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Lower CSF inflows to hurt non-tax revenue prospects

ALI HUSSAIN

ISLAMABAD: Only 21.3 percent under the budgeted Coalition Support Fund (CSF) has been released to Pakistan, as per a press release issued by the State Bank of Pakistan.

In the ongoing fiscal year, the government budgeted Rs 170.7 billion under the CSF, while in the previous year Rs 169.5 billion were realized under this head as per 2016-17 budget documents.

The Finance Ministry officials expressed their serious concern about the real possibility of the Trump Administration cutting Coalition Support Fund (CSF) to Pakistan which would cast a major negative impact on non-tax revenue of the government which in turn would raise the budget deficit. In background discussions, the US officials described the ongoing debate in media regarding an expected cut in CSF support for Pakistan as "total speculation."

"We've seen the articles and the debate within media but any detail on our budget is total speculation. The budget is very early in the process, no decisions have been made," a US official said, requesting anonymity.

The Trump Administration's budget blueprint "America First", which was released by the White House on March 16, suggested that military aid abroad would be shifted from grants to loans as a cost-saving measure

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77th Pakistan Day celebrated:

President brings CPEC under the spotlight

WASIM IQBAL

ISLAMABAD: President Mamnoon Hussain said Pakistan wanted peace and friendship with the whole world, specially with its neighbours, but India's irresponsible attitude and continuing violations of the Line of Control and Working Boundary have jeopardized peace of the region.

Addressing as the chief guest at the Pakistan Day Parade ceremony, Mamnoon Hussain said Pakistan is ready for dialogue with India and wants resolution of the Kashmir dispute, the unfinished agenda of the partition.

President said Pakistan enjoys cooperation in its development of its sincere friends, especially China. He pointed out that China-Pakistan Economic Corridor (CPEC) opened the doors of development not only for Pakistan, but for the whole region.

"The country's conventional and nuclear capabilities are meant to ensure global and regional peace", he said, adding that the nation will not hesitate in rendering any sacrifice for defence, security, development, and prosperity of the country.

In his special message for Pakistan Day, Chief of the Army Staff (COAS) General Qamar Javed Bajwa, called upon the entire nation to "Let us pledge today to clean "our Pakistan" from fasaadis."

The 77th Pakistan Day was celebrated under tight security across the country with national zeal. The day dawned with a 31-gun salute in the federal capital and 21-gun salutes in the provincial capitals.

The important feature of the day was the joint military parade, which was held at the Parade Ground near the Shakarparian hills. This is the first time that tri services of People's Liberation Army of China, contingents from Saudi Special Force and the Turkish band, popularly known as 'Mehteran' participated in the military parade.

Prime Minister Nawaz Sharif, Chief of the Army Staff General Qamar Javed Bajwa, Chief of the Naval Staff Admiral Mohammad Zakaullah, Chief of Air Staff Air Marshal Sohail Aman and Defence Minister Khawaja Asif, also witnessed the parade. Chief of South African National Defence Force General Solly Zacharia also attended the ceremony.

The ceremony commenced with the singing of the national anthem, after which the president inspected the parade from a jeep.

Chief of Air Staff, Air Chief Marshal Sohail Aman, led the flypast of the Pakistan Air Force and Pakistan Navy aviation in an F-16 plane. Later, the formations of F-16, JF-17 thunder, Mirage, AWACs, P3-C Orion and F-7 presented salute to the chief guest by flying over the dais during the ceremony.

Troops which took part in the parade included contingents of the Pakistan Navy, Pakistan Air Force, 18 Punjab Regiment, 21 Frontier Force Regiment, 10 Northern Light Infantry Regiment, 760 Mujahid Battalion, Frontier Corps Khyber Pakhtunkhwa, Pakistan Rangers Punjab, paratroopers, Pakistan police (represented by the Islamabad Police), Tri Services Lady Officers, Tri Services Armed Forces Nursing Services, Boy Scouts, Pakistan Girl Guides, Special Services Group (SSG) and bodyguards of President.

Mechanised columns of Armoured Corps, Artillery, Army Air Defence, Signals, Engineers, Army Strategic Force Command also participated. Floats displaying the culture of Punjab, Sindh, Balochistan, Khyber Pakhtunkhwa, Gilgit-Baltistan and Kashmir took part in the ceremony. Para-gliders stunned the crowd with their exhilarating skills.

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AIIB approves 13 new members

BEIJING: The China-backed Asian Infrastructure Investment Bank (AIIB) said Thursday it has approved 13 new prospective members including Canada, in a coup for Beijing after Washington failed to dissuade US allies from signing up.

The Beijing-headquartered multilateral lender, which began operations earlier last year, has been seen by some as a rival to the World Bank and the Philippines-based Asian Development Bank, which was founded in 1966.

The $100 billion AIIB counts several major European countries among its shareholders after they joined up despite Washington's objections.

The bank announced approval of 13 new members Thursday, including Hong Kong, Canada, Venezuela, Afghanistan, Ireland, Hungary, Belgium, Peru, Ethiopia, and the Republic of Sudan.

They will officially join AIIB after making their first deposit of capital and finishing required domestic processes, bringing the bank's total membership to 70, it said in a statement.

"The interest in joining AIIB from around the world affirms the rapid progress we have made to establish the Bank as an international institution," AIIB president Jin Liqun said in the statement.

"I am very proud that AIIB now has members from almost every continent, and we anticipate further applications being considered by our Board of Governors later this year."

