BUDGET 2015-16

BUDGET REVIEW FROM A DIFFERENT PERSPECTIVE

INFONALYSIS

JUNE 2015

Research & Development Cell

Karachi Chamber of Commerce & Industry

The gateway to economic prosperity…

Businesses burdened with further taxes

The Budget FY16 has once again been high on hopes and low on concrete measures. It has once again sacrificed the interests of business community for the sake of the tax avoiding elite, politicians, agriculturists and the bureaucracy.

In fact, the budget has effectively increased the cost of doing business instead of providing direly needed relief in order to boost exports and catalyze growth. As if imposition of the Gas Infrastructure Development Cess (GIDC) through the parliament before announcement of the budget was something less than a catastrophe, tax on businesses was increased in the form of higher minimum customs duty, 1% increase in further tax, super tax of 3% on large companies and 10% tax on reserves exceeding paid up capital, all adding a significant chunk to the costs of doing business. There also appear to be no real measures for broadening the tax base, to explore new venues for revenue generation and to plug revenue leakages amounting in billions, apart from applying extra tax for non-filers and some other cosmetic measures.

Budget FY16 - more of number gimmicks

The budget largely appears to be a maze of number gimmickry where performance comparison of FY15 has been made with earlier years when the nation was undergoing economic turmoil. For example, although the GDP growth of 4.2% fairly missed the target of 5.1% set for the year, the govt. took credit of high growth as compared to the average growth rate of 3% in the period 2008-13, stating this is the highest growth rate in last seven years.

The government also took major credit of the easing inflation to 4.6% even though it was mostly in the aftermath of the decline in the international oil prices. Surprisingly, the inflation target for FY16 has been set at 6%, already knowing that that the measures taken in the budget are going to be inflationary and also taking into account the expected rise in oil prices.

The government also boasts of lowering the discount rate to 7% which is at a 42 year low, even though it was more due to exogenous factors (heavy drop in oil prices) that inflation eased off to such an extent allowing the SBP with significant space to reduce the policy rate.

Cost hikes suppressing industrial growth

The business community has long been raising its voice on the rising cost of doing business and rising taxes including the GIDC which has greatly hurt the industry's manufacturing competitiveness. This concern has manifested itself in the form of low LSM growth and declining exports in FY15. Another key reason for low output of large-scale manufacturing has been the shortages of gas and electricity. Manufacturing growth remained 3.2% in FY15 wherein the LSM which has a contribution of 80% in the sector could not perform any better, with a sluggish growth of 2.4%. Exports have failed to pick up as products struggled to face global competition on the cost side.

Taxing the already taxed, evaders roam freely

The 3% Super Tax on all other taxpayers having income above PKR 500Mn and 4% from banks for the benefit of the Temporary Displaced Persons (TDP) has been announced. Such a step is a nice gesture if allowed to be carried out voluntarily. But creating laws that mandatorily require such collection from honest tax payers is a step overboard, given the fact that there are many billionaires who are still out of tax net, who are free to build their empires and enjoy all amenities while the already taxed are further being taxed under the cover of IDPs.

This raises another question: How would it be ensured that the amount raised as Super Tax would be wholly and transparently spent for the benefit of the TDPs?

Furthermore, the Super Tax would also affect foreign companies investing in Pakistan. The country badly needs to expand its capital base for investment in projects and as such foreign investment is a key in this expansion, and any such a tax will serve as a sever disincentive.

Non-filers still better off for being so

Steps taken for broadening the tax net have been minimal. The govt. has again raised tax rates in some categories for non-filers of tax returns while filers are required to pay lower taxes which would be adjustable and/or refundable in some cases. The govt. thus is trying to create a larger divide between the filers and non-filers, without focusing much on taking specific steps to encourage, rather coerce, non-filers to get in the tax system. However, it is not yet entirely clear if such higher taxation on non-filers, implemented from budget FY15, has borne fruitful results and raised tax collection as anticipated.

Nonetheless, due to anomalies rampantly prevalent in tax filing, collection and refund systems, filers do not get timely refunds of their taxes in most cases. This is reason enough for many non-filers to remain out of the tax net, albeit by paying a somewhat higher tax and to pass on the entire impact to the end consumers.

Essentials to cost higher while luxuries to get cheaper!

The govt., by rationalizing tariff in the form of reduction in custom duty slabs from 5 to 4, increasing minimum duty from 1% to 2% and reducing maximum duty from 25% to 20% has effectively created an anomaly. Minimum duties are imposed where the imported item is an essential one or is not easily available in the country, while higher duties are imposed on luxury items or where the domestic industry needs to be protected. Such a measure taken across the board thus would needlessly make essential items costlier and luxury items cheaper.

