



PROPOSALS FOR FEDERAL BUDGET 2023 – 24



S.I.T.E. ASSOCIATION OF INDUSTRY



**MINISTRY OF FINANCE
GOVERNMENT OF PAKISTAN**



Federal Board of Revenue
Revenue Division - Government of Pakistan

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Presented to



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INTRODUCTION

SITE Association of Industry represents the single largest industrial base in the country in terms of size/area, number of units, industrial output, revenue to the exchequer and export volumes.

SITE has come a long way since Quaid-e-Azam Muhammad Ali Jinnah inaugurated the first Industrial unit in the country and laid the stone of the first Industrial area in Pakistan: The Sind Industrial Trading Estate (S.I.T.E.) on 26th September 1947.

SITE's contribution to the national exchequer stands around 30% of the >50% that Karachi contributes in terms of overall Federal, Provincial taxes and levies. SITE area is also the single largest employer of industrial workers in the country, providing direct jobs to 550,000 families and indirectly providing livelihood to hundreds and thousands of beneficiaries.



PROPOSALS FOR 2023-24

The thrust of SAI's Proposals is to save the Industry from going into extinction, preserve jobs provided by the Industries and strengthen the role of Industrial sector for contributing towards the exchequer, by increasing the Industrial output, and, without regressively and unduly taxing the already highest tax-paying Sector: The Industry.

SAI's Proposal for the Federal Budget 2023-24 cover the following areas :-

- a) Preserving and promoting the Industrial sector which unfortunately is in a dire state so as to let it revive its contribution towards import substitution; export promotion; job creation and higher contribution in Government's revenue generation drive, however, only as a result of substantial increase in Industrial output and certainly by not regressively taxing the already and highly taxed Industrial sector.
- b) Removing the undue and unnecessary curbs on the inputs of Industrial sector in the wake of on-going economic crisis.
- c) Bringing the cost of doing business in Pakistan at par with its peers.
- d) Efficiency measures aimed at improving the competitiveness of Pakistani Industries thereby bringing it at par with Regional and International competitors.

The Budgeting exercise for the fiscal year 2023-24 is being done when there are restrictions on imports. Moreover, inflation is at 35-40% and the discount rate at 21%. Risk of stagflation is at its highest. In such a difficult situation, a balancing act is required to ensure private sector stay afloat therefore prudent policy initiatives are required.

While the causes of such an unprecedented crisis may be debatable, however there could be no two opinions about the emergency which needs to be declared for saving the Industrial sector from falling sick — a dire state which if allowed to go unabated would never be reversible in future.



If import compression seems inevitable due to forex constraints, then a deliberate exercise needs to be done in a proper manner by taking the following steps:

- I. A list of essential items is to be notified including food, pharmaceuticals and educational items which should not be subject to any restriction.
- II. A list of non-essential items is also to be notified whose import may be restricted quantitatively on the basis of quota restriction, for example based on past performance of the respective importers.
- III. Greater restrictions may be introduced especially on luxury goods and non-productive items until such time the Forex position improves.
- IV. Import of productive plant machinery and spares should be allowed without any restriction so that the industry can produce goods for local consumption, exports and generate the much-needed tax revenue.

Promotion of Industrial Economy is the way forward for export promotion as well as for import substitution. It is in this context that the SITE Association of Industry is submitting Proposal for the Federal Budget 2023-24.



Forex policy is not essentially a component of the Fiscal Policy however the former has since become the major irritant effecting each and every area of the economy including the Federal Budget.

We are taking the liberty to raise this first and the foremost impending issue so that the same is highlighted everywhere and is seriously addressed at all policy levels.

ISSUE / PROBLEM / LEGISLATION	PROPOSAL	RATIONALE	RESULT
<p>State Bank of Pakistan EPD Circular letter No. 20 of 2022 has in effect, created confusions, contradictions, contraventions vis-a-vis SBP Foreign Exchange Regulation/Manual.</p>	<p>In times of scarcity of forex, imports may be curtailed or managed but only in a prudent, predictable and lawful manner</p> <p>SBP Circular 20 of 2022 needs elaboration, clarification / amendment in relevant regulations namely Foreign Exchange Manual and a complete framework of the so called "self-funded imports" is required.</p>	<p>Dealing with Foreign Exchange is a matter which is extremely sensitive and complex in nature and deserves to be dealt with and executed properly.</p>	<p>Importers and Exporters would be able to manage their foreign transactions in a manner which is lawful, condonable and in accordance with the intent of the Government.</p>



ISSUE / PROBLEM / LEGISLATION	PROPOSAL	RATIONALE	BENEFIT / IMPACT
<p>1</p> <ul style="list-style-type: none"> › Low tax to GDP ratio › Narrow tax base › System is incentivizing non-tax payers <p><u>Various Tax regimes</u></p>	<p>Penalties for not paying tax should be much higher for the non-tax payers</p>	<p>Non-tax payers should be put at a great disadvantage over honest tax payers</p>	<p>Shifting the excessively high tax burden on non-tax payers will not only be a relief for the honest tax payers but also an incentive for everybody to pay due taxes</p>