Critics feared the bank would set low standards for projects and undermine principles of social, environmental and economic sustainability adhered to by the World Bank and other multilateral development finance institutions.

The United States and Japan — the world's largest and third-largest economies, respectively — have notably declined to join the bank.

In June the AIIB approved its first four loans, which totalled over half a billion dollars and were financed jointly with the ADB and World Bank, its putative rivals.

The loans went to projects in Pakistan, Indonesia, Tajikistan and Bangladesh.—AFP

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Cabinet to consider outsourcing of airports today

MUSHTAQ GHUMMAN

ISLAMABAD: The Cabinet which is scheduled to meet on Friday (today) with Prime Minister Nawaz Sharif in the chair will consider outsourcing of airports and miscellaneous facilities to the private sector.

According to official sources, airports infrastructure in the country needs to be modernized in line with global standards to cater to the needs of passengers and shippers.

The following policy guidelines have been given in the National Aviation Policy 2015 for development of infrastructure at the airports:

(i) airports shall be made safer and user friendly. Commensurate with anticipated increase in traffic demand, optimum capacity utilization and efficient management shall be ensured while appropriate world call airport infrastructure is provided. To achieve this goal, participation by the private sector would be encouraged ;(ii) private sector shall be encouraged to construct and/or operate new/existing airports, airstrips, water lakes for amphibian aircraft operations, helipads, heliports including cargo complexes on Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT) basis or any other suitable management arrangement, and to raise non-aeronautical revenues from these premises. Construction for new commercial airports in the private sector will be permitted to meet the growth in air traffic;(iii) land of all major airports shall be utilized more effectively for commercial purposes with the involvement of private sector and ;(iv) land at remote and non-operational airports shall be utilized for non-aeronautical commercial and recreational purposes. Pakistan Civil Aviation Authority will be given the task to formulate land lease policy to make it commercially viable for private investors and/or provincial governments without jeopardizing aviation activities.

At present all small and medium airports are running losses due to insufficient passenger traffic and commercial activity is almost nil. Exploiting the commercial and tourism potential of small and medium sized airports like Gilgit, Skardu, Chitral, etc, would be explored. Pakistan Civil Aviation Authority can enter into suitable Public Private Partnership (PPP) model to separate management and development of these airports. For major airports the model of PPP can also be followed to improve revenue and quality of service. The airports can be outsourced to world class companies of international standing through transparent and competitive process. For this purpose, consultants can be hired for outsourcing of such facilities at airports. This will ensure provision of world class service besides Pakistan Civil Aviation Authority can yield revenue either in the shape of annual fee structure or through appropriate equity partnership models. This will also help in separation of Pakistan Civil Aviation Authority roles of service provider and regulator.

The Cabinet will also approve initiation of negotiations on inter-governmental agreement between Ministry of Petroleum and Natural Resources and Ministry of Economic Development of Italy for supply of Liquefied Natural Gas (LNG).

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Pakistan Textile City: another story of failed SEZs

Last month, the ECC approved the winding up of Pakistan Textile City – a 1,250 acre project in Karachi that never took off. However, the Sindh government has recently retorted that the project will go forward with the help of Port Qasim Authority.

Formed in 2004, Pakistan Textile City Limited is a public-private joint venture company that sought to develop a state-of-the-art industrial zone at Port Qasim, Karachi, dedicated solely to the value-added textile sector.

According to a presentation available with the Ministry of Textile Industry's website, the goal of the Textile City was to "enhance productivity, quality, cost effectiveness and compliance in the post WTO era; create synergistic environment to encourage vertical integration and achieve economies of scale; attract local and foreign direct investment into textile industry; boost export potential of value added textile products; and create 80,000 jobs."

The promises of the Textile City also included uninterrupted gas, electricity, and a dedicated water supply line. However, as is always the case with such undertakings, it has been dead in the water due to bureaucratic ineptitude and half-heartedness. Reportedly, the project had been inaugurated twice in the past, but has been since pending and incurring losses to the national kitty.

BR Research spoke to former Chairman of Pak Textile City, Dr. Mirza Ikhtiar Baig, who said that the moratorium on new gas connections has been the final nail in the undertaking's coffin. He mentioned issues regarding the availability of water, saying that all efforts from the involved parties had been half-hearted. There have been instances of nepotistic appointments as well – a hallmark of public office.

The goal, Dr. Baig said, was to eventually make Pakistan Textile City into a Special Economic Zone. However, the project's future is now uncertain; the Sindh government has a 16 percent share, while the centre has 56 percent. The land is with the Port Qasim Authority, which is a federal body. Although the Sindh Chief Minister has said that Pakistan Textile City will go forward despite the odds, there is little to provide credence to his words.

Shareholders	**Percentage**
Government of Pakistan	40
Government of Sindh	16
National Bank of Pakistan	8
Port Qasim Authority	8
Pak Oman Investment Company	4
Pakistan Kuwait Investment Company	4
Saudi Pak Industrial & Agricultural Company	4
Pak Libya Holding Company	4
NIB Bank Ltd	4
Export Processing Zones Authority	4
Pakistan Industrial Development Corporation	4

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Cotton growers advised to sow crop between April 15 to May 15

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LAHORE: The Punjab Agriculture Department (PAD) has advised the cotton growers to sow their crop between April 15 to May 15 and only use approved varieties of BT or Hybrid cotton seeds.

