Tax Structure in Pakistan

PRESENTED BY

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AGENDA

- Tax – Definition and Understanding
- Pakistan’s Taxation System & Structure
- Income Tax
- Sales Tax
- Excise Duty
- Custom

KEYWORDS

- Tax
- Income Tax
- Sales Tax
- Excise Duty
- Custom
- Duty
- Penalties
- Tax Rates
- Exemptions

INTRODUCTION

- Tax
  - To tax (from the Latin *taxo*; "I estimate")
  - Word Origin: 1250–1300;
  - To impose a financial charge or other levy
  - Upon Taxpayer (an individual or legal entity) by a state or the functional equivalent of a state
  - Such that failure to pay is punishable by law.

HISTORY

- EGYPT
  - Tax collectors were known as scribes
  - Tax on cooking oil
- GREECE
  - War of the Athenians imposed a tax referred to as *eisphora*
  - No one was exempted
- ROMAN EMPIRE 60 A.D
  - Tax on imports and exports called *portoria*
- GREAT BRITAIN
  - First tax assessed in England was during occupation by the Roman Empire
  - Lady Godiva - 11th century

Be A Pakistani

Tax Analyst

The Federal Excise Act, **2005**

The Income Tax Ordinance, **2001**

The Sales Tax Act, **1990**

The Customs Act, **1969**

It is necessary for everyone including to understand at least 4 Pakistani tax laws.

SALIENT FEATURES OF PAKISTAN'S TAX SYSTEM

- FEDERAL
  - Income Tax - Income Tax Ordinance, 2001
    - Heavy Reliance (53%) on Withholding Tax
    - Progressive Personal Income Tax (max rate: 20-25%)
    - Corporate Income Tax (35% rate)
    - Universal Self-Assessment Scheme
  - General Sales Tax - Sales Tax Act, 1990
    - On Goods only
    - VAT features
    - Zero Rating, also of domestic sales of exporters
    - Standard Rate of 17%
    - Exemptions to basic food items, agricultural inputs, medicines, newsprint.

SALIENT FEATURES OF PAKISTAN'S TAX SYSTEM

- Custom Duty - Customs Act 1969
  - Cascaded Tariff Structure (max rate: 25%; six slabs)
  - Tariff Peaks in Automobiles and other luxury goods
  - Share of Dutiable Imports (51%)
- Excise Duties - Federal Excise Act 2005
  - On few industries like cigarettes, beverages and cement
  - On Services in VAT mode
  - 1% Excise Duty across-the-board on manufacturing and imports

- PROVINCIAL
  - Taxes
    - AIT, Land Revenue, Stamp Duty, Motor Vehicle Tax, Property Tax, Excises
    - Sales Tax on Services

PAKISTAN’S TAX SYSTEM FACTS

- Taxation in Pakistan is a complex system of more than 70 unique taxes administered by at least 37 agencies of the Government of Pakistan.

- The government is seriously indebted -- and only 2.154 million people in a country of above 200 million filed tax returns at all in 2020. An estimated 10 million people are registered to pay taxes in Pakistan; the great majority don't pay a rupee.

TYPE OF TAXES IN PAKISTAN

- Income Tax - Income Tax Ordinance, 2001
  - Levied on the income of individuals or businesses (corporations or other legal entities)
  - Often called a corporate tax, corporate income tax
  - Individual income taxes apply on total income of the individual (with some deductions permitted)
  - Corporate income taxes often tax net income

INCOME TAX LAW

- Income tax Pakistan
  - Law concerning taxation of income in Pakistan is stated in the Income Tax Ordinance, 2001 (the Ordinance) and the rules framed there under viz. Income Tax Rules, 2002 (the Rules).
  - The Ordinance is a Central statute and is, therefore, applicable to the whole of Pakistan.

INCOME TAX LAW

- Under section 4 of the Ordinance, income tax is imposed for each tax year at specified rates on every person who has taxable income for the year.

- Taxable Income
  - It is the total income of a person for a tax year reduced by the total of any deductible allowances, under the Ordinance, for the year.

- Total Income
  - It is the sum of a person's income under each of the heads of income for the year.

