GROWTH INCLUSIVE TAX POLICY: A REFORM PROPOSAL

JUNE 20, 2020

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

GROWTH INCLUSIVE TAX POLICY: A REFORM PROPOSAL

BY

PIDE MACROECONOMICS SECTION

PIDE is extremely grateful to Dr Hafiz Pasha and Mr Shahid Kardar for their advice and valuable suggestions via web-meetings and on earlier drafts of this report.

The PIDE Macroeconomic team is especially indebted to Dr Nadeem Ul Haque for his constant guidance and motivation throughout the completion of this report.

Errors and omissions are solely ours.

Growth inclusive Tax Policy: A Reform Proposal

Summary

The document presents a reform proposal for a growth inclusive tax policy. The summary of the proposed reforms is given below:

- **Withholding Tax (WHT) regime needs simplification**
  - Withholdingisation[1] needs to be reduced in the economy to improve efficiency. Finance Bill 2020 proposes to enhance thresholds to be considered as withholding agents for different tax provisions. It is commendable, and this reduction is recommended to be expanded to other tax provisions as well.
  - Make the process of readjustment or refunds of the unclaimed taxes easier. The FBR should streamline the online refund process on a priority basis to minimize economic cost.
- **Some Sales and Withholding Taxes yield little revenue but are significant impediments for growth[2]**
  - To achieve simplification of the withholding tax regime and reduce the cost of compliance, the Finance Bill proposes the deletion of 9 withholding tax provisions. This is the beginning. There are another 35 out of 82 provisions in the income tax withholding regime which should be deleted.
  - Finance bill seeks to remove the additional customs duty on tariff lines for which the customs duty is 0%. All taxes on revenue non-spinner items should be abolished
  - Each new tax, including the withholding tax, should consider the economic cost and benefits in the budgetary proposal. Revenue non-spinners should be evaluated in terms of pre-post enactment, and future policy should be based on that.
  - The behavioural aspect of the economic agents should be considered in formulating new taxes/rates, and the forecasting capacity of the FBR needs to improve.
- **Business Choking under Documentation**
  - Real-time access to information and databases of various authorities such as NADRA, FIA, provincial excise and taxation departments should be allowed to the FBR. The use of the CNIC number as the NTN should be allowed to access all necessary information.
  - The minimum threshold of supplies by retailers to obtain the CNIC of buyers is proposed to be increased from Rs. 50,000 to Rs. 100,000. Unnecessary data should not be required from the withholding agents to reduce transaction costs and avoid additional burden on businesses (acting as withholding agents). The FBR needs to develop a data mining capacity to seek the required data.
  - The advance tax regime provides an incentive for filing. However, it should not be fixed or final and should be adjusted at the end of the year based on actual liabilities.

---

[1] For details on Withholdingisation in Pakistan, see the seminal work by Ahmed (2020).

[2] This issue has also been raised by many prominent Economists such as Dr. Hafiz A. Pasha (Former Federal Minister and Dean Beaconhouse University (BNU), Lahore and Mr. Shahid H. Kardar (Ex-Governor State Bank of Pakistan and VC BNU, Lahore).

- Loyal taxpayers who have also been audited during the last three years should be given some incentive, such as an exemption from further audit for some time and tax holidays.

▪ **Reduction in compliance cost**
  - The FBR should simplify filing requirements and reduce compliance cost. The Finance Bill 2020-21 rightly proposes filing Withholding Statements under section 165 on a quarterly basis now. It helps to reduce some compliance burden.

▪ **Mandatory tax filing**
  - The distinction between a filer and a non-filer must be abolished. Everyone should file a tax return. Simplification and establishing a reasonable threshold (such as having a commercial utility connection, having a plot of 10 *marlas* or more, etc.) for filing a tax return will be a step in the right direction.

▪ **Income Tax: Income tax should be universal and not segmented[3].**
  - All incomes should be treated as income and should not be differentiated.
  - All types of incomes, required to have an advance tax, should not be fixed nor final. All advanced taxes should be paid quarterly according to the income tax return for the last year. At the end of the year, the return can reconcile all advance payments.
  - Withdraw minimum turnover tax. Use adjusted corporate income tax to move towards an integrated business tax regime.
  - For immediate revenue needs, adjust the threshold for the advanced income tax under section 235A for collection on electricity bills of Domestic Consumer's from Rs. 75,000, to Rs. 25,000. However, this should be regarded as a temporary measure.

▪ **Sales Tax: Move to an integrated, fair value single VAT based system of Sales Tax**
  - Gradually move to the adoption of a single, harmonized and integrated VAT based sales tax regime. It will improve efficiency, reduce evasion and problem of jurisdiction. Doing so, both provinces and the federal government would get additional revenue.
  - The sales tax on items included in the 3rd schedule is collected from the manufacturer at the retail price (origin-based). This should be aligned with the principles of VAT and tax be collected from the entire supply chain, rather than the manufacturer alone. However, VAT on manufacturers in the supply chain should be a single one, after figuring in the whole production process to avoid complications. For example, there are thousands of parts used in manufacturing cars. Implementing and collecting VAT on every single supplier would be almost impossible, at least administratively.
  - The VAT Bill 2010 proposes no exemptions. So, the items in the 3rd schedule should be abolished. There are no exemptions in the VAT regimes. This will lead to an increase in revenue in the long run.

▪ **Simplification of the tax code will help revenue collection and growth**
  - There should be a zero-based revision of the FBR tax code. Unnecessary clauses and compliance requirements should be eliminated to reduce the compliance cost.

[3] Also proposed by Dr. Hafiz A. Pasha and Dr. Ikramul Haq (Advocate Supreme Court and Managing Partner at Huzaima & Ikram).

- Language of the tax code should be reader-friendly for easy compliance.

- **Streamline the refund system**
  - The Finance Bill seeks to amend the ADR Committee and process by FBR to improve the credibility and efficacy of the ADR. For all the cases in which the FBR has proven usurped, the complainant should be given an automatic claim of demurrage.
- **Tax exemptions and concessions lead to loss of significant revenues**
  - The culture of SROs is unconstitutional and should be completely abolished. SROs, if any, should be approved along with the budget.
  - Baring sectors supporting education and health (which should be zero-rated for obvious reasons), all other exemptions/concessions should be rationalized/ eliminated permanently.
  - IPP sector has been exempted from income taxes and Chinese firms are given an exemption for 23 years, which has accrued a huge loss. The government should use the federal legislative list for levying capital value tax. Every asset except property should be taxed.
- **Under invoicing of imports, transfer pricing by MNCs and Noneconomic rates of protection has reduced revenue collection and created distortions**
  - The Finance Bill 2020-21 seeks to add a new clause to make the offence of under-invoicing cognizable as a criminal offence. However, we recommend that under-invoicing for Chinese imports can further be reduced by linking our WeBOC system with Chinese port authority system (which is used for calculating subsidies for their exporters at the other end). Similarly, UN Com Trade data can be used to establish the under-invoicing. Strengthen the FBR through laws and capacity for transfer pricing matters.
  - Tariff rationalization under the National Tariff Policy 2019 has been made by reducing customs duty on 90 tariff lines from 11% to 3% and 0%. We recommend that it should be adopted for all tariff lines to establish a tariff-based trade policymaking.
  - The Finance Bill has proposed a reduction in regulatory duty on smuggling prone items to bring these items under legal imports. But still, a lot needs to be done. However, on the other side Tariff protection for the domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured is also proposed. In our opinion, protection provided to the local industry should be time-bound with clear sunset date and accountability against rent-seeking.
  - Exemptions and concessions in import duties should preferably be provided through tariff code and not through SROs.
- **Make taxes investment-friendly**
  - There is a rationalization of depreciation deduction based on the half-year rule. It is, however, proposed that the initial depreciation allowance rate be restored to 50% for plants and machinery, and the allowance for building should also be restored to 25% as was the case before the Finance Act 2014.
  - The textile sector should be given tax credit on BMR for promoting investment.
  - The FBR should not be used for non-tax related policies such as export credit, which can be provided on a cash basis once the exporter declares the export earnings.

- **Tax evasion may be no more than other countries**
  - There is a clear need for an extensive research agenda on taxes which PIDE will initiate.
  - There is a need to improve the entire tax system from policy to administration. The World Bank using DFID grants has already spent USD 150 million on this endeavour without much success. A similar project worth USD 300 million by the World Bank and financed by DFID is underway. The results for the current project are awaited.
- Rather than confronting taxpayers, FBR might consider facilitation, education, building better systems and working on taxpayers' trust.

Table of Contents

1. Background

The COVID-19 outbreak has had a devastating impact on Pakistan's economy for the FY20, and it is expected that FY21 would also witness the same. PIDE estimated that the annualized GDP growth rate for FY20 would be between -1.36 and 0.62%. PIDE further projected that the growth rates for FY21 could be in the range of 0.4% to 2.16%, depending upon the COVID-19 situation. The growth rate of 0.4% (worst case scenario) could result in unemployment of 4.65 million, accompanied by 18 million layoffs, thereby putting 87 million people in poverty (Nasir et al, 2020). The situation is grim and fluid. Authorities must remain vigilant to deal with emerging challenges.

In such a fluid situation where the pandemic has severely affected transactions (through compression in consumer demand and uncertainty for the business sector), tax policy should aim at the revival of growth. The current growth model of bricks and mortar through reliance on PSDP-induced economic activity is not sustainable and needs to change (Haque, 2020). Given the government's limited fiscal space, the broader focus should be on encouraging markets to increase transactions by simplifying the regulatory framework.

PIDE is engaged in understanding revenue generation, which has been the cornerstone of our continuing adjustment efforts under IMF programs for decades now. For this, PIDE organized a conference, came up with Policy Viewpoints, and is now detailing some ideas on the tax policy.

A brief literature review

For decades now, the macro policy under the guidance of continuous International Monetary Fund (IMF) programs has focused on revenue enhancement above everything else. The Department for International Development (DFID) gave a large (USD 150 million) funding to the World Bank to provide technical assistance to enhance revenues. That project failed in their evaluation. Now there is an additional USD 300 million given by DFID to the World Bank to once again help increase revenues.

