate with FBR.

*C. A comprehensive / consolidated scheme of taxation for both direct and indirect tax is needed for this sector.*

## **SUGGESTIONS**

- Reforms at Appellate side.
- Qualitative analysis of assessment and accountability.
- Centralized industry based research and dissemination of actionable information to industry based zones for major sectors.
- Tax collection (actual / target) from new registrations / new taxpayers should be publicly announced.
- Changes in regulations relating to utility companies for:
  - conversion of commercial consumer number into NTN / STRN
  - disconnection (if not registered within 6 – 12 months)
- Holding of land (beyond a threshold) without NTN / filer status, declared as Benami properties.
- Tax return filing for agriculture income should be mandatory; though such income would remain non-taxable.
- Value of import (particularly retail price based goods) should be made public.

## **SUGGESTIONS**

- Import trade price for vulnerable goods be fixed.
- Provisions which indicate failure of non-documentation accepted in the law should be withdrawn gradually [e.g. dealers margin / commission of unregistered person is taxed in the hands of compliant taxpayer, whereas expenses /input tax relating to sale to unregistered person disallowed to registered person is a penalty on compliant taxpayer].
- Simplified Tax Regime for wholesale and retail sector addressing both sales tax and income tax side should be introduced instead of introducing schemes which are not congruent.
- Banking transactions beyond a threshold without NTN should not be allowed.
- Minimum Tax Regime embedded in almost all the withholding provisions should be gradually phased out; as a first step carry forward of minimum tax should be allowed.

## **SUGGESTIONS**

- Valuation of assets in the hands of giftee needs to be aligned with section 79.
- Transfer of assets via gifts to non-relative, taxable in the hands of both gift or and giftee, needs to be rationalised.
- Definition of Greenfield Industry needs amendment to make it effective.

**THANK YOU**