INCOME TAX LAW

- Residence
  - An individual is considered resident for a tax year if he/she is in Pakistan for more than 182 days in that tax year
- Heads of Income in Pakistan
  - Under the Ordinance income is classified into the following five heads:
    - Salary
    - Income from property
    - Income from business
    - Capital gains
    - Income from other sources

INCOME TAX LAW

- Penalties
  - The penalty for failure to file a tax return is 0.1% of the amount of the tax payable for each day of default.
  - The minimum penalty is PKR 500 and the maximum is 25% of the amount of tax payable.
- Tax rates
  - Tax rates for the salaried class in Pakistan are 0.5% to 20%, and for other taxpayers, 0.5% to 25%.

INCOME TAX LAW

- Basis – Income tax is payable by salaried individuals if taxable income exceeds PKR 600000

The limit not chargeable to tax for Tax Year 2020-2021 is: Rs. 600000.

Sales Tax - Sales Tax Act, 1990.

- Consumption tax charged at the point of purchase for certain goods and services
- The tax amount is usually calculated by applying a percentage rate to the taxable price of a sale
- Collected from the buyer by the seller
- Commonly charged on sales of goods and services

- Pakistan Sales Tax
  - The standard rate of Sales Tax in Pakistan is 17%.
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SALES TAX LAW

- Taxable transactions
  - Sales Tax is levied on the supply of goods and services, and the import of goods.
- Sales Tax Registration

  is mandatory for all importers, whole sellers, distributors, Retailers, Persons claiming for sales tax refund manufacturers except cottage industry and any other person required by law.
- Filing and sales tax payment
  - Sales Tax returns and payments must be made on a monthly basis

TYPES OF TAXES

- Following are major taxes levied by the federal and provincial governments.
  - Federal Government Taxes:
    - Income Tax
    - Super Tax
    - Wealth Tax
    - Gift tax
    - Turnover Tax
    - Corporate Asset Tax
    - Corporate Income Tax (A)
    - Import Duties
    - Import Surcharge
    - Export Duties
    - Iqra Surcharge
    - Income Tax on imports

TYPES OF TAXES

- Import License Fee
- Import Registration Fee
- Export Registration Fee
- Central Excise Duty
- Sales Tax on Manufactured goods
- Capital Value Tax
- Export development Surcharge
- Development Surcharge on Petroleum
- Gas Development Surcharge
- General Sales Tax Federal Education Cess
- Workers Participation Fund
- Workers Welfare Fund
- Estate Duty
- Zakat

TYPES OF TAXES

- Ushr
- Oilseeds Development Cess on Companies
- Tobacco Cess
- Cotton Cess
- Development Surcharge on Electricity
- Textile Technology Cess
- Airport Tax
- Capital Gain Tax

- Provincial Taxes:
  - Professional Tax
  - Property Tax
  - Vehicle Tax
  - Stamp Duty
  - Entertainment Tax

TYPES OF TAXES

- Betterment Tax
- Social Security Contribution
- Explosive Licence Fee
- Provincial Education Cess
- Capital Gain Tax
- Punjab Airport Tax
- Provincial Excise Duty
- Karachi Dock Labor Board Cess
- Cess on Hotels
- Cotton Fees
- Paddy Development Cess
- Provincial Excise Duty
- Land Revenue Tax
- Employee Old Age Benefit Contribution
- Trade Tax on Jewelers, Garment shops imposed by Baluchistan government in 1997-98 budget

PAKISTAN'S TAXATION SYSTEM

- Federal taxes in Pakistan like most of the taxation systems in the world are classified into two broad categories, viz., direct and indirect taxes.

- **Direct Taxes**
  - Direct taxes primarily comprise income tax, along with supplementary role of wealth tax. For the purpose of the charge of tax and the computation of total income, all income is classified under the following heads:
    - Salaries
    - Interest on securities
    - Income from property
    - Income from business or professions
    - Capital gains
    - Income from other sources

PAKISTAN'S TAXATION SYSTEM

- Personal Tax
  - All individuals, unregistered firms, associations of persons, etc., are liable to tax, at the rates rending from 10 to 35 per cent.
- Tax on Companies
  - All public companies (other than banking companies) incorporated in Pakistan are assessed for tax at corporate rate of 39%. However, the effective rate is likely to differ on account of allowances and exemptions related to industry, location, exports, etc.