The focus of the tax policy should, however, be on facilitating growth. The increase in revenues will then follow. Prominent Pakistani thinkers have emphasized this in various debates on tax policy, growth, and revenues.

- All Pakistani thinkers agree that the key to achieving higher growth and increasing revenues through tax-reform is to simplify the tax policy, reduce taxes and tariffs, and refine tax administration for building trust and lowering tax compliance costs to businesses.
- Hafiz A. Pasha in his recent book, titled ***Growth and Inequality in Pakistan,*** has talked about the oppressive tax burden among the factors keeping the GDP growth lower than

5%. He has proposed such fiscal incentives for growth as accelerated depreciation allowance, increasing the tax credit for balancing, modernization and replacement to enhance investment for growth. He has further asserted that higher GDP would translate into additional revenues.

- Huzaima Bukhari and Ikram ul Haq in their study, ***Towards Flat, Low-Rate, Broad and Predictable Taxes,*** have suggested that for fair and optimum collection of taxes, without hampering growth, we need to abolish the existing set of complex tax laws and enact new ones based on simple flat-rate taxation collected by a single National Tax Authority (NTA). This will lead to a fair and optimum collection of taxes without hampering the growth.
- Manzoor Ahmad (Senior Fellow, PIDE)) and late A.R Kemal (former Chief Economist, Government of Pakistan, and former Director, PIDE) have long argued for rationalization of protection policy for improved market competition and consumer welfare. Manzoor Ahmed while speaking as a panellist in a discussion on **"*National Tariff Policy*"** held at PIDE on November 28, 2019, asserted that if the government continues to follow the outdated concepts of strategic protection, import substitution and cascading, it will not achieve an export-led growth. A. R. Kemal (2011) noted that to develop a viable industrial sector, there is a need to put in place a regulatory and legal environment that is conducive for private businesses. In his opinion, the tariff regime must be put in place for over a longer period to allow producers to take long-run decisions with confidence.
- Nasir (2020) has argued that consumer welfare is missing from the entire scheme of the tariff-based protection regime. He has recommended that for a long term growth, import tariffs on input goods and machinery should be phased out in the short to medium term. Moreover, instead of relying on an increase in tariff rates and the imposition of additional levies on imports, better policy option is to reform the custom regime.
- Ahmed (2020) in his seminal paper on withholding tax regimes in Pakistan has stated that withholdingisation is not only of the tax system but of the entire economic system. He has asserted that ubiquitous withholding taxes get stuck into the pricing structure of the final goods and services produced in the economy and make them price-uncompetitive in the international market.
- Haque (2020) believes that sustainable accelerated growth, resulting from market forces, is the source of increased and sustainable revenue streams. Currently, the policy has been one of austerity with ambitious targets set with arbitrary taxes.
- According to Haque (2019), the current tax policy penalizes transactions and hence decelerates growth.

There is an urgent need to take the tax policy and the above-stated hypotheses seriously. These theses layout several directions for research and debate, and eventually policy change. All our best economists agree that tax policy must be simple, coherent, based on compliance, and conducive to investment and growth.

We must get our best minds to work on tax policy. This is a challenge that PIDE will take up.

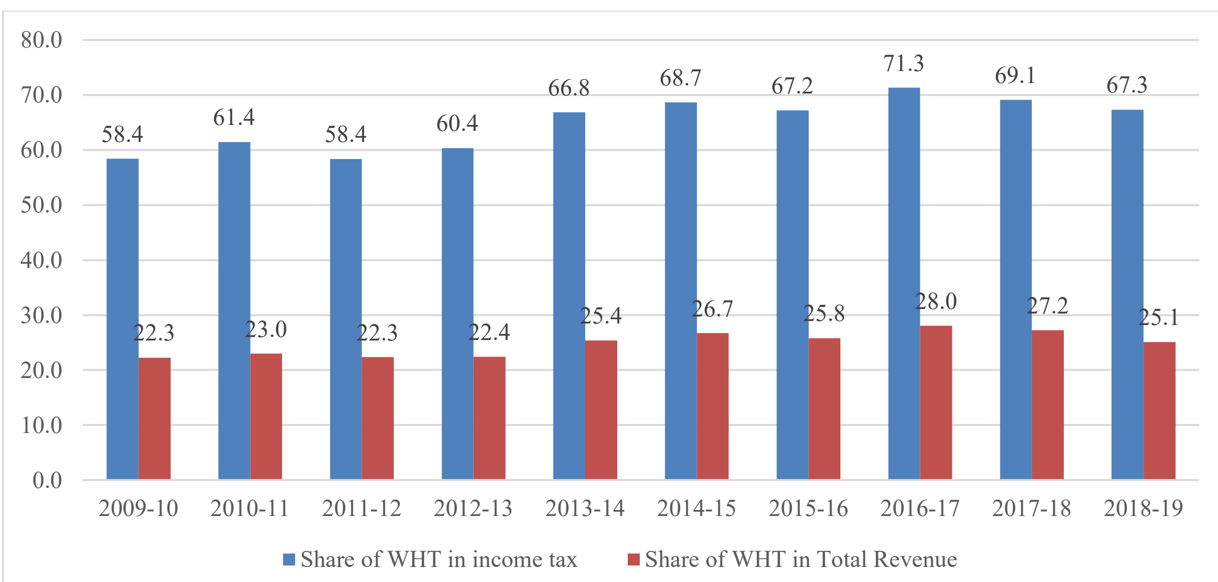
2. Reform proposal

2.1. Withholding Tax (WHT) regime needs simplification

2.1.1. For FY19, there were 82 major items (economic activities) that were subject to the WHT regime. These taxes act like transaction costs due to the nature of the application and unadjusted or unclaimed refunds. For instance, the unclaimed tax from withholdings under section 10 for five years (2012-2016) was 77%, which amounts to around Rs 350 billion (Ahmed, 2020).[4]

2.1.2. This results in overpricing of the output in production and consumption markets, thereby making it internationally uncompetitive and domestically unaffordable for lower-income groups. Even then, more economic activities are subjected to WHT income taxes at variable rates owing to pressures of enhancing the tax to GDP ratio. This has resulted in a lesser share of voluntary income tax paid.

Figure 1: Share of WHT in income tax and total tax revenue



Source: Economic Survey of Pakistan

[4] These include Sections 236, 231A, 231B, 234, 236A, 236C, 236K, 236D, 236I, 236P.

2.1.3. The share of withholding tax has increased to 70% of the total income tax collected by the FBR (which amounts to about 30% of the total tax revenues). Besides income tax being collected on the WHT basis, other taxes such as sales tax also have withholding rates and specified withholding agents. There are about 43 Sections of overall tax codes dealing with withholding taxes and withholding agents. However, other than WHT on income tax, taxes withheld by these agents are not reported by the FBR.

Recommendations

a. Withholdinginization needs to be reduced in the economy to improve efficiency (Ahmed 2020). The Finance Bill 2020-21 proposes to increase thresholds to be considered as withholding agents for different tax provisions. It is commendable, and we recommend to apply this reduction to other tax provisions as well.
b. Make the process of readjustment or refunds of unclaimed taxes easier. The FBR should streamline the online refund process on a priority basis to minimize the economic cost.

2.2. Some sales and withholding taxes yield little revenue but are significant impediments for growth

2.2.1. There are 866 commodity lines which contribute only 20% to the share of domestic sales tax. The 16 commodity lines provide the remaining 80%. The trend remains the same from FY15 to FY19. A similar pattern is observed in sales tax revenue from imports, where 93% of the revenue is obtained from 16 commodity lines in FY19. Eighty-two commodity lines contributed the remaining 6%.

2.2.2. An analysis at PIDE shows that if revenue non-spinners (accumulated revenue of less than 1% of the respective tax) for FY19 are scrapped from the collection, it is beneficial for the growth of the economy and revenue increase.

2.2.3. The FBR data shows that ***35 out of 82*** withholding items contributed only 1% of the total withholding income tax; ***596 out of 821*** items in the case of domestic sales tax; ***42 out of 97*** for sales tax on imports; ***37 out of 95*** in the case of customs; and ***9 out of 37*** in the case of Federal Excise Duty as a percentage of total taxes contributed less than 1% to the revenue generated from the respective tax categories.

2.2.4. These items together contribute only **0.79%** of the total tax collected (details are in Annexure from Table A2-i to A2-xii)**.** About Rs 11.14 billion compliance cost of these taxes and the FBR's collection cost of Rs 0.24 can be saved if these taxes are not levied[5].

2.2.5. The revenue earned by the FBR is Rs. 32.7 billion but the actual transfer entry, which includes the compliance and the FBR collection costs turns out to be Rs. 44.1 Billion. If

[5] However, this is an underestimated figure if we include the business space, utilities, etc.,

these taxes are not levied and businesses reinvest them to expand, the overall impact would be 1.12% of the GDP. Based on the average tax rate (tax/GDP ratio in 2019), we could have collected Rs. 46.62 Billion (see appendix Table A1). Unfortunately, this loss to economic growth and job creation goes unnoticed.