In an advisory issued here on Thursday, a PAD spokesman also warned the owners of ginning factories, kilns and oil factories owners to complete destroy their ginning waste by March 31 so as to avoid the attack of pink bollworm.

The spokesman also urged upon the cotton growers to follow the off-season management formula introduced by the agriculture department which was aimed at pest management and saving the crops from pest attacks.

He said that this would help reducing the cost per acre and improving the yield.

He stated that the department also launched a campaign to eradicate the cotton bolls infected with pink bollworm in which students, workers of pesticide companies, employees of agriculture department and farmers participated.

They eliminated 500 maund cotton bolls.

The spokesman urged the growers to take preventive measures before time to save their crop from different pests such as pink bollworm, red cotton bug, white fly and others.

He said the department has formulated 23 points strategy to tackle these pests including biological control.

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PCGA submits budget proposals to NA body

RECORDER REPORT

MULTAN: “We would not be able to run our ginning factories in next season of 2017-18 due to burden of taxes and other crises,” said Chairman of Pakistan Cotton Ginners Association (PCGA), Dr Jeso Mal while submitting budget proposals/recommendations to Standing Committee of National Assembly for Finance and Revenue in Islamabad.

He said that Textile Industry was only buyer of cotton and there is no other buyer in the country to break the monopoly of APTMA.

In his budget proposals, PCGA chairman demanded a bailout cum incentive oriented package for the ginners. Since cotton is an important cash crop and lifeline of textile industry millions of farmers are directly associated with cultivation and harvesting of cotton crop and sale of lint.

The government should announce a National Cotton Policy with the consent of farmers, ginners and other stakeholders before the sowing of cotton crop and a comprehensive bailout and incentive oriented package must be announced forthwith.

There should be complete ban on sugarcane sowing in core-cotton zone.

There should be no permission for setting up of sugar Industry in cotton zone. Dr Jeso Mal told the standing committee of NA that there was a possibility of 20 million bales production if the proposals and recommendations of PCGA are implemented.

Chairman PCGA said that government should take notice of continuous low production of cotton in the country and responsible departments, researchers, and institutions must be made accountable for not performing their duties properly.

To meet that demand, the country needs to boost its cotton production.

He said that the desired targets of cotton production remained a distant dream for the last three years as it was largely below target. Pakistan is the world’s fourth largest cotton producer and a leading exporter of yarn. Therefore, all-out efforts are required in many areas to improve cotton production to meet not only the export demand but also domestic requirements.

PCGA chairman briefed the committee that presently cotton crop is facing a number of constraints, including low per acre yield that ranks Pakistan 10th in the world, high price of agriculture inputs (seeds, fertilisers, pesticides etc), higher intensity of insects and pests attack, shortage of good quality, high-yielding insect and pests resistant varieties of seeds, deficiency of irrigation water; lack of advance technologies, lack of awareness and agro-professionalism and adulterations in pesticides, fertilisers and seeds.

The government is well aware of the overwhelming significance of cotton as lifeline of economy. It is looking for different options to visualise Cotton Vision 2020 of 20.70 million bales production.

This is only possible making constant efforts in the field of research and for increasing the lint yield per acre by adopting modern production techniques.

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New York cotton nearly flat

NEW YORK: ICE cotton futures were subdued on Thursday on muted speculative activity ahead of a federal acreage report due next week.

The US Department of Agriculture will release its prospective crop plantings report on March 31.

"We are coming to an index fund roll period and an acreage report on the 31st. This is not a level where many want to come in and get long in this market," said Louis Rose, an independent cotton trader and consultant with Risk Analytics in Memphis.

"Ahead of the end of the month there's not enough fresh spec money to push it higher," he added.

Weekly export sales data from the US government showed net upland sales totaled 328,200 running bales for the previous week, up 4 percent from the week before.

The May cotton contract on ICE Futures US settled down 0.07 cent, or 0.09 percent, at 77.27 cents per lb. It traded within a range of 77.23 and 77.97 cents a lb.

Total futures market volume fell by 8,283 to 19,113 lots. Data showed total open interest gained 1,573 to 279,703 contracts in the previous session.—Reuters

New York cotton

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The fluctuations observed during the day:

	Current Session						Prior Day		
	Open	High	Low	Last	Time	Set	Chg	Vol	Set
May'17	77.61	77.97	77.23	77.27	14:20 MAR 23	77.27	-0.07	15953	77.34
Jul'17	78.59	79.10	78.43	78.48	14:20 MAR 23	78.48	-0.02	7043	78.50
Oct'17	-	76.09	76.09	76.09	14:20 MAR 23	76.09	0.49	4	75.60

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World Bank loans

World Bank has generally been quite liberal in extending project loans to Pakistan. On 16th March, 2017, it again announced the approval of another loan of dollar 450 million for expanding banking access and social protection programme. Of the dollar 450 million, dollar 300 million will be provided to support Pakistan's efforts towards promoting a more inclusive and transparent financial sector. The programme is aimed at providing financial access throughout Pakistan for 50 percent adults by 2020 from the existing level of 16 percent. One of the ambitious targets under the dollar 300 million loan is expanding the access to credit to 25 percent among women and doubling the credit facility for SMEs to 15 percent in three years. The World Bank will also support the government's policies on enhancing financial inclusion through launching a national digital transaction accounts scheme and modernising the Central Directorate of National Savings (CDNS). Another programme for dollar 100 million was approved for the National Social Protection Programme (NSPP) aimed at assisting the government in strengthening the national social safety net system for the poor. The loan will support the BISP in updating the National Socio Economic Registry and other social programmes, and incentivise improvements in the service delivery systems. Another dollar 50 million programme was approved for the Punjab Tourism for growth projects. The loan will strengthen institutions in Punjab, increase private sector participation and improve infrastructure to support the tourism sector.

