

CPA ADMISSIONS OPEN
FOR DECEMBER 2010
EXAMS

Article I :
VAT in Pakistan

By: M.Naveed Zafar
MBA, CPA (Finalist)

Article II
**Non Salary
Rewards**

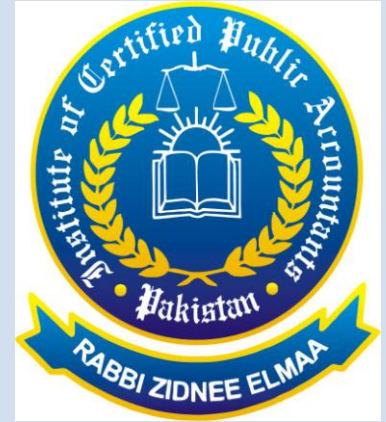
By: (Ansar Ali Noor)
ACMA, ACFA, ACPA, ACFC,
FPA, FFA, MNIA (Australia)
, MCOM (P.U.), MBA (PSBA
Manila), DCMA

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF PAKISTAN
Suit # 410, 4th Floor, Royal Center, Blue Area, Islamabad

www.icpap.com.pk
mail: info@icpap.com.pk

Newsletter

AUGUST 2010



Institute of Professional Accountants (IPA)

UK, has reciprocal arrangement with ICPAP. The qualified members of ICPAP are entitled to get exemptions in 11 papers of IPA UK subject to payment of nominal transfer fee.

For further details regarding IPA (UK) Membership

Call +92 51 280 61 55
Mail: admissions@icpap.com.pk

VAT is that tax increases at each progressive stage of production of goods. Consumer bears the burden of VAT unless any intermediary stakeholder under the VAT chain defaults and does not avail input adjustment/refund. VAT is a multistage tax, levied only on the value added at each stage in the chain of supply of goods and services with provision of a set-off for the tax paid at earlier stages in the chain. Thus, VAT eventually becomes a single point tax. VAT will cover supply of both goods and services at uniform rate of 15% unless exempted under VAT law.

Tax revenue, all around the world is a major source of financing the expenditure side of the budget, particularly its development component. Taxes direct/indirect, depend upon the economic structure of the country; the level of development of the country;



share of its agriculture sector in GDP; level and composition of employment of working age population and the pay structure.

Nevertheless, enforcement and collection of taxes are directly proportional to the modernity and effectiveness of the tax administration which in their turn, depend upon the system and policies of government, particularly the fiscal and monetary policies; the legal framework of taxes; the use of information and communication technology (ICT), transparency of all its processes; involvement and co-operation of stakeholders, particularly human resources of the tax organization and taxpayer.

PAKISTAN Although, Pakistan, conceptually, has one of the most modern systems of taxes, including its legal framework and administration, however, implementation of the system poses great risks and failures. Issuance of SROs, without much deliberation and haste leads to many a complication. Haste symbolizes a syndrome and is a major cause of policy and enforcement problems. Underlying causes include lack of political vision, lack of tax professionalism and intellectualism and prevalence of colonial and a comprador mindset of the bureaucracy.

Why Preference of VAT over GST?

VAT is levied on goods and services while **GST** is imposed generally on goods. Contrary to **GST**, **VAT** has no cascading (tax over tax) effect. The following table presents a quick analysis of incomplete **GST** and complete **VAT**

Functional Areas	GST	VAT
Sales Tax Regime	Incomplete	Full & Complete
Tax Rates	12	Only 1
Exemptions	Many	NO
Zero Rating	5 Sectors	NO
Refund of Sales Tax	Jammed	Smooth
Scope	Charge industry and Retailer turnover of up to Rs 5.Million	Business with turnover of up to Rs.7.5 Million

When you read the proposed Federal VAT Act 2010, and the proposed Provincial VAT Act 2010, you find that these new proposed VAT is more or less the same GST laws. VAT is more broad-based, equitable and efficient and is without cascading and hence, is preferable to narrow based and cascading-ridden GST.

Revenue Collection:

Generally, all the commercial activities involving production and distribution of goods and provision of services are brought under tax net. Vat promotes economic documentation with the help of its in-built invoice based credit mechanism. **Tax Invoice** is the blood line of VAT-induced documentation. VAT has self-enforcing features and documents business transactions through tax invoicing.

Protect Vulnerable Society Groups:

By increasing exemption threshold, decreasing standard tax rate and continuing exemption on basic food items , charities, public sector education and health besides withdrawing imposition of tax on retail price basis, vulnerable groups will continue to be protected. Through acceleration of development process with new VAT receipts, employment opportunities will increase and the overall income level of the low strata of society will progress. Besides, with increase in revenue income, state will be in better position to promote social welfare/wellbeing of the masses.

Class Differences:

VAT exemptions on basic food items, charities and public sector health and education, will basically benefit the lower strata of society. Meanwhile, domestic resource mobilization through economic documentation and consequential increase in state earnings will stimulate equitable socio-economic development in society.

Just taxes always redistribute resources from rich to poor without hurting opportunities for prosperity at individual level.

Is VAT a feasible Idea in PAKISTAN?