Recommendations

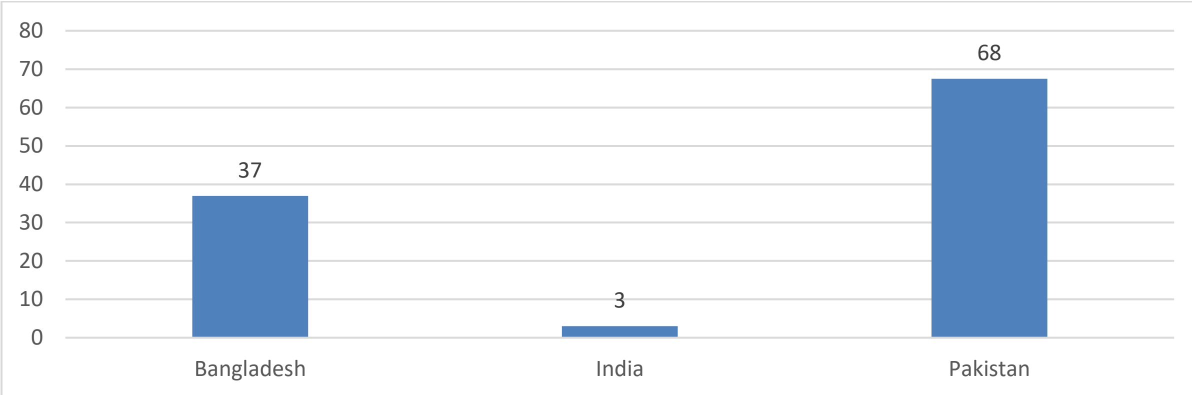
a. To achieve the simplification of the withholding tax regime and reduce the cost of compliance, the Finance Bill 2020-21 proposes the deletion of 9 withholding tax provisions. This is the beginning. There are another 35 out of 82 provisions in the income tax withholding regime that should be deleted (see Annexure).
b. The finance bill seeks to remove the additional customs duty on tariff lines for which the customs duty is 0%. All taxes on revenue non-spinner items should be abolished (see Annexure)
c. Each new tax, including the withholding tax, should consider the economic cost and benefits in the budgetary proposal. Revenue non-spinners should be evaluated in terms of pre-post enactment, and future policy should be based on that.
d. The behavioural aspect of economic agents should be considered in formulating new taxes/rates, and the forecasting capacity of the FBR needs to improve.

2.3.Business Choking under Documentation

2.3.1. Excessive documentation requirements result in less compliance and less economic activity reported. Withholding agents and registered firms are required to file monthly sales tax returns. However, the information collected through this documentation is seldom processed and has only irked the businessmen.

2.3.2. The situation in other comparable countries is different (Figure 2). In these countries, compliance is easy and comprehensive for businesses making them more competitive. For example, Figure 2 shows the time it takes to comply with a corporate income tax correction in hours for Bangladesh, India, and Pakistan. The distinction based on being a filer and a non-filer through rate differential has not worked in Pakistan. Rather, it has established a premium for being a non-filer.

Figure 2: Time to comply with a corporate income tax correction (hours)



Source: World Bank (2019)

<u>Recommendations</u>

a. Real-time access to information and databases of various authorities such as NADRA, FIA, provincial excise & taxation departments should be allowed to FBR. The use of CNIC number as an NTN should be allowed for all necessary information. However, appropriate rules and regulations must be put in place so that the FBR officials cannot harass the businesses unnecessarily.

b. The minimum sale amount at which retailers are required to obtain a copy of the CNIC of buyers is proposed to be increased from Rs. 50,000 to Rs. 100,000. However, unnecessary data requirements should be relaxed to reduce transaction costs and avoid overburdening the businesses acting as withholding agents. The FBR needs to develop the data-mining capacity to seek the required data.

c. The advance tax regime provides an incentive for filing. However, it should not be fixed or final and should be adjusted at the end of the year based on actual liabilities.

d. Loyal taxpayers who have also been audited during the last three years should be given some incentive, such as an exemption from further audit for some time and tax holidays.

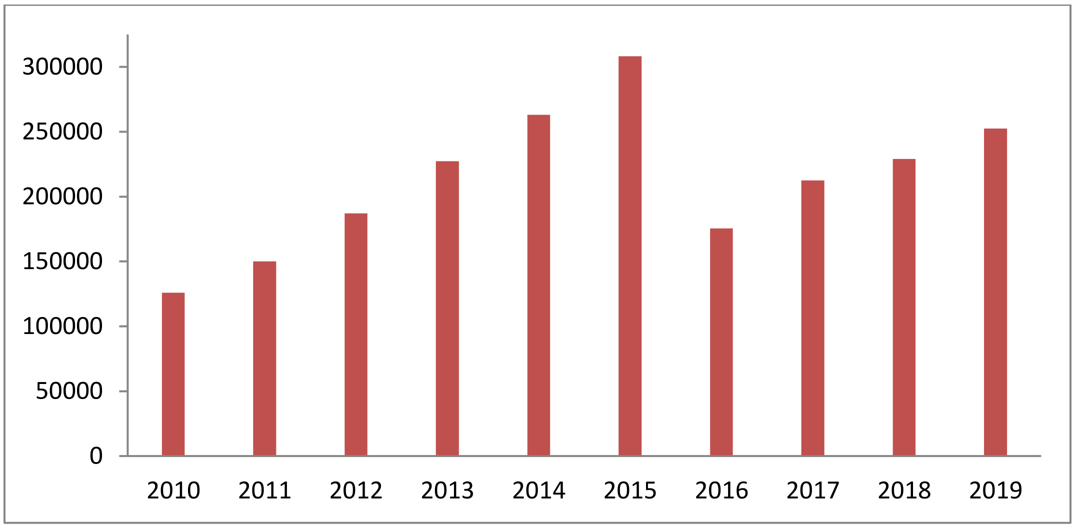
2.4.Reduction in compliance cost

2.4.1. The compliance costs in the form of preparing tax returns, collecting documents, submitting returns, and interacting with the tax authorities are very high and increasing over time. Bigger businesses manage their cost by staffing whereas smaller businesses have to engage with consultants which increase the cost making it even more regressive.

2.4.2. This creates a monetary cost to business which otherwise could be invested in the business for more growth and employment as discussed above. High compliance costs make the entrepreneurs lose focus on their business development. These costs may even force some businesses to close down and keep potential entrepreneurs from starting a new venture.

2.4.3. The average monetized cost of compliance for businesses in Pakistan was Rs. 252,436[6] in 2019 (it was Rs.126,000 in 2010). Large businesses report spending much larger sums and maintaining separate departments staffed with accountants. Smaller businesses, whose owners may not be highly educated, find the compliance very costly.

Figure 3: Average Cost of Tax Compliance for Businesses (Rs)



Source: Authors' calculations

Recommendation

a. FBR should simplify filing requirements to reduce the compliance cost. The Finance Bill 2020, thankfully, proposes filing withholding statements under section 165 every quarter. It would help to reduce some compliance burden.

2.5.Mandatory tax filing

2.5.1. Increasing the number of filers is very important for the FBR to achieve its targets. Although every policy talks about incentives for filing tax returns filing is not made simpler, as argued above, and costs of compliance remain large.

2.5.2. To increase the number of filers, for the last couple of decades, FBR has developed numerous discriminatory taxes to segment filers from non-filers. From bank withdrawals to asset purchases, the non-filers are penalized through transaction taxes. Despite these efforts, the revenue collection is not large but the distortion it has created in transactions

[6] These estimates only include the personnel cost; other costs such as space, utilities and others are not included due to data limitation.

and asset prices have slowed down investment and the economy. The acceptance of transaction taxes and presumptive taxes from non-filers reduces the pressure to file.

Recommendation

a. The distinction between a filer and a non-filer must be abolished. Everyone should file a tax return. Simplification and establishing a reasonable threshold (such as having a commercial utility connection, having a plot of 10 *marlas* or more, etc.) for filing a tax return will be a step in the right direction.

2.6.Income Tax: Income tax should be universal and not segmented.

2.6.1. There are separate blocks for agriculture and the presumptive regime in the law. Similarly, in the corporate sector, there is a minimum tax on turnover (1.5% of turnover irrespective of profit before tax). There has to be one overall income tax rate at the end.

Recommendations

a. All incomes should be treated as income and should not be differentiated.
b. All types of incomes, required to have an advance tax, should neither be fixed nor final.
c. All advance tax should be paid quarterly according to the income tax return for the last year. At the end of the year, the return will be used to reconcile all advance payments.
d. Withdraw minimum turnover tax. Use adjusted corporate income tax to move toward an integrated business tax regime.
e. For immediate revenue needs, adjust the threshold for the advance income tax under section 235A on collection on electricity bills of Domestic Consumer's from Rs. 75,000, to Rs. 25,000. However, this should be regarded as a temporary measure.

2.7. Sales tax: Move to an integrated, fair value single VAT based system of Sales Tax

2.7.1. There are 14 sales tax rates. On goods the rates are: 1%, 1.5%, 2%, 3%, 5%, 7%, 7.5%, 8%, 10%, 12%, 14%, 17%**.** In the case of services, the standard rate is different in each province. The rate in Balochistan is 15%, in KPK 15%, in Punjab 16%, and 13% in Sindh. The GST on services is a provincial subject and GST on goods is a federal subject.

2.7.2. The fragmented base and segmentation between goods and services have made the entire system more complicated. In the current scenario, the provinces are shifting the tax base. GST harmonization should be a priority (Nasir et al., 2020; Bukhari and Haq, 2016).

Recommendations

a. Gradually a move to the adoption of a single, harmonized, and integrated VAT based sales tax regime[7]. It will improve efficiency, reduce evasion, and the problem of jurisdiction. In the process, both provincial governments and the federal government would get additional revenues.
b. The sales tax on items included in the 3rd schedule is collected from the manufacturer at the retail price (origin-based). This should be aligned with the principles of VAT and should be collected from the entire supply chain, rather than from the manufacturer alone.
c. The VAT Bill 2010 proposes no exemptions. So, the items in the 3rd schedule should be abolished. There are no exemptions in VAT regimes. This will lead to an increase in revenue in the long run.

2.8. Simplification of the tax code will help revenue collection and growth

2.8.1. According to the World Bank, Pakistan ranks 161st among 190 economies on the "paying tax" indicator in the 2020 Doing Business Report. The low performance on this indicator is due to the complex tax system and high tax compliance costs. The number of complaints received at FTO (Figure 4) has been increasing over time (the numbers may further increase if the ADR (Alternate Dispute Resolution) is included)).

2.8.2. Out of the total cases decided in 2019, a total of 66% complaints were accepted. Statutes and Regulation of FBR are provided in 34 documents besides the clarifications and notifications (15 Acts, 11 ordinances and 8 Rules). For example, only the Income Tax Ordinance 2001 amended up to December 31st, 2019 has 634 pages of pure legal language. This makes businesses to rely on tax accountants and lawyers which is costly, requires time, may result in double bookkeeping and prolongs the process of rights claim.