Continued focus on withholding of taxes

The govt., instead of making efforts to generate revenue from direct taxes, has again sought the easy way out by focusing on withholding tax (WHT) instead of increasing income tax. WHT acts as an indirect tax, and is usually passed on to the consumer, resulting in higher inflation.

Some steps in the right direction - but not without shortcomings

There are some measures in the budget which are expected to be beneficial for the overall economy which are also equitable in nature. For instance, the government has decided that the Computerized National Identity Card (CNIC) numbers would be declared as National Tax Numbers (NTNs) for tax purposes. This step would remove a lot of hassles for getting the required identification and all CNIC holders will indiscriminately get under the tax umbrella at least on records only.

Imposition of 35% uniform tax on all incomes of banks, along with a one-time super tax of 4%, appears to be a deliberate attempt from the govt. to drive banks to extend higher credit to the private sector. Squeeze in profitability of the sector would no doubt warrant out-of-the-box lending solutions from the sector. Extension of the loan portfolio becomes more crucial for the banks in the prevalent low interest rate scenario and should be of much benefit for industrial growth through easier and low cost access to credit.

But there are some measures which though are in the right direction, but have their fair share of shortcomings. We dilate on these measures in the below sections:

No incentives for mature industries

The budget has mostly focused on facilitating new industries while existing industries have been ignored altogether. It is noteworthy that existing industries are usually in the most favorable position to start new industries as compared to new entrants. Further, how many industrialists would be eager to make fresh investments in new projects when their current businesses are encountering multiple impediments is a question that needs to be pondered over.

Karachi's industries neglected once again

Karachi has been on the receiving end of terrorism, sectarian strife and extortion since long. It needs to be given incentives on the same lines as given for Khyber Pakhtunkhwa (KP) so that Karachi's industries can revive and flourish. Energy subsidy allocation to K-Electric has been reduced to PKR 20Bn, a 45% decline from revised allocation of PKR 36Bn in FY15. This would make life more difficult for businesses and consumers in Karachi and further raise the cost of business.

However, the decision of the federal govt. to develop the Green Line Bus Transit System from its own resources is a big positive for the biggest city of the country and should be appreciated, provided this project does see day light within the stipulated time frame.

Agri income to again go scot-free

The govt. has done well to reduce indirect taxes on agri machinery and to provide tax incentives on agriculture cold chain, warehousing facilities, meat and fishery sector. However, it has again avoided income taxation on the agri sector, in spite of repeated calls for the same by the business sector.

The rice sector is sure to benefit from the minimum tax exemption given to it in the wake of depressed low global prices, but will the govt. offer such exemption to any sector which faces a downturn in the future?

Are textile incentives sufficient?

Incentives given to the textile sector warrant appreciation; however, PKR 64Bn package has been offered till FY19, which breaks down to PKR 16Bn per year only. It is seriously doubted that it would be sufficient to boost the sector's exports, which are more than PKR 1,300Bn year.

Withdrawal of FBR powers to issue exemptions only

The govt. has taken away the discretion available to the FBR to issue SROs granting exemptions of taxes and duties, and has relocated the authority for the same to the legislature and/or the Economic Coordination of the Cabinet (ECC), except in emergency situations. However, it should be carefully noted here that discretionary powers have not been revoked for issuing SROs for imposing higher or new taxes, which the FBR still enjoys.

Higher focus on audits

On the other hand, FBR has been empowered to constitute a special audit panels comprising of its own officers, Chartered Accountants, Cost and Management Accountant firms or any other person directed by FBR to jointly carry out tax audits. The special audit panel, with the prior approval of the Commissioner, can enter the business premises of a taxpayer to obtain any information, require production of records on which the required information is stored.

The budget also adds that retailers would be subject to automatic audit provided they fail to file returns, are not in ST active taxpayer's list or their taxes have not been paid.

It is encouraging that the condition to seek Commissioner's approval for revision of returns has been waived off if filed within 60 days of filing of original return. Secondly, a new section of whistleblower's reward is proposed in which a reward would be offered to the person other than an FBR personnel who reports concealment or evasion of income tax leading to detection or collection of taxes, fraud corruption or misconduct.

Penalty for non-furnishing of wealth statement changed from PKR 100 for each day of default to 0.1% of taxable income per week or PKR 20,000 whichever is higher. Increasing the rate of penalties may further shy away people from entering into the tax net.

Business Community left in the lurch, yet again

Once again the business community has been left to rue the outcome of a not so business friendly budget. For another year, businesses have been forsaken to fend for themselves while working to enhance the nation's growth and prosperity.

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