All the three loans announced for Pakistan amounting to dollar 450 million seem to have been provided for the right kind of purposes. The financial access and inclusion in Pakistan remains low and needs to be enhanced substantially to mobilise a higher level of savings and incentivise a larger number of people to undertake entrepreneurial activity as a way of life to utilise the productive potential of the country. At present, about 100 million adults in Pakistan don't have access to formal and regulated financial services and various measures are contemplated through the Finance for Growth Development Policy (FGDP) to enable the financial sector to play an enhanced role in the economy. However, the targets of FGDP programme appear to be somewhat overambitious as enhancing the access of financial services by more than three times in a period of 3-4 years would be extremely difficult. The priority for expanding the outreach of financial services to the SMEs and women was, in our view, also a correct approach because banks have been found reluctant to properly look after these areas owing to a variety of reasons. So far as social safety nets are concerned, it is widely believed that the money is doled out to favourites and in a non-transparent manner. A platform is therefore obviously needed to correctly identify the poor for cash transfers and other social programmes and improve the service delivery systems. Hopefully, the FGDP will fill this gap. Tourism is also a neglected sector in Pakistan. It is expected that dollar 50 million for Punjab tourism will help improve the quality of infrastructure in the province which may also enable the country to earn more foreign exchange. Another quality of the World Bank loans is that they are relatively inexpensive compared to other sources.

It is quite evident, however, that the benefit of the World Bank loans will depend on their effective utilisation. Unfortunately, our record in this regard is not inspiring. The authorities of the country usually seek such loans for balance of payment purposes. Financing needs of annual budgets are also addressed through a recourse to WB loans. Such an attitude would increase the debt servicing of the country in the coming years and at the present rate of C/A deficit, the country will not be able to easily payback its loans in foreign exchange. In order to avoid such an unpleasant situation, it will be in the interest of Pakistan to initiate a reform agenda on its own to balance the budget and earn a surplus in the external sector so that continuously rising public debt does not become a problem in future.

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Tapping the real revenue potential

Huzaima Bukhari and Dr Ikramul Haq

"Pakistan's tax revenue remains very low relative to comparator developing countries and the tax effort expected for the country's level of development. This reflects narrow tax bases, overgenerous tax concessions and exemptions, weak and fragmented revenue administrations………" — Unlocking Pakistan's revenue potential by Ms. Serhan Cevik, Country Report 16/2 (January 2016), IMF.

At present, Pakistan's public debt is almost 600 percent of tax revenues and development spending is significantly less than interest payments"— Unlocking Pakistan's revenue potential by Serhan Cevik, Country Report 16/2 (January 2016), IMF.

In fiscal year 2015-16, Federal Board of Revenue (FBR) claimed to have surpassed the target of Rs 3104 billion. As per details released by FBR on its website, it made "a net collection of more than Rs 3130 billion for the year ending June 30, 2016 as against Rs 2589 billion collected in the year ending June 30, 2015 thereby registering a 21% increase over the last year". On August 23, 2016, Prime Minister personally handed over refunds cheques of Rs. 21.44 billion to exporters. The Ministry of Finance asked the Auditor General to debit this amount from collection of 2015-16. It is not notified by FBR to public till today that actual collection was not Rs. 3130 billion as claimed!!

Many quarters, including the Senate's Committee on Revenue & Finance, expressed serious reservations regarding authenticity of figures showed by FBR and methodology used to show what they allege " fake and inflated collection". English daily Pakistan Today, in a report, 'At long last FBR achieves the revenue targets, July 1, 2016, claimed that "after withholding all the tax refunds during the last fiscal year and forcing companies to pay advance income tax, the Federal Board of Revenue (FBR) announced on Friday that it had achieved the tax revenue collection target of Rs 3.1 trillion set for Fiscal Year 2015-16." The report further claimed: "FBR was holding more than Rs 250 billion in tax refunds during the last fiscal year. The tax refunds were kept to maintain the tax revenue target agreed with the IMF."

Although the government has been taking credit of "extraordinary" performance, the fact remains that 92% of total collection in 2015-16 came through indirect taxes, withholding of taxes, advances made under section 147 of the Income Tax Ordinance, 2001 and voluntary tax paid with returns. Over 22,000 personnel of Inland Revenue collected just 8% tax through their own efforts by way of audit of declarations or by bringing new taxpayers in the net or unearthing underreporting or non-reporting using data and employing modern information technology tools. The figures confirm that FBR did not bother to bridge tax gap as pointed out by the IMF in its report, [Unlocking Pakistan's revenue potential, Ms. Serhan Cevik, Country Report 16/2, January 2016]. Tax gap of a country is measured by the amount of tax that remains uncollected due to non-compliance with tax laws. In Pakistan Tax Gaps: Estimates by Tax Calculation and Methodology, a joint study of FBR, Andrew Young School of Policy Studies at Georgia State University and World Bank, provides in detail tax gaps by type of tax and describes the methodologies and data used for such estimates. The report prepared in December 2008 by Rubina Ather Ahmad (FBR) and Mark Rider (Andrew School) says that views expressed "are of the authors and not of the Government of Pakistan".