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<p>2</p> <p>› Allowing business to operate without tax registration results in undocumented Economy, narrow tax base and low tax to GDP ratio.</p> <p><u>Income Tax/Sales Tax</u></p>	<p>› Tax Registration of a business should be mandatory and to be made the responsibility and accountability of FBR.</p> <p>› There should be one unified Tax number for both Income Tax and Sales Tax</p>	<p>Allowing business to operate without registration would continue to give them the incentive to remain out of the tax ambit</p>	<p>› All business will come into tax net</p> <p>› Business will pay Income Tax according to their assessable income and pay or adjust Sales tax according to their turn over and value addition</p>
<p>3</p> <p>› Multiplicity of presumptive taxes</p> <p>› Unfair taxation</p> <p><u>Income Tax</u></p>	<p>Plethora of withholding and presumptive Income Tax provisions need to be consolidated and Tax should only be levied on actual taxable income</p>	<p>Withholding and presumptive taxation is against the principals of equitable taxation, i.e., the horizontal tax equity</p>	<p>Fairly treating the honest tax payers will promote tax paying culture thereby resulting increase in the tax base</p>
<p>4</p> <p>› Minimum Tax on Turnover:</p> <p>› Income tax at varying rates is imposed on different sectors which is in excess of their actual income</p> <p><u>Income Tax</u></p>	<p>Turnover Tax is proposed to be abolished or their rates to be reduced at least by half</p>	<p>Turnover Tax was already on a higher side, meanwhile due to economic downturn most businesses are running into losses</p>	<p>Loss leading businesses will be able to survive the economic downturn if not unbearably burdened with turnover tax</p>



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<p>5</p> <p>› Very high rate of General Sales Tax @ 18%</p> <p><u>Sales Tax (Policy)</u></p>	<p>Reduce General Sales Tax rate to 15% maximum.</p>	<p>Higher the rate of tax, higher the incentive for evasion</p>	<p>Tax evasion will go down, the honest and formal sector tax payers would get relief</p>
<p>6</p> <p>› 3% further sales tax is levied on unregistered persons</p> <p><u>Sales Tax (Policy)</u></p>	<p>› In a regime where documentation of the supply chain is the objective, there should not be the concept of further tax.</p> <p>› Recklessly charging further sales tax in effect gives incentive to unregistered persons to remain out of the tax ambit.</p>	<p>No business should be allowed to operate without tax registration</p>	<p>Non-tax payers would be forced not to get out of the tax net and documented supply chain</p>
<p>7</p> <p>› Refunds for sales tax zero rated sectors are being delayed on various stages: application, RPOs, processing and payment into bank account</p> <p><u>Sales Tax (Operations / Policy)</u></p>	<p>› Refunds should be made within the same month or maximum 60 days of the application.</p> <p>› If for any reason payment of sales tax refunds can not be expedited within 60 days, the earlier scheme of sales tax zero-rating of the whole supply chain (SRO 1125) should be restored.</p>	<p>› Sales tax input paid at various stages piles up and poses a cashflow challenge particularly for small exporters who are unable to get the same funded through bank borrowings</p>	<p>› Exporters will get relief from their cashflow problems and they will be able concentrate on reviving export business for earning more forex for the country</p>



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<p>8</p> <ul style="list-style-type: none"> › Clandestine imports › Lack of uniform collection of dues at various Customs collection <p><u>Customs</u> <u>(Administration)</u></p>	<ul style="list-style-type: none"> › Risk based examination to be strengthened, extended and made effective for nabbing most of the evaders › Proliferation of dry ports has destroyed the concept of 'One Customs'. For the purpose of Customs clearance, the Port of entry should be made the revenue point 	<p>One unified standard for appraisement, uniform duty and levy would be possible</p>	<ul style="list-style-type: none"> › Pakistan Customs would truly become 'One Customs' ensuring effective revenue collection at Customs Stage.



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<p>9</p> <p>› Massive under invoicing and misdeclaration by Commercial importers</p> <p><u>Customs (Policy)</u></p>	<p>Multiplicity of Custom duties such as statutory duty additional duty, regulatory duty etc., should be consolidated into a single rate of duty for each HS code except for luxury goods</p>	<p>› Multiple duties and very high rates of tariff have made the tariff structure complex and increased the incentive for smuggling</p> <p>› Simplicity, uniformity and consistency in Customs duties would be achieved</p>	<p>Improved Duty and Tax collection at Custom stage and tax equity between Importers</p>
<p>10</p> <p>› Massive under invoicing and misdeclaration by Commercial importers</p> <p>› Disparity and inconsistency between the cost of imports and class of importers</p> <p><u>Customs (Tariff Policy)</u></p>	<p>› Proper cascading of tariff needs to be done through revamping the National Tariff Policy 2019, expiring in 2024.</p> <p>› The principle of vertical consistency through cascading tariff structures (increasing tariff rates with stages of production) to be strictly applied</p> <p>› There should not be more than five duty slabs with highest rate of (total) Customs duty to be capped at 25%</p>	<p>Equitable and reasonable tariff rates would disincentivize smuggling and clandestine imports</p>	<p>Improved Duty and Tax collection at Custom stage and tax equity between Importers</p>



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<p>11</p> <p>› Under invoicing and misdeclaration at various Customs points is rampant, badly damaging the local Industry and depriving the exchequer of its revenue</p> <p><u>Customs</u> <u>(Administration)</u></p>	<p>Customs clearance data should be made public so as to let whistle blowers raise complaints of wrong doings in appraisement and collections at Customs stage</p>	<p>Publishing data would improve transparency</p>	<p>› Improved tax collection and ensuring tax equity between Importers</p>



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