FBR BIANNUAL REVIEW

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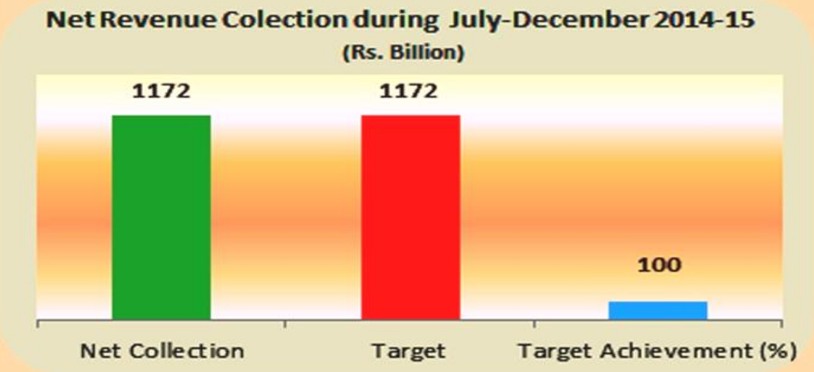

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Foreword

FBR has been able to collect Rs. 1,172 billion provisional figures during first half of current fiscal year yielding 14% growth over the collection of Rs. 1,031 billion collected during H1: PFY. As a whole, Rs. 140 billion higher tax revenue has been collected during July-December 2014-15 as compared to July-December 2013-14. This performance is satisfactory when viewed in the light of challenges like floods, law & order situation and gas & electricity outages.

The current issue of the FBR Biannual Review provides an update on FBR resource mobilization efforts. The in-depth analysis of data for the first half year 2014-15 provides an insight into various components of federal taxes. The current publication includes two articles on "Leather Sector in Pakistan" and "Analysis of Customs Tariff in Pakistan", which will contribute positively to the existing literature on the subject. An Appendix showing month to month and progressive collection of federal taxes by FBR has also been included.

The efforts of the research team of Strategic Planning Reform & Statistics Wing, FBR are commendable in bringing out this issue of FBR Biannual Review. Suggestions and comments for improvement of this publication will be highly appreciated.

(Tariq Bajwa)
Secretary Revenue Division/
Chairman FBR

Abbreviations

FBR	Federal Board of Revenue
DT	Direct Taxes
CD	Customs Duties
GST	General Sales Tax
STM	Sales Tax Import
STD	Sales Tax Domestic
FED	Federal Excise Duties
WHT	Withholding Taxes
VP	Voluntary Payments
CoD	Collection on Demand
AOPs	Association of Persons
NTN	National Tax Number
USAS	Universal Self-Assessment Scheme
SED	Special Excise Duty
PCT	Pakistan Customs Tariff
GDP	Gross Domestic Product
CH	Chapter
RTO	Regional Tax Office
LTU	Large Tax Payers' Unit
FY	Fiscal Year
CFY	Current Fiscal Year
PFY	Previous Fiscal Year

I

FBR Revenue Collection vis-à-vis Target

The Economy

Major economic indicators during first half of FY 2014-15 continue to show signs of improvement despite different odds & challenges like law & order situation, settlement of internally displaced persons, flood affecting losses and power outages. Although the trade deficit in the first half of FY 2014-15 widened as compared to the corresponding period yet it was well managed. Higher financial inflows have helped foreign exchange reserves to maintain an upward trajectory. Containment of fiscal deficit bodes well for the economy and confirms constructive and consistent government policies. CPI inflation is expected to be in the range of 4.5- 5.5% against the target of containing it at 8.0%.

Foreign Direct Investment has increased by around 19% during July-December 2014-15. The revenue collection during the first half of CFY has also increased by around 14%. All taxes have recorded a double digit growth except sales tax. It is hoped that all the positive signs of economy would improve further during the 2^{nd} half and as a whole, the economy would attain the yearly targets and would set a strong base for the next financial year.

Analysis of Revenue Collection: H1: 2014-15

It may be recalled that FBR was allocated a target of Rs 2,810 billion for FY: 2014-15, around 24% higher than the collection of FY: 2013-14, however now the target has been revised downward to Rs. 2691 billion. During first half of CFY Rs. 1171 billion have been collected, which is 13.6% higher than the collection realized during the H1: 2013-14. The direct taxes and custom duties have recorded a healthy growth of 20.1% and 22.9% respectively. The growth in the collection of sales tax and FED was not up to the mark. The customs have surpassed half early revenue target by around 5%.

Table 1 below highlights the tax-wise target and collection during the year under review.