PAKISTAN'S TAXATION SYSTEM

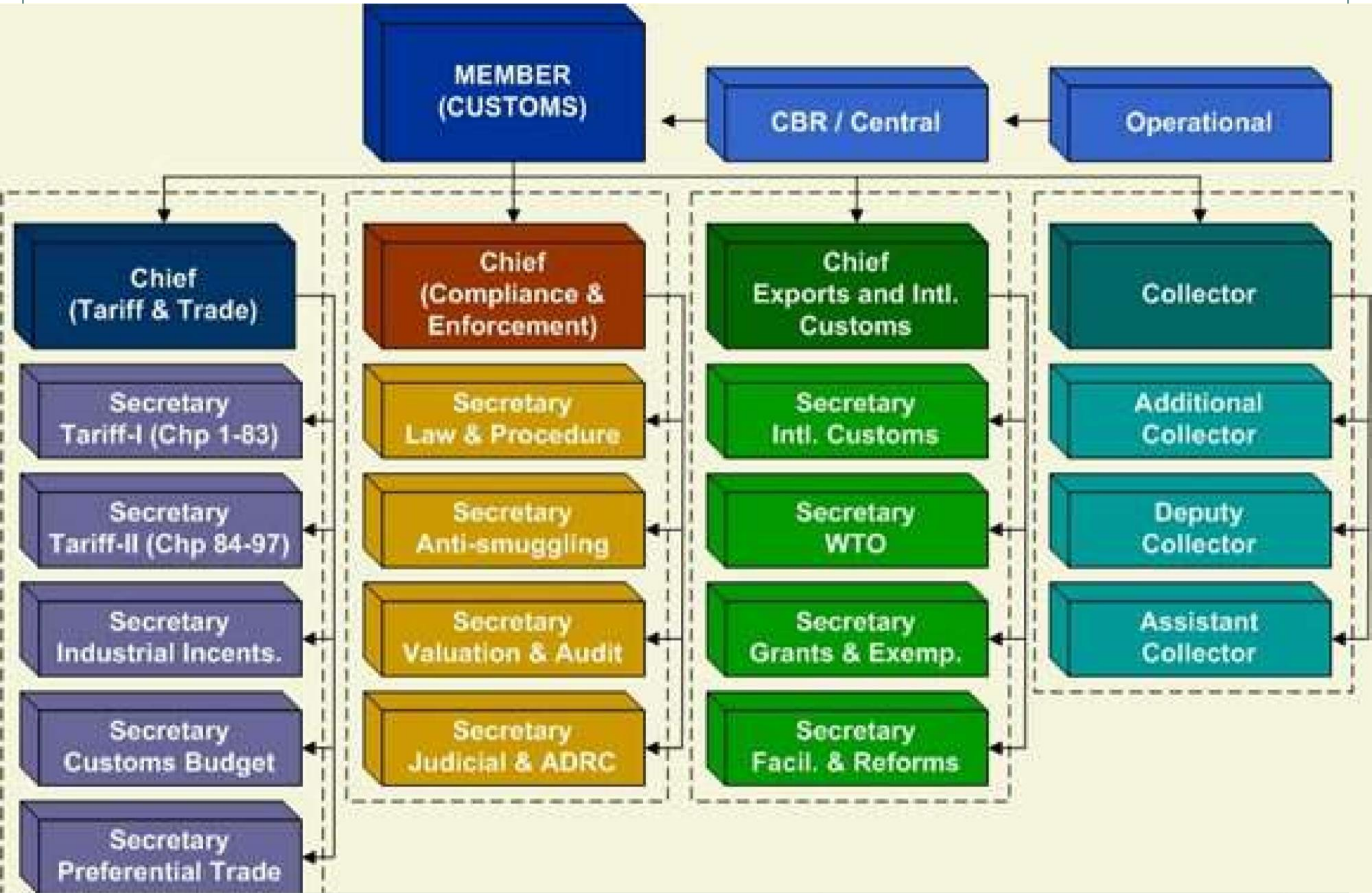
- Inter-Corporate Dividend Tax
  - Tax on the dividends received by a public company from a Pakistan company is payable at the rate of 5% and at the rate of 15% in case dividends are received by a foreign company. Inetr-corporate dividends declared or distributed by power generation companies is subject to reduced rate of tax i.e., 7.5%.
  - Other companies are taxed at the rate of 20%. Dividends paid to all non-company shareholders by the companies are subject to with-holding tax of 10% which is treated as a full and final discharge of tax liability in respect of this source of income

PAKISTAN’S TAXATION SYSTEM

- Unilateral Relief:
  - A person resident in Pakistan is entitled to a relief in tax on any income earned abroad, if such income has already been subjected to tax outside Pakistan. Proportionate relief is allowed on such income at an average rate of tax in Pakistan or abroad, whichever is lower
- Customs
  - Goods imported and exported from Pakistan are liable to rates of Customs duties as prescribed in Pakistan Customs Tariff.
  - Customs duties in the form of import duties and export duties constitute about 37% of the total tax receipts.

