

ICMA Pakistan Survey Reveals

Economic Targets ambitious but achievable

By Research and Publications Directorate, ICMA Pakistan

Abstract

The Research and Publications Directorate of ICMA Pakistan conducted this survey of its members, soon after the announcement of Federal Budget 2015-16 on 5th June 2015 by the Federal Finance Minister, to elicit their initial feedback and viewpoint on the budget speech and the accompanied Finance Bill 2015. The questionnaire was so designed as to judge the general impression and reaction of members with regard to budget proposals, its implications on national economy and general public, different measures that were expected but not made part of budget proposals and various tax anomalies.

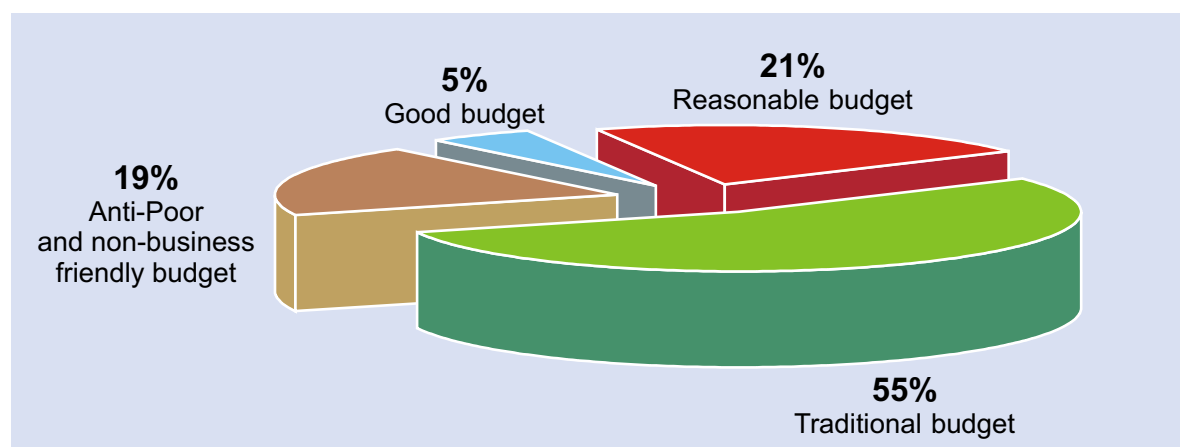
The outcome received as a result of this survey of professional accountants, corresponds to the observations and viewpoints as expressed by other stakeholders such as representative bodies of trade and industry, business community, economists, tax experts etc. The CMAs, being a part of this society, shares identical feelings and sentiments as other segments of the society, hence the feedback received from this survey should be judged and taken in the same general perspective.

The survey result indicates that the expectations of professionals from the budget have not been met, as more than fifty percent respondents have termed the budget as a 'traditional budget' that is devoid of any significant relief measures for the people and Industry. Moreover, majority of survey participants pointed out that the budget proposals lacked concrete measures to check rampant corruption, money laundering and tax evasion. More than seventy percent (70%) professionals have observed that

the government has not proposed any pragmatic measures in the budget to broaden the tax base by clamping down on the elite and rich class of the society as well as big agricultural land owners, who are either not paying taxes at all or are contributing lesser share of taxes to the national exchequer.

Most of the respondents also noted that the budget do not propose any concrete steps that could help the trade and industry, especially the textile sector, to reduce the cost of doing business. In fact, almost 59 percent of survey participants revealed that the government has not offered any kind of incentive package to the existing industries to reduce their cost of doing business, rather the main focus in the budget has been to provide incentives for new set-up industries. Others felt lack of measures in the budget for passing on the benefit of lowering of petroleum prices to common man through reduction in indirect taxes. Almost 60 percent of the respondents revealed that the budget has disappointed people, rather it has put more burden on them by increasing indirect taxes on dairy products and other items.

Notwithstanding the above deficiencies in the budget 2015-16 proposals, the professional accountants in business have reposed confidence in the capability of the government to achieve the GDP growth target of 5.5 percent in FY 2015-16 and 7 percent by 2018. They commented that though these targets are quite ambitious, still with consistent efforts by the FBR and other relevant government organizations it is possible to atleast come close to these set targets that would help revive the national economy.