Tax collection figures for fiscal years 2014-15 & 2015-16

Income tax collection in fiscal year 2014-15 was Rs 1033.7 billion and projection for 2015-16 was Rs 1307 billion. The actual collection, reported by FBR, is Rs 1220 billion—showing shortfall of Rs 87 billion. Collection of sales tax in 2014-15 was Rs 1088 billion and projection for 2015-16 was Rs 1230.3 billion. By raising sales tax on POL products from 17% to 30-50%, the government managed to collect Rs 1329 billion in 2015-16. Customs collection in 2014-15 was Rs 306 billion and projection for 2015-16 was Rs 348.5 billion. After levying regulatory duty on over 300 items, it was increased to Rs 404 billion in 2015-16. Federal Excise collection in 2014-15 was Rs. 162 billion. Against projection of Rs. 200.9 billion, actual collection for 2015-16 was Rs 177 billion.

For fiscal year 2004-2005, according to this report,

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Pakistan's federal tax gap was Rs 409.5 billion or approximately 69% of actual tax receipts of Rs 590.4 billion. Terming this as "conservative estimate", the report claims direct tax gap at Rs 262.8 billion (around 143% of actual collection of Rs 183.1 billion) and indirect tax gap at 146.7 billion (36% of actual tax collection of Rs 407 billion). In 2008, the data selected was for fiscal year 2004-2005 and tax gap was estimated at 45%. Since then tax gap has increased and according to FBR's own admission it is not less than 70% of actual tax potential. Pakistan faces significant challenges in realizing its tax revenue potential and thereby providing the much-desired fiscal space for growth-enhancing priority spending on infrastructure, education, healthcare, and targeted social assistance. As per 'Unlocking Pakistan's revenue potential': "While the tax revenue-to-GDP ratio has increased by 1.5 percent over the past three years to 11 percent in 2015, it remains significantly below comparator emerging market economies and the tax effort expected for the country's level of development. The historical development of tax ratios confirms underperformance in revenue mobilization, with the tax-to-GDP ratio currently 1.4 percentage points below its peak of 12.4 percent of GDP in 1996. Pakistan has the potential to mobilize additional tax revenues by an amount as much as, if not more than, it currently collects: its tax capacity is estimated to be 22.3 percent of GDP, which implies a tax revenue gap of more than 11 percent of GDP. Although its estimated tax effort—the ratio between actual revenue and tax capacity—improved from 0.43 in 2011 to 0.49 in 2015, Pakistan is still significantly below the average of comparator developing countries (0.64) and high-income countries (0.76)".

Millions of Pakistanis by virtue of nearly 70 types of withholding taxes, both adjustable and non-adjustable, imposed under the Income Tax Ordinance, 2001, are paying advance income tax. These income taxpayers include not only persons liable to tax, but millions having either no income (e.g., students, wageworkers, unemployed, etc) or having incomes below taxable limit.

There are 90 million unique mobile users in Pakistan that pay 14% adjustable income-tax [only 1.5% out of them file returns]. According to FBR's own admission, it received 1,039,291 returns till March 9, 2017. An earlier disclosure by FBR confirms that return filers in 2016 were 1.1 million. It is pertinent to mention that in 2011 this number was 1,443,414. Jorge Martinez-Vazquez and Musharraf Rasool Cyan in their book, 'The Role of Taxation in Pakistan's Revival', mentioned at page 676 [Figure 36] that 2.1 million Pakistanis (individuals) filed income tax returns in 2006-07. This shows that FBR has lost one million return-filers since 2006-07. FBR needs to conduct a study to find out what has gone wrong. Where have one million return filers vanished?

According to Pakistan Telecommunication Authority (PTA), in December 2016, total mobile users in Pakistan were 136,489,014 (prior to biometric verification, there were 140,022,516 mobile users which number fell to 114,658,434 in 2014-15). During the financial year 2015-16, this number went up to 133,241,465. According to latest report of GSMA, there are 90 million unique mobile users (47% of the country's population), that paid both 14% income tax and 19.5% sales tax during fiscal year 2015-16, but about 1.5% of mobile users filed income tax returns.

Pakistan's real dilemma is that the rich and mighty are not paying taxes according to their ability. In 2014, 2015 and 2016, less than 4000 persons paid tax between Rs 1,000,000 and Rs. 10 million. In 2014 just 3,663 declared tax of over Rs 10 million and this position worsened in 2015 as per Tax Directory 2015, recently released by FBR. In Pakistan, the ultra-rich are avoiding tax obligations but millions having no income or incomes below taxable limit are being forced to pay advance income tax in gross violation of Article 4(c) of the Constitution assuring that the State cannot force a person to do what the law does not require him to do.

By the end of 2015, our population, according to Economic Survey of Pakistan 2015-16, was 195.4 million, out of which 77.93 million constitutes urbanites while 117.48 million live in rural areas. The dependent population of children under the age of 15 years was 35.4 percent whereas 4.2 percent people were above 65 years. Out of total population, 30 million were below poverty line earning less than two dollars a day. Our labour force, among the tenth largest in the world, was around 61 million, out of which 57.42 million were employed. Rural labour force of 42.3 percent was earning below taxable income or agricultural income falling

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outside the ambit of Income Tax Ordinance, 2001. Reading all these figures together, the total persons liable to income tax could not be more than 10 million whereas the government is extorting income tax in the form of withholding tax from over 90 million mobile users alone!