WHAT IMF SAY ABOUT PAKISTAN: In countries like Pakistan, where sales tax system is already existent, VAT introduction is a feasible proposition. VAT is nothing but a refined and modern form of sales tax without cascading or multiple taxation. VAT will enable Pakistan to generate and mobilize domestic re
BUT ACTUALLY: More than a dozen studies, conducted and papers prepared by the IMF, World Bank, government organizations of USA, OECD and European organizations have been checked, but one yet has to find out one that tries to understand the enforcement of VAT in the backdrop of **backward economies**, having a blend of undocumented, informal, comprador and black economy components.

None of the studies have ever tried to develop a legal framework and methods to use this tax as a tool to increase private consumption at the retailer stage or at least mitigate the repressiveness of this tax. None of these studies and researches has even been successful to come up with a viable plan and strategy to address the issue of fraud, even in Europe, where carousel fraud and missing person fraud are challenges for VAT enforcement

Conclusion and Suggestions:

From the discussion it's clear that VAT is feasible for developed countries but not for underdeveloped countries like PAKISTAN. It is much better system in the eye of Government but not from consumer side. VAT is about to suck whatever life is left in the veins of emaciated Pakistanis. VAT has been opposed by both economists and business community.

What Pakistan should do?

A system just like the GPS for retailers should be developed so that any outlet could easily be located, even on computer.

A tax design should be developed, which does not have any exemptions, zero-ratings, reduced rates and refunds, for these add to, not only to the complexity of the tax design, but also to the enforcement issues.

If incentive/compensation to supplier or consumer is to be allowed on certain goods and services, it should be paid to the relevant utility, in case of supplier and in case of individual consumers to educational institutions in lieu of fees of their children or to the related utility.

A thorough study of the economic structures and level of development of the economy should be conducted by genuine economists particularly having tax background.

Supply chain of distribution and sale should be understood and documented

A cadastral map of location of retailers should be developed showing roads, locality, and streets - big and small ones

Modify the existing GST laws keeping in view the strategic economic priorities of Pakistan and to control bursting inflation.

IN KIND AND NON SALARY REWARDS

Scope

1. The propriety and regularity aspects to be taken into account when introducing non-salary rewards in addition to contractual salary arrangements.

Key Points

2. Active consideration should be given as to whether non-salary reward schemes represent an appropriate use of public funds.
3. Public bodies should be open and transparent in the way they deal with non-salary rewards. They should have clear policies on disclosure of information about the awards which have been made and the procedures adopted for making those awards.
4. The tax implications for both employers and employees of the provision of non-salary rewards should be carefully considered.

Background

5. In devising staff benefits and non-salary reward schemes particular attention should be paid to propriety. The scope of propriety in relation to public bodies is wider than elsewhere and includes the standards of behaviour which the Parliament and the public would expect from public bodies in the way they spend public money.
6. When introducing non-salary reward schemes active consideration should be given as to whether they represent an appropriate use of public funds. Public bodies should be open and transparent in the way they deal with non-salary rewards. They should have clear policies on disclosure of information about the awards which have been made and the procedures adopted for making those awards.

Cash Bonuses etc

7. Cash bonuses to reward individuals and groups may be offered subject to the necessary criteria attached to reward schemes being met. Funds may also be allocated to: the improvement in the working environment; job-related items required for official duties; and token gifts or one-off awards. In all such cases the scale of the expenditure must be reasonable for an employer to incur.

Amenities and Recreational Facilities

8. Reasonable provision may be made for amenities and recreational facilities for the use of all staff. Arrangements will vary between bodies depending on numbers and location of staff, but are subject to the following points:

- Expenditure needs to be assessed in terms of staff welfare, morale and motivation, and also the value and propriety of using public money to finance the provision of such facilities - it may not be sufficient to draw analogies to the provision of similar facilities in the private sector.
- Accountable Officers should take a close interest in such facilities and be satisfied that guidelines are clearly and properly drawn up, and that arrangements are in place to ensure that management adheres to these guidelines. It is recommended that these guidelines should provide for the Accountable Officer to approve any major or unusual cases or any cases carrying the risk of public criticism.
- Expenditure on these facilities should be assessed in the same way as it would for any other investment project. Consideration should be given as to whether alternative options might get better value for money such as: negotiated discounts for use staff to use alternative providers; or a group subscription for staff use.

- There should be consideration whether staff could reasonably contribute, either collectively through representative groups or individually through charges for the use of facilities.
9. If the costs of recreational facilities are being included in another wider project the costs and nature of the amenity or recreational facility should be clearly identified and assessed in its own right.

Other Benefits

10. Other non-salary benefits include the following examples:
 - gifts, vouchers, and entertainment offered as rewards under recognition schemes;
 - payment by the employer of its staffs' personal subscriptions to sports or leisure clubs;
 - rewards leading to donations to a charity or other external body; and
 - provision of cars where they are needed for official purposes and are covered by an existing and agreed scheme which includes charging for any private use.
11. Care should be taken to avoid any criticism of unfair preference being given to certain shops, companies or charities. It is therefore recommended that the recipient of the reward be given some choice or that third-party suppliers are used where, for example, voucher schemes are introduced.

Tax Implications

12. The tax implications for both employers and employees of the provision of all non-salary rewards - cash and non-cash - should be carefully considered. In considering such schemes, it may be appropriate to seek expert PAYE advice - see separate guidance on [Tax Planning and Tax Avoidance](#).
13. When consulting about a proposed scheme, or advising employees of a scheme to be implemented, employers should advise employees of the tax implications for recipients and how these are to be handled.