A number of good suggestions were also put forward by the respondents, especially with regard to the need for the government to recognize and utilize the technical skills and expertise of CMAs and other professionals in government organizations to improve their efficiency and performance. A brief summary of these proposals is given here-under:

1) Increasing Qualification Pay for 'Professional Accountants' working in Government

The members of ICMAP working in the public sector/ government organizations are getting professional qualification pay of Rs.2100/- which is quite meager considering their professional skill and competence. In Finance Bill 2015-16, the government has recognized the importance of Ph. D's and provided increase in Ph.D allowance @ 10,000 per month. Similarly, due importance should be given to the qualifications of Professional Accountants (e.g. ICMAP, ICAP) by increasing their qualification pay to Rs. 10,000 per month in equivalence to PhDs.

2) Making it obligatory for employers of privatized PSEs to induct higher Professionals

The government should make it obligatory for the investors and employers, taking over the newly privatized Public Sector Entities (PSEs), to induct higher professionals, including Professional Accountants (ICMA, ICAP) for their professionals requirements. This should be done in the best interest of the country.

3) Restructuring of the FBR by inducting Professionals

The budget do not propose any measures for the restructuring of Federal Board of Revenue (FBR) so as to transform it into a professional organization. The tax revenue generation would jump manifold just by making FBR a purely professional body, controlled and run by professionally qualified accountants and top class economists, not sitting in second seat, but on the driving seat, assisted by fellow professionals.

4) Action against non-tax payers on the basis of computerized records

FBR self evaluation system should be strengthened and on the basis of computerized records, strict action should be taken against all those persons who are either not paying taxes or are not registered with the FBR and doing business. It may be

pointed out that FBR had the details from last two years after the implementation of 1% further GST on unregistered person.

5) Relief to Senior Citizens

The government should consider providing some relief to senior citizens aged over 65 years, especially those retired from the government service, in shape of exemption from withholding tax on their investment and profits from bank.

6) Autonomous Body for Price Control

The government should consider establishing an autonomous body to control and tightly monitor prices set for different consumer products. The professional services of cost and management accountants may also be utilized by inducting them as member of the proposed price control body.

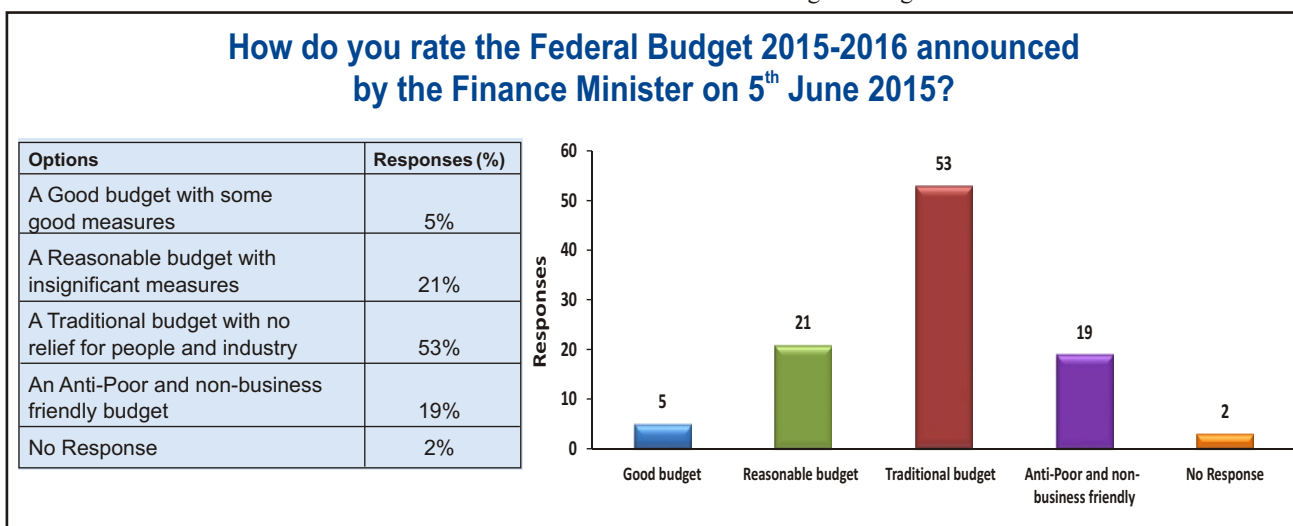
Methodology

The Feedback Survey Questionnaire was uploaded on Institute's website on 11th June 2015 and also placed on Google Drive to provide an opportunity to members to submit their responses online. The members were also invited via email to participate in this brief survey and provide feedback on 6 specific questions (Q1 to Q6), in addition to identifying measures that they expected in budget but not included (Q7) and tax anomalies in the budget that need rectification (Q8). The members were given the deadline of 15th June 2015 for submitting their responses to Research and Publications Department. An overwhelming response was received from members and by the given deadline almost one hundred (100) filled-in survey forms were received, which is record high as compared to previous budget surveys.