All traders pay advance income tax with electricity bills under section 235 of the Income Tax Ordinance, 2001, and if monthly bill is up to Rs 30,000, tax paid is treated as minimum tax with no claim to a refund! In the presence of this section, read with section 181AA, was there any need to impose tax on banking transactions by non-filers? Even the affluent domestic electricity users are subjected to withholding tax if bill amount is Rs. 75,000 or above [the limit was Rs 100,000 prior to July 1, 2015]. It is an undeniable fact that FBR has failed to get due tax from the rich and mighty and thus its main emphasis is on withholding taxes. FBR Year Book 2014-15 concedes that in fiscal year 2014-15 withholding taxes constituted 63.2% of total income tax collection of Rs 1094.284 billion. 26.3% came from voluntary payments, advance tax and tax with returns. FBR's own efforts (collection on demand) yielded only 10.6%. It confirms negligible efforts on the part of FBR to tap the actual tax potential as it would be hurtful to the rich, majority of which are non-filers, despite having undeclared, untaxed wealth and the audacity of ruling this country as a matter of right.

Pakistan's tax potential at federal level alone is Rs 8 trillion. According to Household Integrated Economic Survey (HIES) 2011-12 conducted by Pakistan Bureau of Statistics, 5 million individuals have annual taxable income of Rs 1.5 million. If all of them file tax returns, income tax collection from them at the prevalent tax rates would be Rs 1650 billion. If income tax collected from corporate bodies, other than non-individual taxpayers and individuals having income between Rs 400,000 to Rs 1,000,000 is added, the gross figure would not be less than Rs 4500 billion—FBR in 2015-16 collected only Rs 1216.9 billion as direct taxes (which includes almost 40% of indirect taxes in the garb of income taxation).

* "The number of companies and Association of Persons (AoPs) filing annual income tax returns has declined in the tax year 2015.

* The number of income tax return filers increased by just 10,745 in tax year 2015. FBR was supposed to bring in 300,000 additional people in the tax net by serving them tax notices.

* The number of income tax filers stood at 1.064 million in tax year 2015 as against 1.053 million of the previous year. In a population of about 200 million, only 3.7 million are registered taxpayers in the country. Out of these, only 1.064 million filed their returns during the tax year 2015.

* The FBR registered 135,139 more people in 2015 but only 10,745 or 8% of them filed their tax returns, highlighting weak enforcement.

* Out of total 3.5 million registered individuals as of June 2015, only 991,538 filed their tax returns—up by 12,686. A major reason behind increase in number of individuals filing their returns was the government's decision to give tax amnesty scheme to traders. As a result of this scheme, 9,090 traders came into the tax net, against the official aim to bring one million.

* As against 157,268 registered AOPs, as many as 44,539 AOPs filed their returns—1,704 less than even in 2014. Similarly, against registered 57,186 companies only 28,031 filed their returns. As many as 237 companies that were filing their returns earlier became non-compliant in tax year 2015.

After coming into power, the present government introduced a policy of two separate tax rates for filers and non-filers of income tax returns. It set significantly higher income tax rates on dividend income, interest income, cash withdrawals, and all kinds of banking transactions and withholding taxes on almost every kind of transaction. These measures, it was estimated, would generate extra Rs 54.5 billion in fiscal year 2015-16. The total collection from them in fact exceeded Rs 85 billion, suggesting that non-filers were ready to bear the extra cost (in most of the cases passed on to their customers/clients) but not willing to expose themselves to the tax authorities.

(The writers, lawyers and partners in Huzaima, Ikram & Ijaz, are Adjunct Faculty at Lahore University of Management Sciences)

THE NEWS
Friday, 24th March, 2017

Subsidising sick sectors unlikely to improve economic health

LAHORE: Markets are slipping through Pakistan's fingers both at home as well as abroad not only due to flawed government policies but also because of lethargic private sector that parks resources elsewhere when the times are good and seeks subsidies in the days of distress.

According to Transparency International's corruption perception index (CPI), Musharraf era was the worse. The policies were almost a mirror image of what the present regime is pushing today. The business community's then resentment against tough audits and relentless raids on their premises by the tax authorities was no different than today. All other governance factors were almost same; however, the economy gradually went into top gear post 9/11. It was due in part to a manifold increase in overseas workers' remittances and the generous contributions made by the global donor agencies. United States of America too lavishly pumped grants into Pakistan in those days.

It improved macroeconomic indicators and paved way for low interest regime. The businesses benefited from the new global situation. The textile sector minted money and secured state-of-the-art equipment from United States as their well established industries filed bankruptcies. The going was good and new investments at very low costs paid proved to be windfall for the investors. The newly introduced consumer financing products boosted sales of auto and home appliances sector. These sectors also had to increase their capacities. Even while sitting pretty, the textile sector sought and secured subsidies in the form of 6 percent grant for research and development on the exported amount.

Since then, investment in all these sectors has been dying down bit by bit. The textile sector is running on up to 12-year old technology, which, in the age of disruptive innovations, is no better than obsolete. The money they accumulated during big time did not go into the upgrading technology but building real estate. A look at the profiles of textile tycoons would reveal that every big house has developed either a huge housing complex or a shopping mall. Well, you cannot export these immoveable assets. They have lost export markets due to low-grade technology and their factories are posting losses, but they have secured their futures through investment in realty.

No government has so far been able to devise ideal economic policy. The Federal Board of Revenue (FBR) has always been accused of extortion and corruption. Legal proceedings are inordinately delayed. Police are as corrupt as ever. The SRO (statutory regulatory orders) culture continues to protect the high and mighty just like it did in the past.