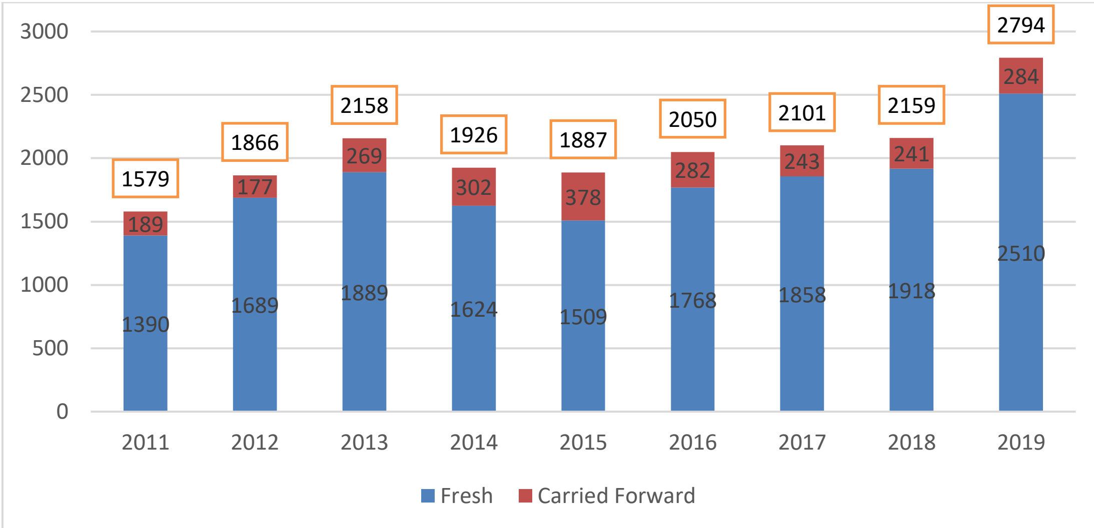
Recommendations

a. There should be a zero-based revision of all FBR tax code. Unnecessary clauses and compliance requirements should be eliminated to reduce the compliance cost.
b. The language of the tax code should be reader-friendly for easy compliance.

---

[7] A broad-based VAT (Value Added Tax) bill was introduced in 2010 that included a number of regulations for the introduction of broad-based VAT tax, but never got implemented in true spirit. Resultantly the sales tax became a single stage tax. We can learn from India and EU. India launched VAT in 2005 by bringing in constitutional amendment to harmonize implementation of VAT regime in its true spirit. The VAT is consumption based and applies on destination principle. It is the most modern and recommended system of taxation.

Figure 4: Complaints received at the Federal Tax Ombudsman



Source: Federal Tax Ombudsman

2.9.Streamline the Refunds system

2.9.1. The practice of refund claims is not so pervasive in Pakistan due to low refund payback rate and fear of getting audited if a refund claim is presented. The Doing Business report of the World Bank for Pakistan states that 50%-70% of all VAT refund cases are subject to an audit.

2.9.2. Furthermore, the businesses on average spend 84 hours (monetized value of Rs.75000 per case) and wait for 79 weeks. This is also validated by looking at the breakup of cases filed at FTO. About 25% of the cases pertain to FBR pressurizing the taxpayers by malpractices or unnecessary notices.

Table 1: No of Complains for Each Tax Type (2019)

Category	Income Tax	Sales Tax	FED	Customs	Total
Refund related complaints	1172	381	1	127	1681
Maladministration	225	210	6	52	493
Unnecessary notices	58	18	3	46	125
Others	125	30	4	52	211
Total	1580	639	14	277	2510

Source: FTO Annual Report 2019

Recommendation

a. The Finance Bill seeks to amend the ADR Committee and process by the FBR to improve the credibility and efficacy of ADR. For all the cases in which the FBR has been proven to be a usurper, the complainant should be given an automatic claim of damages.

2.10. Tax exemptions and concessions lead to loss of significant revenues

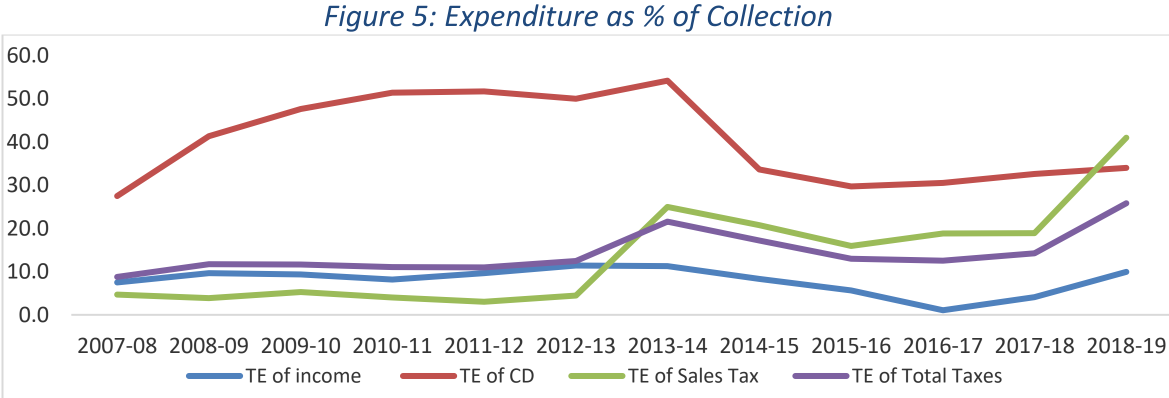
2.10.1 There is a significant revenue loss from SRO-based and other exemptions. There has been hardly any economic appraisal of these waivers. Recent reports suggest as much as the loss of Rs. 1.5 trillion each year. For instance, Pakistan lost Rs. 972.4 billion in tax exemptions and concessions in FY2019. The revenues lost from income tax, sales tax, and customs duty due to these exemptions are Rs. 141.6 billion, Rs. 597.7 billion, and Rs. 233.1 billion, respectively. These exemptions are granted through SROs as well as under 5th, 6th, and 8th Schedules.

2.10.2 The culture of SROs is unconstitutional and hence should be completely abolished. The 2013 ruling of the Supreme Court of Pakistan states that "Parliament/Legislature alone and not the Government/Executive is empowered to levy tax". The SROs were ruled out in 2013 by law but they were transformed into tariffs under Fifth Schedule which has exemptions/concessions for import of plant and machinery, and inputs of the pharma sector, poultry & dairy sectors, home appliance sector, textile sector, imports under Auto & Aviation policies etc.

2.10.3 Tax expenditures have been very high and increasing over time for all the taxes. Tax expenditures as a percentage of the total tax collected (income, sales, FED, and customs) has been increasing over time (Figure 5). It has increased to 26% of the total taxes in 2018-19 and estimated to be 30% in 2019-20 (average of 14% for the sample).

2.10.4 Among these tax expenditures, the customs duty waivers as compared to the actual collection has been very high. It had an average of 40% for the period under consideration. The revenue potential of sales tax has been badly hit and the relaxations have been increasing over time (it is about 41% for 2018-19). Exemptions in the income tax collections have been relatively less as it shows an average value of just 8% in 2019.

Figure 5: Expenditure as % of Collection



Source: Authors' Calculations

Recommendations

a. The culture of SROs is unconstitutional and should be completely abolished. Any SROs that are direly needed, should also be approved along with the budget.

b. Baring sectors supporting education and health (which should be zero-rated for obvious reasons), all other exemptions/concessions should be rationalized/eliminated permanently.

c. The IPP sector has been exempted from income taxes and Chinese firms are given an exemption for 23 years, which has accrued a huge loss. The government should use the federal legislative list for levying capital value tax. Every asset except property should be taxed.

2.11. Under invoicing of imports, transfer pricing by MNCs and noneconomic rates of protection has reduced revenue collection and created distortions

2.11.1 An analysis of import value discrepancies in Pakistan's imports from the UAE conducted by Pakistan Business Council (PBC) revealed that major discrepancy in prices has been witnessed on imports from UAE in various sectors and those recorded at the entry points for customs in Pakistan.

2.11.2 The same is the case for Chinese imports noted by other studies. This under-invoicing not only helps reduce the tariff cost for the importers but also causes losses in sales tax, excise duty, and income taxes.

2.11.3 Besides, the misuse of concessionary duties, through FTAs, have also dented the revenue potential for Pakistan. The country loses about Rs. 150 billion each year to under-invoicing in imported goods. This is the part of the Rs. 600 billion loss each year due to tax evasion (smuggling), and the misuse of concessionary duties. Qureshi and Mahmood (2016) estimated that the magnitude of trade miss-invoicing in Pakistan with 21 of its developed trading partners in 52 major traded commodities during 1972– 2013 exceeded USD 92.7 billion. The gross revenue loss borne by the national exchequer due to trade miss-invoicing is estimated at USD 21.2 billion.

2.11.4 Another significant issue is of *transfer pricing* by the MNCs for the sake of higher profits. An independent estimate suggests that Pakistan could be losing up to Rs. 1,450 billions of tax each year due to domestic tax base erosion and profit shifting (BEPS) activity by multinational groups (Transfer pricing: DGIT starts analyzing potential cases of MNCs, Business Recorder, 25 Aug. 2019). There are international conventions from OECD and under US law where the transfer pricing issue can be tackled. Even multinational companies are now subject to restrictions at their headquarters that can be used.

2.11.5 Furthermore, effective *tariff-based protection* has been a major hindrance in the development of a robust domestic supply chain competing with the rest of the world. Nasir (2020) identified that due to the high incidence of taxes at the import stage, incentives for smuggling, under-invoicing, misdeclaration, and evasion are high. Under-invoicing is clear from the trade gap between China and Pakistan. Haque and Siddiqui (2017) identified that the effective rate of protection by economic classification reveals discrimination against primary sectors (agriculture) and the services sector.

Recommendations

a. The Finance Bill 2021 seeks to add a new clause to make under-invoicing a criminal offence. However, we recommend that under-invoicing for Chinese imports can further be reduced by linking our WeBOC system with the Chinese Port Authority system (which is used for calculating subsidies for their exporters at the other end). Similarly, UN Comtrade data can be used to estimate the under-invoicing. Strengthening the FBR through laws and the capacity for transfer pricing matter.
b. Tariff rationalization under National Tariff Policy 2019 has been made by reducing customs duty on 90 tariff lines from 11% to 3% and 0%. We further recommend that it should be adopted on all tariff lines to establish the tariff-based trade policymaking.
c. Finance bill has proposed a reduction in the regulatory duty on smuggling prone items to bring these items under legal imports. But still much more needs to be done. However, on the other side, the tariff protection for the domestic industry by increasing/levying of regulatory duty on import of those items that are also locally manufactured is also proposed. In our opinion, protection provided to the local industry should be time-bound with clear sunset date and accountability against rent-seeking.
d. Exemptions and concessions in import duties should preferably be provided through tariff code and not through SROs.