Survey Questionnaire and Responses

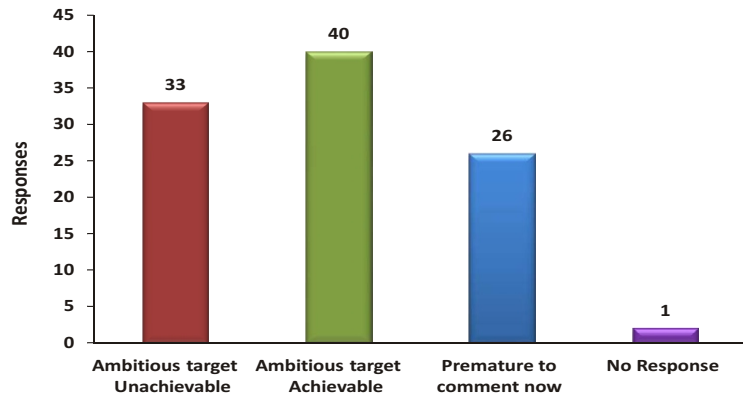
53% rate Federal Budget 2015-16 as a 'Traditional Budget'

Majority of respondents (53%) have given a candid and straightforward feedback by terming the Federal Budget 2015-16 as a 'traditional' budget containing no relief measures for the people and the Industry, whereas 19% think that it is an 'anti-poor and non-business friendly budget. Around 21% respondents believe the budget is quite 'reasonable' but have insignificant measures. Overall, the budget has not met the expectations of the professionals as only 5% of them have termed it as a good budget.



The GDP growth target for 2015-16 is set at 5.5% which would be gradually increased to 7% by 2018. Do you think that this is quite an ambitious target keeping in view the fact that targeted GDP growth of 5.1% for 2014-15 has also not been achieved?

Options	Responses (%)
An Ambitious target Not achievable	33%
An Ambitious target Can be achieved	40%
It is premature to say at this moment	26%
No Response	1%



40% believe the targeted GDP growth target is ambitious but still achievable

Despite the fact that the government could not achieve targeted GDP growth in FY 2014-15, almost 40% of respondents have placed their confidence on government that in FY 2015-16 they would be able to achieve GDP growth target of 5.5% in current FY and 7% by 2018. Around 26% of respondents says that it is premature to say at this moment whether the GDP growth target would be achieved or not. On the contrary, 33% of the respondents have outrightly indicated that this ambitious target is not achievable.

Only 18% endorse Finance Minister's claim that inflation has come down to 4.6%

The survey invited viewpoint of respondents as to whether they endorse the claim made by the Finance Minister in his budget speech that overall inflation in FY 2014-15 came down to 4.6% which is lowest during last eleven years. Only 18% of respondents have supported this claim. Almost 47% respondents believe that inflation has increased in reality whereas 34% indicated that inflation remained unchanged.

73% say hitherto untaxed and elite class allowed again to go scot-free

More than 70% respondents have expressed that Federal Budget 2015-16 do not propose any concrete measures to

broaden the tax base and the hitherto untaxed segment and the elite class have again be allowed to go scot-free from tax payment. Only 25% respondents believe that some measures have been proposed in the budget which would help broaden the tax net.

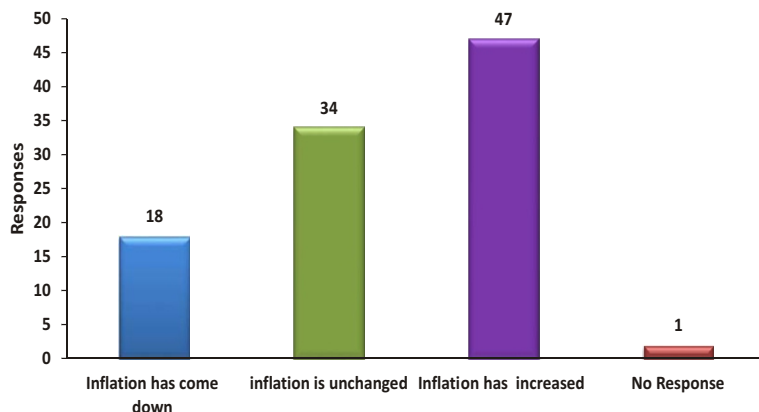
59% observe that budget do not provide any incentives to existing industries

Around 59% of respondents have observed that the government has not offered any kind of incentive package to the existing industries to help them reduce their cost of doing business, and the main focus of the budget 2015-15 has been to provide incentives only to the new industries. On the contrary, 27% respondents believe that the budget also includes measures for the existing industry, whereas 12% are of the view that both new and existing industries have been given equal treatment in the budget.