The manufacturing sector moved on the strength of concessions, waivers and subsidies. The governments the world over do play handholding role to support their domestic industries, but there's a limit to it. Any industrial sector that fails to achieve global efficiency even after a decade of handholding deserves to be folded.

The state can provide concessions to a new sector because of its low volumes and it has to be minimal. When that sector starts growing the subsidy is gradually withdrawn over a period of 5-10 years. Any industry that is unable to operate on its own after ten years of subsidies should be closed down. When governments start subsidising unviable sectors more and more investors start investing in it and as a result the amount of subsidy also increases. A day comes when the government is no longer in a position to provide subsidies. When such a stage comes any sensible financial planner would withdraw all the government concessions before it is too late.

Unfortunately, this has not happened in Pakistan. We have been charging full general sales tax (GST) on sugar, beverages, toothpastes, and many items but are afraid to charge full GST on fabric and garments. Planners fail to realise that in any economic distress the first thing that average households stop buying is clothing.

This is because they have the option to use the clothing they purchased in the past years. However, if an electric bulb breaks, a fan malfunctions, or sugar runs out then they have no other choice than to get these things immediately. The branded fabrics are sold at up to Rs5000 per meter. The brands start from Rs500 per meter. They are supposed to pay 2 percent GST. When consumers can pay such huge amount for the branded fabric why can't they pay sales tax to the government.

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The truth is that pampering the inefficient textile sector would not reduce the trade gap but create a big hole in the government resources. After 60 years of constant concessions it is high time the government reward technology upgrade and value-addition in all industries including textiles.

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Friday, 24th March, 2017

FBR plans to develop common reporting platform for collection

Sales tax on services

KARACHI: The Federal Board of Revenue (FBR) has planned to develop a common returns filing and tax payment system under the head of sales tax on services, officials said on Thursday.

The provincial authorities are not prepared to adopt or synchronise with the system, which is causing delay in its implementation, the officials added. The provinces of Sindh and Punjab are well-prepared, but KP revenue board is developing its system and Balochistan revenue authority is at the initial stages. “It is difficult to develop a common platform until all the provincial authorities are ready,” an official of the Federal Board of Revenue (FBR) said.

At present, taxpayers have to deal with five revenue authorities, including one federal and four provincial, for payment of duty and taxes and filing their monthly sales tax returns. The official said once the provinces are ready for data synchronisation, a single return form will be developed and the taxpayers will only select the authority for payment and filing of returns.

After the 18th Amendment to the Constitution in April 2010, the provinces were delegated with the powers to collect sales tax from the federation. Sindh Revenue Board was the first to start functioning; followed by Punjab, KP and Balochistan, the official added.

After the establishment of four more revenue authorities along with the FBR, the taxpayers working in multiple jurisdictions became exhausted due to dealing with such authorities in filing monthly returns, payment and audit matters. The official said the provincial authorities are worried over the introduction of new system, as all the payments will now once again go to FBR.

For this purpose, there should be a separate independent national tax authority and the FBR would work with such authority, the FBR official said.

Officials in Sindh Revenue Board said the federal authorities are showing less interest in harmonising the sales tax on services and facilitate the taxpayers. A SRB official said about three years ago the provincial revenue board had asked the Pakistan Revenue Automation (Pvt) Limited (PRAL) to develop a common reporting system to facilitate taxpayers operating their business simultaneously under the jurisdiction of the FBR and SRB. “However, there was no response to-date,” the official added.

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Fed research signals inflation overshoot possible

WASHINGTON: The Federal Reserve has begun preparing the public and markets for higher inflation, but has left unanswered the question of how high inflation might go and for how long?

A new research paper from economists at the Fed´s Washington-based Board of Governors suggests that policymakers should allow prices to rise by around 3.0 percent annually during periods of high economic growth, so that the long-run average annual target of 2.0 percent inflation is achieved after several years of lower inflation.

"Achieving an inflation target of 2.0 percent hinges on policymakers pursuing inflation levels that are notably above 2.0 percent," when the economy is recovering, board economists Michael Kiley and John Roberts wrote in a paper presented Thursday at the Brookings Institution.

Keeping interest rates low while inflation spikes, presumably with output and wages also rising above potential, would "make up" for the accumulated effects of the long downturn in growth and inflation in the past decade. Fed staff research does not necessarily reflect the views of board members or directly impact policy, but in this case it is relevant to an ongoing debate over how the Fed should react as inflation nears the central bank´s target.

The personal consumption expenditure index, the Fed´s preferred inflation measure, has averaged just 1.6 percent over the last decade, prompting some support for a period of higher inflation in hopes that wages and interest rates may rise as well. Fed Chair Janet Yellen last week, and a group of regional reserve bank presidents this week, signaled the Fed would not try to halt inflation at 2.0 percent, but only shift gears if above-target prices rises appear "persistent." "Two percent is not a ceiling," Chicago Federal Reserve bank president Charles Evans said in New York this week.

"If you always worry about spending time above 2.0 percent, that’s smelling and tasting and looking like a ceiling – and I think that’s something you have to actively fight. ”The papers on inflation and other topics, prepared by top Fed and other economists for an annual Brookings research conference, showed that even as economic conditions become more normal the Fed is continuing with a deep re-evaluation of economic conditions following the 2007-2009 financial crisis. The papers outlined the likely persistence of slow economic growth in an aging society, countering the notion that a faster economy is just a tax cut away, and the likelihood that global interest rates will remain lower than usual for a long time to come.