2.12. Make taxes investment-friendly

2.12.1. To promote industrialization in the country, the government should facilitate the investors to invest in new projects as well as in the expansion of existing industrial concerns. Tax rules should allow a depreciation expense to be used as a tax deduction against revenue in arriving at taxable income. The higher the depreciation expense, the lower the taxable income and, thus, the more the tax savings. This incentive induces businesses to carry out these necessary expenditures that create economic activity as well. Normal depreciation is allowed at the following prescribed rates by applying the reducing-balance method.

Table 2: Depreciation Rates

Assets	Depreciation Rates (%)
Buildings	10
Furniture	15
Machinery and equipment, including motor vehicles and ships	15
Computer hardware, including monitors and printers	30
Aircraft and aero engines	30
Below-ground installations in mineral oil concerns	100
Offshore platform	20

Source: FBR

Recommendations

a. There is a rationalization of depreciation deduction based on the half-year rule. It is, however, proposed that the initial depreciation allowance rate be restored to 50% for plants and machinery and allowance for building should also be restored to 25% as was the case prior to the Finance Act 2014.
b. The textile sector should be given tax credit on BMR for promoting investment
c. FBR should not be used for non-tax related policies such as Export Credit, which can be provided on a cash basis once the exporter declares the export earnings.

3. Conclusion: Pakistanis tax evasion may be no more than other countries

3.1. If we calculate the effective tax to GDP ratio which includes the given tax to GDP ratio, compliance cost, scrapping the non-economic taxes and tax expenditure cost then it turns out to be 14.23 % instead of reported 9.9% of the GDP for 2019.

3.2. There is an urgent need to develop some research on tax policy and administration to understand where the flaws are. There is much noise in the media on the possibility of large tax gaps and revenue shortfalls because of tax evasion. We will examine this further in our research.

3.3. Meanwhile, the revenue targets for years have been unrealistically excessive. The shortfalls that result make both the taxpayer and the FBR look bad and often force emergency fixes (such as minibudgets) which results in further distortions and costs to the economy.

Recommendations

a. There is a clear need for an extensive research agenda on taxes which PIDE will initiate.
b. There is a clear need to improve the entire tax system from policy to administration. The World Bank, using DFID grants, has already spent USD 150 million on this endeavour without much success. Another such project worth USD 300 million by the World Bank and financed by DFID is underway. Let us see if they can get it right this time.

c. Perhaps rather than a confrontation with taxpayers, the FBR might consider facilitation, education, building better systems and building taxpayer trust.

References

Ahmed, M. A. (2020). Pakistan: Withholdingisation of the Economic System – A Source of Revenue, Civil Strife, or Dutch Disease+? *PIDE Working Paper 2020:7*, pp. 1-48.

Bukhari, H. and Haq, I. (2016). Towards Flat, Low-rate, Broad and Predictable Taxes, *PRIME Institute*, Islamabad.

Haque, N. (2019). Kill transactions, kill economic growth. Retrieved from https://medium.com/@nadeemhaque/kill-transactions-kill-economic-growth-5b45ae75abc1/

Haque, N. (2020). Doing Development Better: Analyzing the PSDP, *PIDE Policy Viewpoint No. 11*, pp. 1-4.

Haque, N. (2020). Macroeconomic Research and Policy Making: Processes and Agenda, PIDE Working Paper 2020:172, pp. 1-24.

Haque, N. and Siddiqui, R. (2017). Nominal and Effective Rates of Protection by Industry in Pakistan: A Tariff Based Analysis, *NUST Journal of Social Sciences and Humanities*, 3(1), pp. 1-45.

Kemal A.R. (2011). Key Issues in Industrial Growth in Pakistan, *The Lahore Journal of Economics, Special Issue.*

Nasir, J. (2020). The Tariff Tripod of Pakistan: Protection, Export Promotion, and Revenue Generation, *PIDE Working Paper 2020:6*, pp. 1-35.

Nasir, M., Faraz, N. and Anwar, S. (2020). Doing Taxes Better: Simplify, Open and Grow Economy, *PIDE Policy Viewpoint No. 11*, pp. 1-8.

Nasir, M., Khalid, M., Jalil, A., Faraz, N. and Iqbal, N. (2020). Post-COVID19 Recovery Scenarios for Pakistan's Economy: Projections for Fiscal Years 2020 and 2021, *PIDE Special Report*, pp. 1-20.

Pasha Hafiz A.(2018). Growth and Inequality in Pakistan, The Friedrich-Ebert-Stiftung (FES), January.

Qureshi, T., A. and Mahmood, Z. (2016). The Magnitude of Trade Misinvoicing and Resulting Revenue Loss in Pakistan, *Lahore Journal of Economics*, 21(2), pp. 1-30.

Appendix

Table A1: Tax Contribution of Less than 1% of respective heads

Tax Type	**Amount (Billion Rs)**	**No of Taxlines / Commodities / Items out of total**
Withholding Income Taxes	9.22	35/82
Sales tax Domestic	7.08	596/821
Sales Tax Imports	7.78	42/97
Customs	6.80	37/95
FED	1.82	9/37
Total	32.69	
%of Total Taxes	0.79	
Investment Multiplier Effect	322.4	
% of GDP	0.84	
Compliance cost per firm for withholding taxes per business	252436	
Total compliance cost for firms	11.14	
Investment multiplier effect	109.8	
% of GDP	0.28	
FBR cost of collection saved	0.24	
Government Investment multiplier	0.98	
% of GDP	0.003	

Source: FBR

A2-i: DETAILED HEAD-WISE COLLECTION OF DIRECT TAXES (WithHolding) (Rs. in Million)					
Sr No.	**Heads of Collection**	**2018-19**	**Sr No.**	**Heads of Collection**	**2018-19**
1	U/s 4A (Surcharge on payable income tax @ 15%)	0.028	20	U/s 154(1) (Exports @ 1.25%)	285.265
2	U/s 236E (Advance Tax on Foreign produced TV Plays and Serials)	0.164	21	U/s 235B (Tax on steel melters, re-rollers etc)	343.176
3	U/s 236N (Bonus shares issued by companies not quoted on the stock exchange)	0.231	22	U/s 156 (Prizes, Rafle, Lottry @ 20%)	348.135
4	U/s 7 (Non residents operating ships @ 8%)	1.664	23	U/s 231A A (DD;DTC etc)	382.848
5	U/s 236V Advance tax on minerals extraction	3.925	24	U/s 233 A(1)(c) (On trading of shares - 0.01%)	396.417
6	U/s 236T (Collection of tax by Pakistan Mercantile Exchange Limited (PMEX)).	5.41	25	U/s 233 A(1)(a) (On purchase/sales of shares - 0.01%)	399.077
7	U/s 7 (Non residents operating aircrafts @ 3%)	14.878	26	U/s 236R (Collection of advance tax on education-related expenses remitted abroad)	407.103
8	U/s 154(1) (Exports @ 1.5%)	26.716	27	U/s 236U Advance tax on insurance premium.	410.456
9	Total U/s 236M (Bonus shares issued by companies quoted on stock exchange)	38.471	28	U/s 154(1) (Exports @ 0.75%)	441.366
10	U/s 7D Tax on developers (Advance Tax on income from the business of development and sale of residential, commercial and other plots)	38.867	29	U/s 236X Advance tax from Tobacco Dealers.	511.117
11	U/s 236F (Advance Tax on Cable Operators & other Electronic media)	43.324	30	U/s 153(1)(b) (On Transport Services @ 2%)	522.808
12	U/s 153(3)(d)	80.68	31	U/s 236Q (Payment to residents for use of machinery and equipment.)	554.174
13	U/s 154(3C) @ 1%	83.373	32	U/s 235A (Advance tax on domestic electricity consumption)	596.752
14	U/s 236S (Dividend in specie.)	87.48	33	U/s 154(3) (Exports @ 1 %)	638.863
15	U/s 233 A(1)(d) (On financing of Carryover share Trades @ 10%)	135.22	34	U/s 236B (Purchase of Domestic Air Ticket @ 5 %)	687.104
16	U/s 7C tax on builders (Advance tax on income from the business of construction and sale of residential, commercial and other buildings)	147.792	35	U/s 236Y Advance tax on Persons Remitting Amounts Abroad.	994.441
17	U/s 156 B (Withdrawal from pension fund)	159.775		**Sub Total**	**9217.439**
18	U/s 236J (Advance Tax on Dealers/Commission Agents/Arhatis)	166.311		**Total**	**960238.622**
19	U/s 148 (Imports @ 0.5%)	264.028			

