

Reformed GST: Challenges and Opportunities

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Reformed GST as you know is a law which we have introduced in National Assembly. Its main features are that we are proposing minimum exemptions because our present law gives lot of exemptions. The second basic thing is about zero rating. Presently we have zero rated even domestic supplies for five exports sectors and even others sectors also. We are restricting zero rating for exports only and for domestic supplies it will be taxable. The third major thing is that we are increasing registration threshold from Rs 5 million to Rs 7.5 million. This proposal will spare smaller tax payers from incurring the compliance cost related to keeping of records and filing of returns. Then the fourth major change in the new law is that buyers have to give their CNIC or NTN to the sellers. This provision will help in keeping smaller taxpayer outside tax net and bringing bigger ones in tax net. Then there are lot of distortions in the existing law in the form of special schemes and fixed tax schemes. These schemes will not be part of the new law. The new law has been discussed in Senate's Finance Committee where there have been objections about certain provisions which have been considered as very harsh and government has promised to consider softening them.

It would be pertinent to mention that original proposal for this reform was an integrated VAT on goods and services but what actually happened was that one of the provinces did not agree for inclusion of all services in this arrangement. The present position is that agreement is for certain services only. After 18th amendment in the Constitution the taxation of services falls wholly in the domain of provinces. Further progress on this issue will require agreement from the provinces.

One other major distortion in the present sales tax system is multiple rates ranging between 17 to 25 percent one rate is now even 8 percent for domestic sugar, for imported sugar it is 17 percent. Restriction of input adjustment to 90 percent is another distortion in the present system. Government intends to remove these distortions through new law. Government has got done two studies, one is about services and the other one is about withdrawal of exemptions on remaining goods. Additional revenue estimated from services is Rs 60-70 billion if provinces impose them on remaining services. Withdrawal of sales tax exemption from major items like fertilisers, pesticides, tractors and machinery may give additional revenue of Rs 50-60 billion per annum. The above are the main features of the new law. If there are any questions, I will be too happy to answer them.

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