In the current Fed debate, acceptance of 3.0 percent inflation is unlikely. The 2.0 percent goal is a global norm for central banks, a recognition that a modest but steady rise in prices is actually healthy for the economy overall. Prices that rise too fast can trigger a public outcry, and may risk changing household and business psychology in a way that fuels even faster price increases and which can be hard to tame.

However the Fed did change its policy language slightly, but significantly, last week when it said that the 2.0 percent annual inflation target was "symmetric.

"After years of low inflation, officials said, an overshoot will not lead them to change course and raise interest rates faster than the "gradual" path they currently intend. Under current Fed forecasts, that means interest rates will remain low enough to encourage borrowing and spending for perhaps three more years as the Fed slowly climbs back to a "neutral" interest rate estimated at around 3.0 percent. In an economy that is near or below full employment, wages should rise as firms compete for workers, one of the possible benefits of a "hot" economy that Yellen last fall suggested researchers should try to analyze.

Policymakers have not set a path for how "hot" the economy might be allowed to run, but Minneapolis Fed President Neel Kashkari, in a public Twitter conversation this week, said an extended inflation overshoot of 2.3 percent would be tolerable "if we really believe 2 percent is a target".

DAWN
Friday, 24th March, 2017

Food, oil imports rise 18pc

MUBARAK ZEB KHAN

ISLAMABAD: Pakistan's food and oil import bill rose nearly 18 per cent year-on-year to $10.652 billion in the first eight months of the current fiscal year despite a decline in global prices of crude and grains.

The share of these products in Pakistan's total import bill in July-Feb was 32pc, which is putting more pressure on the country's balance of payments.

The trade deficit is widening as the overall import bill of the country has been on the rise since the start of the current fiscal year.

Official figures compiled by the Pakistan Bureau of Statistics (PBS) show that petroleum imports increased 20.97pc year-on-year to $6.682bn in July-Feb.

Imports of petroleum products went up 23.28pc to $4.193bn in the eight-month period. However, a decline of 7.13pc was recorded in the import bill of petroleum crude.

In the petroleum group, the import bill of natural gas liquefied surged 144pc while that of petroleum gas liquefied recorded growth of 45.38pc during the period under review.

A reduction in the oil import bill in July-Feb followed a steep increase in the imports of petroleum products, which indicates that domestic refineries are not operating at full capacity.

The second biggest component in the import bill was food commodities whose exports rose 13.47pc year-on-year to $3.970bn in the first eight months of the current fiscal year.

This increase has been attributed to massive imports of palm oil worth $1.186bn followed by 'other' food items ($1.394bn), pulses ($600 million) and tea ($362m). Imports of dry fruits and milk products also grew during the period under review.

The import bill of machinery also surged 42.36pc to $7.811bn mainly because of power generating machinery, followed by office, textile, construction and electrical machinery.

However, negative growth was witnessed in the import bill of the telecom sector because of an increase in the import duty on mobile phones and other apparatus.

Economic managers are trying to control the impact of an increase in capital goods' imports under the China-Pakistan Economic Corridor (CPEC).

The State Bank of Pakistan (SBP) recently imposed 100pc cash margin on the import of a number of items. This means banks now require importers to furnish foreign currency for the full purchase amount in advance on about 400 imported consumer goods, including vehicles, mobile phones and home appliances.

DAWN
Friday, 24th March, 2017

Sindh collected Rs225m in professional tax in July-Feb

MUZAFFAR QURESHI

KARACHI: The Sindh government collected Rs225 million in professional tax during the eight months through February, a year-on-year growth of six per cent.

The number of commercial units paying professional tax in Karachi increased by 2,944, or 0.8pc, to 373,529 as compared to a year earlier.

The excise and taxation department collected Rs5.5m in arrears from private limited companies, who pay a minimum tax of Rs100,000 a year.

The department rejected a request made by the management of an airline which argued that it would not pay the tax in Karachi as it was paying the same tax from its head office in Islamabad.

Moreover, the excise and taxation department is considering seeking help from law enforcement agencies to recover tax worth millions of rupees from city's major markets such as Tariq Road, Landhi and Ibrahim Hyderi.

Tax officials say shopkeepers in these markets do not entertain tax challans and notices and threaten the tax staff who visits their shops to recover tax.

The tax staff is also said to face resistance in recovering professional tax in Karachi's district central, where the number of units — mostly shops — that must pay the tax is over 18,000.

Shopkeepers in the area complain of double taxation as they are also required to pay trade licence fee to Karachi Metropolitan Corporation (KMC).

An official said the KMC staff employed harsh measures for recovering the trade licence fee, whereas the excise department avoided using force to recover professional tax which is Rs500 per shop.

The professional tax challans are issued every year in July, but a two months' grace is given to taxpayers and therefore recovery starts from September.

The number of commercial units liable to pay professional tax in city's district east is 25,000. However, the department is suffering revenue loss as major markets and malls in Gulistan-i-Jauhar and Shah Faisal Colony do not pay tax to the Sindh government as they fall in cantonment board.

The tax collection from these areas could be Rs150m against Rs120m now if the tax is recovered from all these markets.

The number of businesses and commercial units paying professional tax in the district west is 24,000. Of them, 1,900 are industries and 5,000 commercial units, mostly godowns.

The number of salaried people paying professional tax is 72,000, including government and private employees. The tax is deducted at source from their salaries.