A2-ii: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**
1	Chromium Cores And Concentrate	0.01	26	Tanned Leather Of Goat/Kid Ski	0.03	51	Carbon Brushes	0.1
2	Cinematographic Films	0.01	27	Transister	0.03	52	Slack Wax	0.1
3	Forestry And Logging	0.01	28	Bobbins Of Wood	0.04	53	Bicycle Chains	0.11
4	Hard Cokes	0.01	29	Bubble Gum	0.04	54	Contact Lenses	0.11
5	Hides & Skins	0.01	30	Cassettes Recorded(Audio/Video	0.04	55	Harness Wire	0.11
6	Press Mud	0.01	31	Lead Oxide	0.04	56	Optical Fibres, Optical Fibre B	0.11
7	Rubber Scrap	0.01	32	Polyster Tops	0.04	57	Zari	0.11
8	Ships,Boats,Barges For Persons	0.01	33	Raw Wool	0.04	58	Brassieres	0.13
9	Video Games	0.01	34	Wrappers	0.04	59	Cooking Range (Gas)	0.14
10	Acetate Yarn	0.02	35	Zinc Articles(Other)	0.04	60	Diaries	0.14
11	Baling Hoops	0.02	36	Battery Covers (Of Metal/Plast	0.05	61	Fire Clay	0.14
12	Battery Separators	0.02	37	Nitric Acid,Sulpho-Nitric Acid	0.05	62	Bone Crushing	0.16
13	Blanket Woollen	0.02	38	Ammonia Gas	0.06	63	Opium	0.16
14	Dextrose & Saline Infusion Bag	0.02	39	Buckrams	0.06	64	Sawing Machine	0.17
15	Natural Polymers	0.02	40	Geysers (Electric)	0.06	65	Sound Amplifier Sets	0.17
16	Poultry Fat (Rendered/Solvent	0.02	41	Glass Sheet(Not Worked)	0.06	66	Steel Safe	0.17
17	Pvc Doors & Windows	0.02	42	Sausages	0.06	67	Battery Carbon	0.18
18	Rubber Compounds	0.02	43	Stoves For Gas/Other Fuels	0.06	68	Flower Seeds	0.18
19	Time Recording Apparatus	0.02	44	Syringes	0.06	69	Heat Exchanger	0.19
20	Artificial Teeth	0.03	45	Book Binding	0.07	70	Glass Beads	0.21
21	Bag & Envelope Making Machiner	0.03	46	Mats & Rugs	0.07	71	Saw Machine (Metal Working)	0.21
22	Gents Vests Etc Not Of Cotton/	0.03	47	Spectacles,Sunglasses & Goggle	0.07	72	Blades Machine, For Cutting	0.22
23	Narrow Woven Fabrics	0.03	48	Video Cameras/Vcr/Vcp	0.08	73	Handicrafts	0.22
24	Shampoos	0.03	49	Aluminates	0.09	74	Hydrochloric Acid	0.22
25	Spectacle Frames	0.03	50	Oil Cookers & Pressure Stoves	0.09	75	Conveyor Belts Of Textile Mate	0.24

A2-iii: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	Commodities	2018-19	S.No.	Commodities	2018-19	S.No.	Commodities	2018-19
76	Electric Iron	0.24	101	Helmits	0.41	126	Sacks & Bags Of Cotton	0.66
77	Equip.For Exercise/Gymnastic/A	0.24	102	Meat Of Bovine Animals,Frozen	0.41	127	Agricultural Tractor Engines	0.68
78	Wheat/Meslin Flour	0.24	103	Phenol	0.41	128	Iron Nails	0.68
79	Blades For Saws Of All Kind	0.25	104	Saddlery Goods	0.42	129	Water Coolers (Plastic)	0.68
80	Optical Lenses (Mounted)	0.26	105	Motor Cars Seats	0.43	130	Blister Packing	0.69
81	Boxes,Wood	0.27	106	Drawn Wire	0.45	131	Greeting/Post Cards	0.69
82	Roofing Felts	0.27	107	Distilled Water/Distillery Pro	0.46	132	Music Instruments	0.69
83	Tv Teletex Decoder	0.27	108	Silver	0.46	133	Latex	0.7
84	Other Rare Gases	0.28	109	Worked Slate & Article Of Slat	0.46	134	Hydrogen Gas	0.72
85	Custard Powder	0.29	110	News Print	0.47	135	Parts Of Electric Motor	0.73
86	Instrument For Mesuring/Checki	0.3	111	Thermostats	0.47	136	Metal Button	0.76
87	Raw Rubber	0.3	112	Tanned Leather Of Sheep/Lamb S	0.48	137	Rice Husking	0.76
88	Children'S Tri-Cycles,Scooters	0.31	113	Copper Tubes & Pipes	0.49	138	Services On Board	0.77
89	Wool Raw	0.34	114	Acrylic Yarn	0.5	139	Gents Vests Etc Of Cotton	0.79
90	Aluminium Reservoirs,Tanks Etc	0.35	115	Cassettes Unrecorded (Video)	0.5	140	Dates	0.8
91	Refractory Ceramic Goods (Crus	0.35	116	Geysers (Gas)	0.5	141	Dyeing Extracts	0.8
92	Trailors	0.35	117	Spirits	0.51	142	Lubricating Preparations/Anti	0.8
93	Beet Pulp	0.36	118	Expanded Metal Of Iron Or Stee	0.53	143	Ceramics For Electric Switches	0.81
94	Buckles	0.36	119	Lathe Machine,Horizontal	0.53	144	Gas Operated Machines And Appa	0.83
95	Dusters/Cleaning Cloths	0.36	120	Aerials & Antenas	0.54	145	Springs & Leaves Of Iron & Ste	0.83
96	Anodized Products	0.4	121	Stamp Pads	0.54	146	Sole	0.85
97	Headgear & Parts	0.4	122	Sewing/Embriodary Needles	0.56	147	Air Heaters, Non-Electric, Iron	0.87
98	Ladies Panties, Vests Of Man-Ma	0.4	123	Meat Of Sheep, Goat Fresh, Chilled	0.61	148	Electric Microwave Ovens	0.87
99	Pigments &Prep.Based On Titani	0.4	124	Photographic Cameras	0.61	149	Magnetic Cards	0.88
100	Cooking Apparatus(Non-Elec) Of	0.41	125	Assembling Of Boiler	0.66	150	Granite	0.89

A2-iv: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**
151	Forging/Die Stamping Machine/P	0.9	176	Aluminium Sulphate	1.35	201	Diesel/Semi Diesel Engines	1.73
152	Grain Sorghum / Wheat	0.91	177	Bead Wire	1.35	202	Glass Bangles	1.75
153	Gaskets,Washers & Other Seals	0.92	178	Fire Estinguisher Parts	1.35	203	Pvc Tiles	1.75
154	Injection/Blow Moulding (Metal	0.92	179	Traffic Control Equipment	1.37	204	Seed Business	1.75
155	Wood In The Rough	0.92	180	Combs	1.38	205	Polyvinyl Chloride	1.83
156	Canvas Cloth/Cover For Canvas	0.93	181	Lpg Regulators (Cylinder Valve	1.38	206	Fuel Filters	1.87
157	Clocks With Watch Movements	0.95	182	Fishing Boats/Vessels	1.42	207	Methyl Ethyl Ketone	1.87
158	Brass Wires	0.96	183	Surgical Gloves	1.42	208	Furnace Oil	1.88
159	Rosins	0.99	184	Industrial Gloves	1.43	209	Coal Tar	1.89
160	Wire Netting Looms	0.99	185	Plastic Ropes	1.43	210	Diesel/Semi-Diesel Engine Part	1.9
161	Electrical Board	1.01	186	Polyester Zips	1.45	211	Food Colours	1.91
162	Monofilament Guts	1.03	187	Sewing Thread Of Man-Made Stap	1.46	212	Plaster Of Paris	1.95
163	Chrome Pak	1.05	188	Glasswool Insulations	1.47	213	Slide Fasteners	1.98
164	Electric Cooking Range/Ovens &	1.05	189	M.M.Yarn Hard Waste	1.5	214	Instruments/Appl.Used In Denta	2
165	Calcium Phosphate	1.06	190	Absorbent Cotton	1.51	215	Waste Of Plastic	2.01
166	Mixtures Of Nuts Or Dried Fruit	1.07	191	Articles Of Silver	1.54	216	Woven Fabrics Of Silk Or Of Si	2.02
167	Table, Kitchen Ware Of Plastic	1.12	192	Emery Papers(Regmal)	1.58	217	Cotton Carded Or Combed	2.03
168	Leather Gloves	1.13	193	Kerosene Oil	1.59	218	Electric Heating Resistors	2.07
169	Chalk,Drawing Etc	1.18	194	Typewriters (Electric & Non-El	1.59	219	Speaker Parts	2.07
170	Olive Oil And Its Fractions	1.19	195	Clock Movements,Complete & Ass	1.61	220	Sisal Ropes	2.12
171	Artificial Flowers	1.22	196	Furniture,Bases,Covers For Sew	1.62	221	Mattresses	2.15
172	Conveyors(Other)	1.3	197	Palm Oil	1.66	222	Water Proofing Compounds	2.15
173	Ships,Boats & Floating Structu	1.3	198	Umbrella	1.68	223	Synthetic Filament Yarn	2.19
174	Carpet Underlay	1.31	199	Metallised Yarn	1.69	224	Copper Rods	2.21
175	Track Suits,Ski Suits,Swimwear	1.33	200	Machinery For Preparing Tannin	1.7	225	Marble Tiles Cutter	2.21

A2-v: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	Commodities	2018-19	S.No.	Commodities	2018-19	S.No.	Commodities	2018-19
226	Ladies & Gents Chapple	2.23	251	Tin Sheet Printing	2.62	276	Refractory Cements,Mortars,Con	3.7
227	Live Fish	2.23	252	Grills/Netting/Fencing/Wire Ga	2.63	277	Curtains	3.72
228	Ball Point Pens	2.25	253	Stone Articles	2.63	278	Water Meters, Electric Or Gas M	3.78
229	Woven Fabrics Of Synthetic Sta	2.25	254	Diesel Generating Sets	2.64	279	Pager (Voice)	3.8
230	Melamine	2.26	255	Preserved Food	2.66	280	Thermosole Goods	3.84
231	Account Books & Registers	2.31	256	Vaccum Cleaners	2.7	281	Parts Of Sewing Machines	3.95
232	Automatic Door Closer	2.32	257	Centrifugal Pumps	2.72	282	Worn Clothing And Other Worn A	3.99
233	Thermo Pack	2.32	258	Waste & Scrap Of Copper	2.73	283	Projectors, Image/Overhead Etc	4.18
234	Other Toys,Reduced Size/Recrea	2.36	259	Candles	2.76	284	Steel Fixtures	4.2
235	Tobacco Extracts & Essences	2.37	260	Aluminium Rods	2.95	285	Poly Vinyl Acetates	4.25
236	Electrical Insulators Of Any M	2.4	261	Gum Tapes	3.12	286	Aluminium Tubes And Pipes	4.26
237	Hard Wastes	2.4	262	Flush Doors	3.15	287	Second-Hand Garments	4.3
238	Services Provided By Cold Stor	2.43	263	Dental Cement & Other Dental	3.2	288	Towels & Bathrobes	4.35
239	Cement-Making Machinery	2.46	264	Denim Fabrics	3.24	289	Bleaching Liquid	4.37
240	Envelopes	2.46	265	Machinery For Bleaching, Washing	3.25	290	Rubber Thread/Cord Tex.Covered	4.42
241	Parts(Elec.Transformer,Static	2.51	266	X-Ray Machines	3.29	291	Polyvinyl Granules	4.43
242	Agricultural Sprayers	2.55	267	Farex	3.39	292	Screw Jacks/Pully Tackle & Hoi	4.47
243	Water Proof Canvas Flocking Cl	2.58	268	Finishing Material For Leather	3.39	293	Rcc Slabs & Girders	4.56
244	Air Filter	2.59	269	Varnishes & Lacquers,Distemper	3.39	294	Wax Papers, Gummed Tape, Filter	4.59
245	Convertor Paper Cheese	2.59	270	Wax	3.39	295	Paper & Paperboard Cutting Mac	4.66
246	Choline & Its Salts; Lecithins	2.6	271	Vulcanised Rubber Thread And C	3.44	296	Tyres & Tubes (Motor/Racing Ca	4.67
247	Slitting Of Plastic Rolls Into	2.6	272	Plastic Other Than Primary For	3.45	297	Gas Mantles	4.73
248	Sparking Plugs	2.6	273	Drill Machines	3.52	298	Scales	4.73
249	Activated Carbon	2.61	274	Bed Spreads	3.54	299	Glass Fibres & Articles	4.77
250	Blanket Synthetic	2.61	275	Distilling/Rectifying Plant	3.7	300	Tyres Retreading	4.77