60% say budget disappointed ordinary people by putting more burden on them

About 30% of respondents have conveyed in survey that budget 2015-16 has totally disappointed the ordinary people, whereas another 30% indicated that the budget will put more burden on the people. However, 27% respondents differ with this viewpoint and observe that the budget includes measures that would provide some relief to the masses. About 12% refrained to comment on it at this moment.

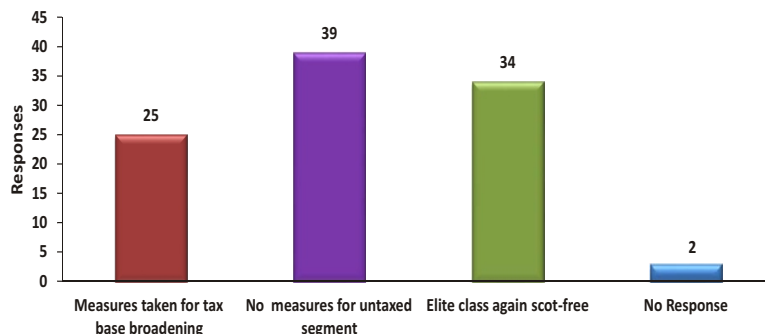
Finance Minister claims that inflation has gone down to 4.6% in FY 2014-15 which is lowest during the last 11 years. This might be true in terms of figures, but do you think that this is also true in reality?



Options	Responses (%)
Yes, Inflation has come down as claimed by Finance Minister	18%
No, inflation has remained unchanged	34%
Inflation has rather increased in reality	47%
No Response	1%

Do you think that Federal budget 2015-16 have proposed some concrete measures to broaden the tax base?

Options	Responses (%)
Yes, some measures have been taken for broadening tax base	25%
No significant measures proposed to tax the untaxed segment	39%
Budget has again left elite class to get off scot-free	34%
No Response	2%

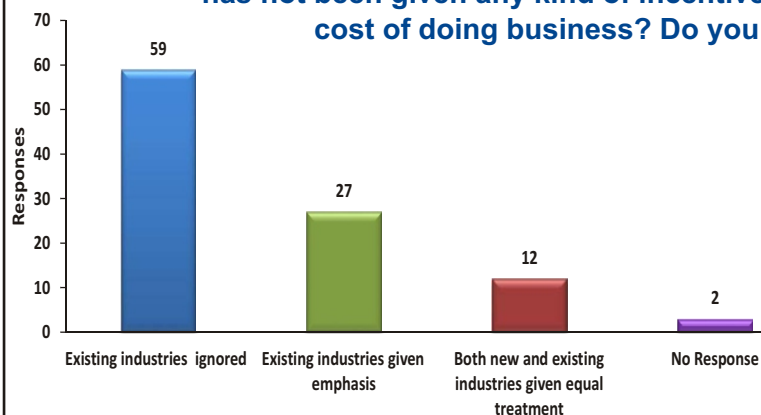


Budget lacks concrete measures to check corruption, money-laundering and tax evasion; reduce indirect taxes, debt services charges and cost of doing business

Majority of the respondents, when asked to comment on measures they expected in the Federal Budget but which were not included, stated that the government should have proposed initiatives to check corruption, money-laundering and tax

evasion; reduce the indirect taxes to relieve burden on common man; ease the cost of doing business to support the trade and industry and taxing the agriculture income and property holdings to increase tax revenues. Many respondents were of the view that the government did not proposed any measures to check corruption in the tax collection machinery. A list of some measures that the members expected to be included in the budget are summarized below:

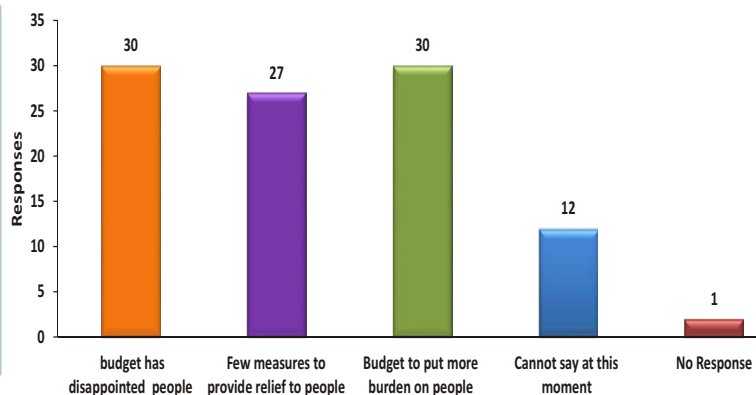
The focus of Budget 2015-16 is to incentivize new industries and the existing industry has not been given any kind of incentive package to reduce their cost of doing business? Do you agree with this?