Table 1: Net Collection Vis-à-Vis Targets for H1: 2014-15

(Rs. Billion)

Tax Heads	Revised Target	Collection		Growth (%)	Target Achieved
		H1:2014-15	H1:2013-14		
Direct Taxes	459.0	458.9	382.0	20.1	100.0
Sales Tax	514.0	513.8	481.7	6.7	100.0
FED	70.0	63.9	57.7	10.7	91.3
Customs	129.0	135.3	110.1	22.9	104.9
Half Year	**1172.0**	**1171.9**	**1031.5**	**13.6**	**100.0**

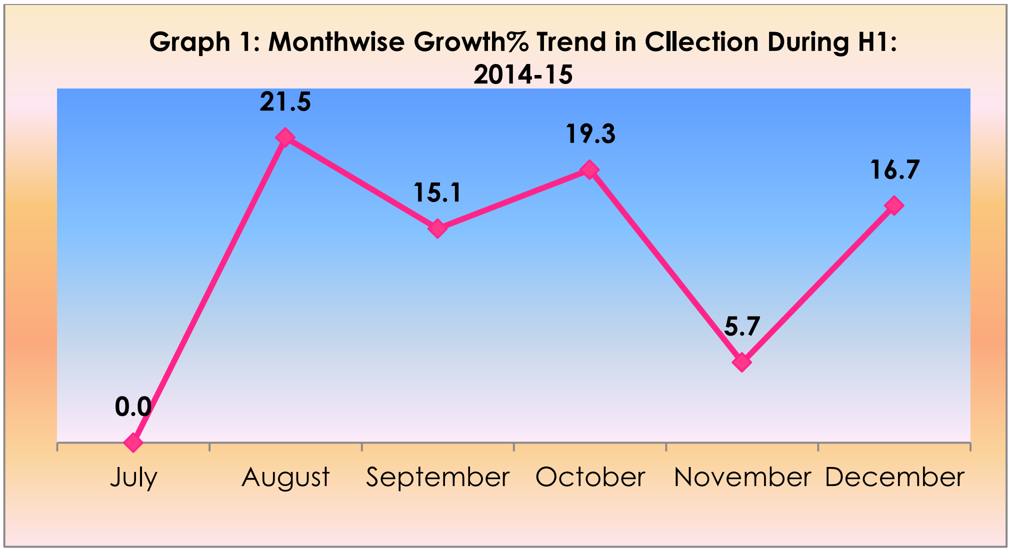
(*) The collection for 2014-15 is purely provisional and subject to reconciliation.

In absolute terms, Rs. 140.5 billion higher amount has been collected as compared to H1: 2013-14. The month-wise growth pattern of overall collection seems inconsistent. There was almost no growth in July, however, it jumped to 21.5% in August and again dipped to 15.1% in September. The growth in quarter-1 stood at 13.2%. In the second quarter for the months October and December healthy growths of 19.3% and 16.7% respectively were recorded and overall growth in second quarter stood at 14%.

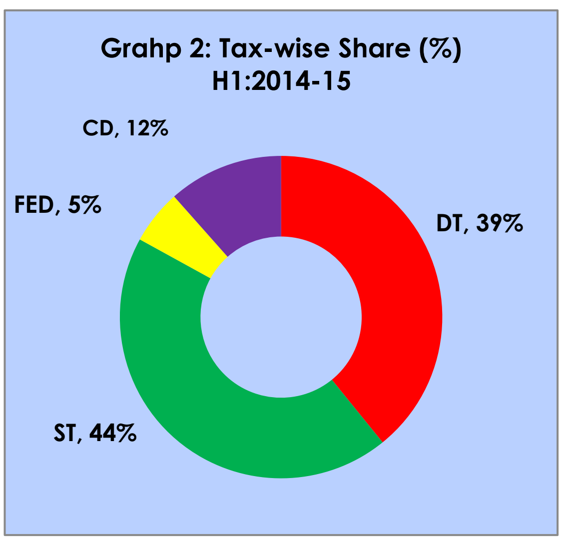
Table 2: Month-wise Comparative Net Collection

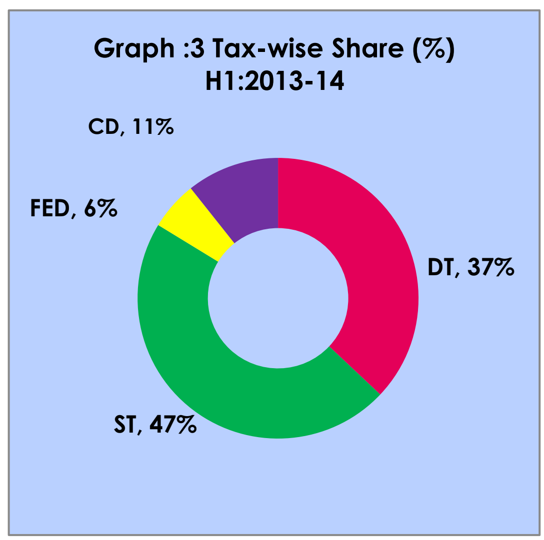
(Rs. Million)

Months	FY 14-15	FY 13-14	Difference	
			Absolute	Percentage
July	124,260	124,257	3	0.0
August	178,926	147,221	31,705	21.5
September	234,697	203,878	30,819	15.1
Quarter-1	***537,883***	***475,356***	***62,527***	**13.2**
October	182,864	153,326	29,538	19.3
November	180,905	171,194	9,711	5.7
December	270,285	231,540	38,745	16.7
Quarter-2	***634,054***	***556,060***	***77,994***	**14.0**
July-December	**1,171,937**	**1,031,416**	**140,521**	**13.6**



The tax-wise share is shown in graph-2 and 3. Major share goes to sales tax i.e. 44%, followed by direct taxes 39%, customs 12% and FED 5% in FY 2014-15. The share of direct taxes and custom has increased as compared to the respective shares in H1: 2013-14.