A2-vi: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**
301	Artists' Colour Material	4.83	326	Paper Roll/Sheet	5.95	351	Carbon Dioxide Gas(Co2)	6.91
302	Oil Dirts	4.83	327	Suitcases,Trunks,Brief Cases E	6	352	Wood Log	6.94
303	Building Bricks Of Ceramics	4.92	328	Rice Processing Plant	6.09	353	Fabric Boards	7.03
304	Bed,Table,Kitchen,Toilet Linen	4.98	329	Tins/Tin Containers	6.13	354	Grinding Of Glass/Chemicals	7.05
305	Barbed Wire	5.01	330	Harvesting & Threshing Machine	6.18	355	Gloves, Mittens & Mitts Knitted	7.11
306	Amino/ Phenolic Resin	5.08	331	Zinc Oxide	6.23	356	Knitting Yarn	7.32
307	Ceramic Jar	5.08	332	Sulphuric Acid	6.26	357	Waste & Scrap Of Aluminium	7.55
308	Pulses Etc	5.11	333	Sand (Silica Sand)	6.29	358	Bolts & Nuts Of Nickel	7.56
309	Aircraft Parts	5.23	334	Poultry Meat/Live Poultry	6.33	359	Books	7.7
310	Lamps & Light Fittings	5.27	335	Cement (Other Cement,Other,Cli	6.4	360	C.N.G. Kit	7.73
311	Ingot,Aluminium	5.34	336	Towers,Iron Or Steel	6.42	361	Woven Fabrics Of Synthetic Fil	7.77
312	X-Ray Films	5.37	337	Waste & Scrap Of Plastic	6.42	362	Castor Oil Seeds	7.8
313	Metal Coating	5.4	338	Coffee/Chicory	6.46	363	Paper & Paperboard Coated/Impr	7.84
314	Taps, Cocks, Valves & Pipe App	5.41	339	Bitumen Natural	6.49	364	Tooth Powder	7.94
315	Macoroni	5.46	340	Sports Goods (Others)	6.51	365	Switch Gear	8.18
316	Printed Circuits	5.47	341	Tin & Its Articles	6.53	366	Interchangeable Tools For Hand	8.19
317	Machinery For Manuf.Of Confect	5.51	342	Sodium Sulphide	6.54	367	M.M.Yarn Soft Waste	8.28
318	Cotton Dyeing	5.58	343	Coconut	6.55	368	Sanitary Ware Of Iron Or Steel	8.3
319	Tableware, Kitchen Ware Of Wood	5.6	344	Glass Sheet(Polished)	6.56	369	Farlac	8.38
320	Expanded Metal Of Aluminium	5.63	345	Tailoring Material	6.57	370	Cotton Seeds	8.41
321	Gasoline Dispensing Pumps	5.65	346	Hydrogen Peroxide	6.61	371	Locks Of Base Metal	8.51
322	Plain Shaft Bearings	5.74	347	Turbines (Hydraulic)	6.71	372	Plastic Mats	8.57
323	Calcareous Stone Etc For Cemen	5.83	348	Silk Yarn	6.73	373	Glassware Used For In-Door Dec	8.58
324	Optical Lenses (Unmounted)	5.83	349	Animal Feed (Other Than Poultry	6.74	374	Coat Hangers Plastic	8.65
325	Articles Of Base Metal	5.85	350	Washing Machine Parts, Of Plastic	6.82	375	PVC Doors And Windows	8.69

A2-vii: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	Commodities	2018-19	S.No.	Commodities	2018-19	S.No.	Commodities	2018-19
376	Laces & Braids	8.7	401	Cutlery	11.35	426	Earth Colours	13.99
377	Leather Tanned Of Other Animal	9	402	Underground Mining And Tunnelling	11.52	427	Plastic Crockery	14.23
378	Lathes,Numerically Controlled	9.05	403	Colouring Material(Other)	11.66	428	Package Type Watertube Boiler	14.56
379	Laminated Wood	9.13	404	Oil Cake	11.73	429	Tin Cuttings	14.64
380	Steel Slabs	9.45	405	Non Ferous Metal Product(Ash &	11.83	430	Plastic In Primary Form	14.8
381	Army Uniform Equipment	9.56	406	Grinding Wheels Without Frame	12.09	431	Quilt	14.82
382	Electric Coffee & Tea Makers	9.6	407	Control Panels	12.13	432	Match Boxes	14.83
383	Telephone Mobile/Cellular	9.6	408	Fan Parts	12.14	433	Disposable Injections	15
384	Mathematical Instruments	9.67	409	Furniture(Plastic)	12.23	434	Smart Cards	15.06
385	Gold	9.82	410	Wadding	12.28	435	Carton Machine	15.11
386	Electro Plating	10.04	411	Electro-Mechanical Hand Tools	12.3	436	Poultry Incubators & Brooders	15.39
387	Hatching Eggs	10.15	412	Drawing Pins (Iron Or Steel)	12.37	437	Plastic/Rubber Moulding	15.54
388	Table, Kitchen Ware Of Aluminium	10.18	413	Alkyd Resin	12.39	438	Plastic Tabular Film	15.62
389	Poultry Feed	10.23	414	Pig Iron	12.55	439	Plastic Re-Cycling	15.83
390	Veterenary Medicines	10.23	415	Bricks,Blocks,Tiles Of Refract	12.73	440	Prepared Pigments,Opacifiers &	16.03
391	Air Coolers/Desert Coolers	10.31	416	Socks	12.73	441	Aluminum Alloy	16.25
392	Bea Wire Rings	10.48	417	Air Conditioner Parts, Of Plast	12.83	442	Gas Heaters	16.28
393	Buttons	10.55	418	Leather Garments	12.84	443	Rubber Apparel	16.51
394	Glassware For Kitchen,Office,T	10.61	419	Aluminium Plates,Sheets & Stri	12.97	444	Oil Filters	16.53
395	Sewing Machines	10.67	420	Wireless Receiving Sets	13.1	445	Printing Blankets	16.64
396	Steel Wire Stranded	10.68	421	Pan Masala	13.22	446	Dry Milk (Milk Powder)	16.9
397	Decoration Pieces	10.9	422	Other Rubber Goods	13.25	447	Calander Of Paper & Paperboard	17.66
398	Aluminium Containers,Drums,Can	11.1	423	Terry Fabrics	13.38	448	Spares For All Type Of Welding	17.71
399	Water Filters	11.19	424	Smoking Tobacco	13.52	449	Imitation Jewellery	17.72
400	Watches And Clocks	11.2	425	Brass Rods	13.88	450	Sanitary Ware Of Plastic	18.54

A2-viii: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**
451	Acrylic Tops	18.58	476	Scientific Items	22.38	501	Digital Switching System	27.02
452	Brake Lining & Pads	18.7	477	Saunf Supari	22.43	502	Dyeing Of Hosiery Cloth	27.24
453	Other Telephony/Telegraphy App	18.72	478	Woolen Yarn	22.57	503	Sulphate/Clay/Gypsum	27.52
454	Bricks, Blocks, Tiles Of Fossil	18.75	479	Weaving Machines (Power Looms)	22.65	504	Gelatins	27.77
455	Toothpaste/Toothpowder	18.99	480	Synthetic Organic Dyes	22.73	505	Gypsum Powder	28.06
456	Cigerette Filter Rods	19.14	481	Ball & Roller Bearing Complete	22.94	506	Mach.For Sugar Manuf.Other Tha	28.08
457	Jams & Jellies	19.41	482	Railway Track Clips	23.03	507	Cement Construction Blocks	28.19
458	Engines Of 8407 Other Than-100	19.73	483	Moulds	23.08	508	Rolls For Rolling Mills	28.27
459	Bicycles & Other Cycles Not Mo	19.82	484	Cotton Sewing Thread	23.1	509	Paper Pulp/Waste & Scrap Of Pa	28.29
460	Plastic Printing	20.16	485	Buildings(Pre-Fabricated)	23.13	510	Capacitors	28.8
461	Steel Poles	20.26	486	Laboratory Equipment, Apparatu	23.18	511	Process Oil	28.96
462	Calcium Carbonate	20.48	487	Pottery	23.27	512	Leather (Patent/Laminated/Meta	29.05
463	Jewellery Of Precious Metal	20.66	488	Pet Grease	23.39	513	Cloth Articles Accessories Of	29.43
464	Electro Medical Apparatus	20.74	489	Bleaching Powder	23.61	514	Crockery (Ceramic)	29.74
465	Thermopole Goods	21.36	490	Cereal Products	23.71	515	Switches, Relays, Fuses Etc	30.08
466	Air Line (Travel By Air)	21.52	491	Polyethene (Sp.Gravity Less	23.83	516	Furnace For Heat Of Ores / Met	30.2
467	Hair Clippers, Electric	21.59	492	Conveyor Belts Of Vulcanised R	24.06	517	Aluminium Foil	30.4
468	Agricultural Tractors	21.61	493	Maize Starches	24.09	518	Pvc Shoes	30.4
469	Essences/Essential Oils	21.75	494	Polyester Staple Fibre	24.76	519	Shoe Uppers(Leather/Compositio	30.43
470	Maize Products	21.81	495	Stone Crusher	24.94	520	Sulpher	30.64
471	Balls & Footballs	21.82	496	Photographic Films In Rolls Et	25.26	521	Tyres & Tubes (M/Cycle,Scooter	30.65
472	Potato Chips	21.84	497	Asphalt	25.79	522	Aluminium Doors & Windows	30.99
473	Hard Boards	21.97	498	Cotton Linters	26.46	523	Rice	31.46
474	Brake Fluids	22.15	499	Knitted Or Crocheted Fabrics	26.74	524	Furniture(Steel)	31.64
475	Lac,Gums,Resins(Natural)	22.24	500	Processed Cotton Cloth	26.87	525	Straw Board	32.17

