

Tax Expenditure

A Note on Tax Expenditure 2011-12

Estimates of tax expenditures are being prepared by FBR and reported in the Pakistan Economic Survey since last few years as part of the budget process. The Tax Expenditure for the year 2011-12 works out to Rs. 185.496 billion. Details of Direct Taxes have been indicated first in the report, followed by Sales Tax and Customs Duty. Federal

Excise Duty has not been included due to very restrictive base and exemptions. Detailed are as follows:

Income Tax

The cost of exemptions, exclusions, subtractions, deductions, rebates and credit etc that cause loss of Direct Taxes revenue comes to Rs. 69.608 (billion) has been reflected in Table -1 below:

S. No	Tax Expenditure Items	Estimated Revenue Loss	
		2010-11	2011-12
1.	Pensions & Gratuity	0.087	0.171
2.	Income from Funds, Boards of Education, Universities and Computer Training Institutes etc.	0.979	6.077
3.	Donations and Contributions to Charitable Organizations	0.649	0.624
4.	Independent Power Producers	0.870	46.939
5.	Income from certain Trusts, Welfare and Charitable Institutions and Non-Profit Organizations	1.360	0.205
6.	Profits on Debt/interest from government securities and certain foreign currency accounts/books, profit on debt earned by certain non-resident individuals and institutions	0.049	1.461
7.	Export of Information Technology	0.724	0.822
8.	Capital Gains	21.840	2.108
9.	Other Sectors/enterprise specific exemptions	19.950	11.201
	Total	46.508	69.608

Sales Tax

Sales Tax exemptions are provided at the import stage and on domestic supply of goods and services. Previously, Sales Tax exemptions were available on certain items including tractors, fertilizers & pesticides etc. However, the Federal government rationalized these exemptions during last year. From 15-03-2011 onwards, tractors, pesticides and fertilizers have been made

chargeable to Sales Tax, resulting in reduction in the cost of exemptions.

Tax Expenditure in respect of Sales Tax is estimated at Rs. 24.300 billion for fiscal year 2011-12. Details have been worked out and are indicated in Table-2 below:

Table-2: Tax Expenditure of Sales Tax for 2010-11 and 2011-12 (Rs. in billion)

S. No	Sectors	Estimated Revenue Loss	
		2010-11	2011-12
1.	Fertilizer	9.138	0
2.	Tractors	6.489	4.280
3.	Pharmaceutical Products	5.505	5.800
4.	Others	12.630	14.220
Total:		33.762	24.300

Customs Duty

Under the Customs law, exemptions or concessions are granted to goods that are imported into Pakistan through SROs, special classification in Chapter 99 of Pakistan Customs Tariff, and/or

through specific rate of tariff. On the basis of these provisions, the tax expenditure in respect of Customs Duty has been estimated at Rs. 91.588 (billion) for 2011-12. The details are given in the following Table-3:

Table-3: Tax Expenditure of Customs Duty for 2010-11 and 2011-12 (Rs. in billion)

SRO. No & date	Tax Expenditure Items	Estimated Revenue Loss	
		2010-11	2011-12
558(I)/2004 01-07-2004	Concession of Customs Duty on goods imported from SAARC and ECO countries.	0.073	0.055
570(I)/2005 06-06-2005	Exemption from Customs Duty on imports from Sri Lanka	0.148	0.196
1296(I)/2006 31-12-2005	Exemption from Customs Duty on imports from China	0.031	0.0002
894(I)/2006 31-08-2006	Exemption from Customs Duty on imports from Iran under Pak-Iran PTA	0.004	0.0009
1274(I)/2006 29-12-2006	Exemption from Customs Duty on imports under SAFTA agreement	0.116	0.151
659(I)/2007 30-06-2007	Exemption from Customs Duty on imports from China	10.867	13.762
1261(I)/2007 31-12-2007	Exemption from Customs Duty on imports from Malaysia	2.895	2.750
565(I)/2006 05-06-2006	Conditional exemption of Customs Duty on import of raw materials and components etc. for manufacturers of different sectors.	4.653	7.391
567(I)/2006 05-06-2006	General and conditional exemption of Customs Duty.	30.277	21.830
678(I)/2004 12-06-2004	Exemption of Customs Duty and Sales Tax to Oil Exploration and Production (E&P) companies on import of machinery equipment & vehicles	2.581	2.810
575(I)/2006 05-06-2006	Exemption of Customs Duty and Sales Tax on import of machinery, equipment, apparatus and other items	13.712	9.833
655(I)/2006 22-06-2006	Exemption from Customs Duty for vendors of Automotive Sector	9.315	12.851
656(I)/2006 22-06-2006	Exemption from Customs Duty for OEMs of Automotive Sector	19.073	19.196
809(I)/2009 19-09-2009	Exemption from Customs Duty on import of machinery & equipment by Industrial units registered with Ministry of Textile Industry	1.196	0.756
Total		94.941	91.588

Consolidated Summary

Based on the aforementioned estimates for individual taxes, the overall tax expenditure for

2011-12 has been estimated to be around Rs. 185.496 billion. The consolidated summary of the tax expenditure for fiscal year 2011-12 is given in Table-4:

S. No.	Type of Tax	Tax Expenditure	
		2010-11	2011-12
1	Income Tax	46.508	69.608
2	Sales Tax	33.762	24.300
3	Customs Duty	94.941	91.588
	Total	175.211	185.496

Note: The estimates for 2010-11 are for the full year while for the year 2011-12, they pertain to 10 months i.e. 1.7.2011 to 30.4.2012.