Options	Responses (%)
Yes, I fully agree that existing industries have been ignored	59%
No, the existing industries have also been given emphasis	27%
Both new and existing industries are given equal treatment	12%
No Response	2%

Do you think that the Federal Budget 2015-16 has provided any relief to the general public?

Options	Responses (%)
The budget has totally disappointed the ordinary people	30%
There are few measures that would provide relief to masses	27%
The budget will put more burden on people	30%
Cannot say at this moment	12%
No Response	1%



What measures you expected in Federal budget 2015-16 proposals but these were not included by the government. Please mention these measures very briefly with justifications.

No	Measures expected but not included in Budget	Justification / Accrued Benefit
1.	Measures to remove tax evasion like under invoicing, fake invoicing etc	Increase efficiency
2.	Measures to check money-laundering	Increase efficiency
3.	Measures to remove corruption in tax collection agency	Increase efficiency
4.	Measures to broaden direct tax base and document the economy	Increase tax revenue
5.	Measures to reduce indirect taxes / WH tax rates on supplies and services	Bring down prices of market commodities
6.	Measures to reduce debt service charges	Improve fiscal deficit
7.	Measures to reduce cost of doing business	Facilitate the trade and industry
8.	Measures to tax agriculture income and property holdings	Increase tax revenue
9.	Measures to reduces taxes on internet, computer equipment and supplies	Provide relief to students/education sector
10.	Measures to transfer the benefit of decrease in Petroleum prices to people	Provide relief to general public
11.	Measures to impose heavy tax on import of luxury items used by rich class	Reduce imports and improve trade balance
12.	Measures to impose tax on luxury cars more than 2000 CC	Increase tax revenue
13.	Measures to abolish withholding tax from regular tax payers	Reduce burden on withholding agents
14.	Measures to strengthen SME network contributing significant share in GDP	Support SME development
15.	Measures to boost the productivity of textile units such as zero-rating facility	Support textile sector

Tax Anomalies

The survey participants were asked to identify some tax anomalies in Federal budget 2015-16. Some of the anomalies pinpointed in the survey are highlighted below:

WHT on bank Transactions

The imposition of deduction of withholding tax (0.6% earlier proposed in Finance Bill but later reduced to 0.3%) on banking transactions exceeding Rs. 50,000/- per day by the non filers would adversely affect saving, investment and capital formation and encourage non-banking transactions and flight of capital.

Tax on Undistributed Reserves

The insertion of a new Section in the Income Tax Ordinance for imposing 10% tax on undistributed reserves on public listed companies is quite harsh and tantamount to double taxation. The reserves are created out of the already taxed profits, so charging them again is double taxation. Since many companies have reserve of more than 100% of their paid up capital, as such they will have to bear this tax in addition to the already paid 32 percent corporate tax. This might hinder the new investment in public sector corporate bodies and may also result in flight of capital.

It is, therefore, suggested that either this tax should be abolished or the rate shall be reduced to minimum. Furthermore, the condition of 100% additional reserves may be removed, because all of these companies have accumulated reserves over time. Only the condition of undistributed dividends from now onwards shall be considered for taxation and that too with a smaller rate.

Super Tax on Income of companies

A one-time Super Tax has been imposed in FY 2015-16 Federal Budget for the rehabilitation of disabled persons at the rate of 3% of income equal to or exceeding Rs. 500 million (for other than banks). This new tax is discrimination with companies earning profits and may be done away with.

Whistle Blower Concept

The Finance Act 2015-16 has introduced the concept of whistleblower by inserting a new Section 72D in the Sales Tax Act, 1990, whereby FBR may sanction reward to whistleblowers in providing credible information leading to detection of taxes. However, any procedure, rules and regulations have not been provided in this regard that could guarantee protection to the whistleblower.

Disclaimer: This report is based on the personal observations and perception of members and other professionals and does not necessarily reflect the views of the Institute and therefore be not taken as such.