PAKISTAN'S TAXATION SYSTEM

- The rate structure of customs duty is determined by a large number of socio-economic factors.
- However, the general scheme envisages higher rates on luxury items as well as on less essential goods.
- The import tariff has been given an industrial bias by keeping the duties on industrial plants and machinery and raw material lower than those on consumer goods.


MEMBER (CUSTOMS)
CBR / Central
Operational
Chief (Tariff & Trade)
Secretary Tariff-I (Chp 1-83)
Secretary Tariff-II (Chp 84-97)
Secretary Industrial Incents.
Secretary Customs Budget
Secretary Preferential Trade
Chief (Compliance & Enforcement)
Secretary Law & Procedure
Secretary Anti-smuggling
Secretary Valuation & Audit
Secretary Judicial & ADRC
Chief Exports and Intl. Customs
Secretary Intl. Customs
Secretary WTO
Secretary Grants & Exemp.
Secretary Facil. & Reforms
Collector
Additional Collector
Deputy Collector
Assistant Collector

PAKISTAN'S TAXATION SYSTEM

- Central Excise
  - Central Excise duties are taxable on a limited number of goods produced or manufactured, and services provided or rendered in Pakistan.
  - On most of the items Central Excise duty is charged on the basis of value or retail price.
  - Some items are, however, chargeable to duty on the basis of weight or quantity.
  - Classification of goods is done in accordance with the Harmonized Commodity Description and Coding system which is being used all over the world.
  - All exports are exempted from Central Excise Duty.

FBR PAKISTAN

INTRODUCTION

The Central Board of Revenue (CBR) was created on April 01, 1924 through enactment of the Central Board of Revenue Act, 1924. In 1944, a full-fledged Revenue Division was created under the Ministry of Finance. After independence, this arrangement continued up to 31st August 1960 when on the recommendations of the Administrative Re-organization Committee, FBR was made an attached department of the Ministry of Finance. In 1974, further changes were made to streamline the organization and its functions. Consequently, the post of Chairman FBR was created with the status of ex-officio Additional Secretary and Secretary Finance was relieved of his duties as ex-officio Chairman of the FBR.

In order to remove impediments in the exercise of administrative powers of a Secretary to the Government and effective formulation and implementation of fiscal policy measures, the status of FBR as a Revenue Division was restored under the Ministry of Finance on October 22, 1991. However, the Revenue Division was abolished in January 1995, and FBR reverted back to the pre-1991 position. The Revenue Division continues to exist since from December 01, 1998.

By the enactment of FBR Act 2007 in July 2007 the Central Board of Revenue has now become Federal Board of Revenue.

FUNCTIONS OF FBR/REVENUE DIVISION

In the existing setup, the Chairman, FBR, being the executive head of the Board as well as Secretary of the Revenue Division has the responsibility for

(i) Formulation and administration of fiscal policies,

(ii) Levy and collection of federal taxes and

(iii) Quasi-judicial function of hearing of appeals.

His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic Ministries as well as trade and industry.

Chief Commissioner Inland Revenue (RTOs)

RTOs were established to provide efficient service to taxpayers.

The service of Income Tax and Sales Tax were brought under one roof for the convenience of the taxpayers. It has the jurisdiction of all cases other then those assigned to the LTU.

Chief Commissioners are In-charge of the RTOs are responsible for :

1. All matter relating to administrative control.
2. Generation of revenue with in jurisdiction.
3. Enforcement/collection of revenue.
4. Facilitation of Taxpayer.
5. All legal issues pertaining to the jurisdiction.
6. Any other assignment by the chairman.

He/She is assisted by commissioner additional commissioner , deputy commissioner, assistant commissioner/Taxation officers.

CONCLUSION

- Pakistan Taxation System consists of various heads and sub divisions with a complex structure
- Understanding these system is essential in order to avoid any illegal act
- Business can also benefit in certain ways e.g. Subsidies and Refunds
- Understanding the system can help to reduce expenses
- Due to this complex structure many individuals avoid enrolling in Tax system