A2-ix: Gross Collection of Sales Tax-Domestic (Rs. in Million)								
S.No.	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**	**S.No.**	**Commodities**	**2018-19**
526	Slag & Rock Wool & Similar Min	32.31	551	Lift Components	42.97	576	Plywood	55.36
527	Transmission Equipment	32.97	552	Copper Strips	43.22	577	Carbon Black	55.57
528	Mineral Products	33.17	553	Spices	43.34	578	Lamination	55.71
529	Abrasive Powder	33.34	554	Tyres & Tubes (Bicycles)	43.52	579	Laminated Board	55.88
530	Formica	33.82	555	Corrogated & Solid Boards	43.57	580	Rcc Pipes	56.41
531	Sports Goods	33.96	556	Yeast	43.61	581	Screws, Bolts & Nuts Of Iron Or	57.01
532	Ferro Silicon	34.33	557	Glass Ampoules	45	582	Carpets Synthetic (Machine Mad	57.94
533	Cng Station	35.08	558	Metal Products Sheets	45.26	583	Fire Fighting Instruments	58.02
534	Computer Gateways, Hubs, Switches	36.34	559	Spinning Machines Textile	45.98	584	Polypropylene Wastages	58.42
535	Tape Recorders	37.24	560	Tent & Tarpauline	46.22	585	Ice Cream	58.48
536	Fibre Glass	37.26	561	Sizing Of Yarn For Weaving (Fo	46.33	586	Embroidery	60.37
537	Toys (Stuffed)	37.52	562	Lime	46.46	587	Plastic Sheets & Other Article	60.7
538	Sports Footwear/Canvas Shoes E	38	563	Crown Corks	46.74	588	Pesticides	60.84
539	Dyes & Colours	38.1	564	Medical Diagnostic Kits	46.74	589	Soft Cotton Wastes	61.52
540	Electric Welding Wires,Rods,El	38.74	565	Betel Leave	46.92	590	Computer Stationery	61.54
541	Polyester Filament Yarn	39.06	566	Marble Tiles	48.07	591	Pipe & Tube Fittings Of Iron O	62.27
542	Stone Powder	39.47	567	M.S.Bars & Rods	48.09	592	Water Treatment Plant	63.4
543	Fruit, Nuts, Peel Of Fruit Or Me	39.51	568	Storage Tanks Of Iron Or Steel	49.1	593	Carpets Tufted (Hand Knitted)	63.74
544	Other Engines & Motors	39.63	569	Electric Lighting & Signalling	50.12	594	Parts Of Balloons, Gliders, Air	63.94
545	Aluminium Billets	40.18	570	Agarbatti	50.43	595	Artificial Leather & Rexine	64.19
546	Stainless Steel Utencils	41.29	571	Bulb Shells	51.87	596	Transformers(Not Ballast/Liq.D	64.23
547	Industrial Instruments	41.35	572	Tractor Parts	52.46		Sub Total	7084.58
548	Carbon Paper	41.52	573	Flat-Rolled Products Of Stainl	52.79		Total	705331.9
549	Textile Fabrics Otherwise Impr	42.02	574	Tissue Papers	52.82			
550	Pumps For Liquids, Liquid Eleva	42.03	575	Marble Chips/Powder	54.14			

A2-x: Gross collection of sales tax on imports (less than 1% cumulative revenue items) Rs million							
Sr No	Chapter #	Name of Commodity	Gross Collection	Sr No	Chapter #	Name of Commodity	Gross Collection
1	43	Furskins and articles of fur, manufacturers thereof	0.18	23	67	Prepared feathers and down and articles made of feathers	151.865
2	53	Other vegetable textile fibres; paper yarn and wool	0.726	24	58	Special woven fabrics; tufted textile fabrics; la	177.546
3	02	Meat and edible meat offal	1.509	25	80	Tin and articles thereof	199.14
4	99	Special classification provisions.	2.565	26	81	Other base metals; cermets; articles thereof.	204.89
5	16	Preparation of meat, of fish or of crustaceans, molluscs	3.313	27	65	Headgear and parts thereof.	207.772
6	01	Live animals	5.656	28	07	Edible vegetables and certain roots and tubers	230.386
7	45	Cork and articles of cork.	5.936	29	30	Pharmaceutical products	259.6885
8	10	Cereals	7.18	30	75	Nickel and articles thereof	269.496
9	46	Manufactures of straw, of esparto or of other plaiting materials basket ware and wickerwork	8.266	31	22	Beverages, spirits and vinegar	288.3881
10	05	Products of animal origin, not elsewhere specified	10.772	32	49	Printed books, newspapers, pictures and other products	294.327
11	97	Works of arts, collectors' pieces and antiques.	13.266	33	57	Carpets and other textile floor coverings.	327.5063
12	36	Explosives; pyrotechnic products; matches; pyropho	14.362	34	52	Cotton	356.731
13	03	Fish and crustaceans, molluscs and other aquatic	16.937	35	91	Clocks and watches and parts thereof.	367.418
14	06	Live trees, bulbs, roots and the like; cut flowers	18.555	36	71	Natural or cultured pearls, precious or semi-precious	436.761
15	50	Silk	20.525	37	13	Lac; gums, resins,vegetable sap and extracts.	499.317
16	26	Ores, slag and ash	21.277	38	11	Products of the milling industry; malt; starches;	500.019
17	92	Musical instruments; parts and accessories of such	33.2	39	54	Man-made filaments; strip and the like of man-made	525.2885
18	51	Wool, fine or coarse animal hair; horsehair yarn a	41.503	40	24	Tobacco and manufactured tobacco substitutes.	631.278
19	66	Umbrellas, sun umbrellas, walking sticks, seat – st	60.858	41	37	Photographic or cinematographic goods.	643.399
20	89	Ships, boats and floating structures.	66.319	42	59	Impregnated, coated, covered or laminated textile	664.615
21	41	Raw hides and skins (other than fur skins) and leat	71.841		Sub Total		7779.3414
22	93	Arms & ammunitions; parts & accessories thereof.	118.764		Total Sales Tax on Imports		810435.59

A2-xi: Chapter-wise Gross Customs Duty (Rs in Million)							
No.	**Chp. #**	**Name of Commodity**	**2018-19**	**No.**	**Chp. #**	**Name of Commodity**	**2018-19**
1	99	Special classification provisions.	0.15	21	75	Nickel and articles thereof	171
2	97	Works of arts, collectors' pieces and antiques.	3	22	78	Lead and articles thereof	172
3	05	Products of animal origin, not elsewhere specified	5	23	16	Preparation of meat, of fish or of crustaceans, mo	184
4	45	Cork and articles of cork.	5	24	50	Silk	195
5	26	Ores, slag and ash	6	25	93	Arms & ammunitions; parts & accessories thereof.	201
6	46	Manufactures of straw, of esparto or of other plaiting	13	26	65	Headgear and parts thereof.	202
7	43	Furskins and articles of fur, manufacturers thereof	14	27	07	Edible vegetables and certain roots and tubers	214
8	92	Musical instruments; parts and accessories of such	27	28	79	Zinc and articles thereof	337
9	36	Explosives; pyrotechnic products; matches; pyrophoric	28	29	91	Clocks and watches and parts thereof.	349
10	31	Fertilizers	35	30	37	Photographic or cinematographic goods.	355
11	66	Umbrellas, sun umbrellas, walking sticks, seat – st	41	31	49	Printed books, newspapers, pictures and other products	367
12	81	Other base metals; cermets ; articles thereof.	43	32	86	Railway or tramway locomotives, rolling-stock and	389
13	06	Live trees, bulbs, roots and the like; cut flowers	49	33	57	Carpets and other textile floor coverings.	433
14	80	Tin and articles thereof	49	34	13	Lac; gums, resins, vegetable sap and extracts.	441
15	41	Raw hides and skins (other than fur skins) and leather	89	35	11	Products of the milling industry; malt; starches;	488
16	02	Meat and edible meat offal	91	36	22	Beverages, spirits and vinegar	505
17	01	Live animals	120	37	03	Fish and crustaceans, molluscs and other aquatic	740
18	67	Prepared feathers and down and articles made of feathers	141			Sub Total	6,796.81
19	53	Other vegetable textile fibres; paper yarn and wool	142			Total	702145.14
20	51	Wool, fine or coarse animal hair; horsehair yarn a	153				

A2-xii: COMMODITY-WISE FEDERAL EXCISE DUTIES		(Rs. in Million)
S.No	**COMMODITIES**	**2018-19**
1	Services provided by property developer	4.831
2	POL (NOS)	35.85
3	Vegetable Ghee	40.796
4	Cement	80.45
5	Aerated Water	97.835
6	Services NOS	105.665
7	R.B.D. Palm Oil	138.154
8	Cigarettes & Tobacco	633.06
9	Perfumery & Cosmetics	678.37
	Sub Total	1,815.011
	Total	238,186.080