The increase in the share of direct taxes is healthy sign as direct taxes are considered to be more equitable in nature as compared to indirect taxes. Upholding the principles of quality and progression, the share of direct taxes in the pie of revenue collection should keep on increasing.

Refunds/Rebates

The tax-wise refund payments during FY: 2014-15 have grown by just 3.5%. The tax-wise details have been shown in Table 3.

Table 3: Comparative Position of Refunds/ Rebates Payments: H1: 14-15 Vs. H1: 13-14

(Rs. Billion)

Heads	Refunds/ Rebates		Difference	
	H1: 14-15	H1: 13-14	Absolute	Growth (%)
Direct Taxes	30.5	32.5	-2.0	-6.2
Sales Tax	22.7	19.0	3.7	19.5
Federal Excise	0.0	0.0	0.0	0.0
Customs	5.3	5.0	0.3	6.0
All Taxes	**58.5**	**56.5**	**0.3**	**3.5**

Detailed Tax wise Analysis

Direct Taxes**:** The direct taxes have contributed 39% in the total tax receipts collected during H1: 2014-15. The net collection stood at Rs. 458.9 billion reflecting a growth of 20.1% over the corresponding period last year. An amount of Rs. 30.5 billion has been paid back as refund to the claimants as against Rs. 32.5 billion during FY: 2013-14.

The structure of income tax is based on withholding taxes (WHT), voluntary payments (VP) and collection on demand (COD). The collection during FY: 2014-15 shows that the share of WHT, VP and COD in gross collection has been 64.2%, 27.3% and 6.7% respectively. Details of these components of income tax collection are presented in Table 4.

Table 4: Head-wise Collection of Direct Taxes
During July-December 2014-15

(Rs Million)

Heads	H1: 2014-15	H1:2013-14	Growth (%)	Share (%)	
				2014-15	2013-14
Collection on Demand	**33,307**	**31,221**	**6.7**	**6.8**	**7.5**
Voluntary Payments	**133,452**	**117,485**	**13.6**	**27.3**	**28.3**
Deductions at Source (WHT)	**314,057**	**257,991**	**21.7**	**64.2**	**62.2**
Miscellaneous	3,735	2,084	**79.2**	**0.8**	**0.5**
Gross Income Tax	**484,552**	**408,781**	**18.5**	**99.0**	**98.6**
Other DT	4,875	5724	**-14.8**	**1.0**	**1.4**
Total Gross Direct Taxes	**489,427**	**414,505**	**18.1**	**100.0**	**100.0**
Refunds	30,500	32,522	-6.2		
Total Net Direct Taxes	**458,927**	**381,983**	**20.1**		

Analysis of Components of Income Tax

Collection Out of Demand (CoD): The collection from this head has increased by around 7% in H1: 2014-15 as compared to PFY. The collection from arrear demand has recorded a significant growth whereas the collection from current demand has declined by around 12%.

Table 5: Collection on Demand (CoD)

(Rs. Million)

Heads	H1: 14-15	H1: 13-14	Growth (%)
Arrear	11,741	6,705	75.1
Current	21,567	24,485	-11.9
Total CoD	**33,308**	**31,190**	**6.8**

Voluntary Payments (VP): This component includes payments with return and advances. Rs 133.5 billion have been generated during H1: 2014-15 as compared to Rs 117.5 billion in the corresponding period last year. Collection from VP has recorded a growth of 14% (Table 6). Major component of voluntary payment is advance tax where a sum of Rs 118.5 billion has been collected against Rs 107.4 billion in the corresponding period last year. The collection from advance tax has grown by 10.3%. The second component of VP is payment with returns, which has increased by 48.2% during the period under review. This shows better efforts and enforcement by the field formations.

Table 6: Voluntary Payments (VP): A Comparison

(Rs. Million)

Heads	H1: 14-15	H1: 13-14	Growth (%)
With Return	14,942	10,084	48.2
Advance Tax	118,510	107,402	10.3
Total VP	**133,452**	**117,486**	**13.6**

Withholding Taxes (WHT): WHT contributes a major chunk i.e. around 65% in the collection of income tax. The WHT collection during H1: 14-15 has been Rs. 275.4 billion against Rs. 233.2 billion during H1: 13-14 indicating a growth of 22%. The nine major components of withholding taxes contributed around 88% of total WHT collection. These are: contracts, imports, salary, telephone, export, bank interest/securities, cash withdrawal, dividends and electricity. The highest growth in WHT collection has been from electricity (51%), followed by cash withdrawal (26%), salary (25.5%), contracts and bank interest (24%) each. The robust growth in WHT is due to stringent enforcement by creating WHT unit in the field formations.

Table 7: Half-Yearly Collection from Major Revenue Spinners of Withholding Taxes

(Rs. Million)

Collection Heads	H1: 14-15	H1: 13-14	Difference (Absolute)	Growth (%)	Share in WHT HI:14-15
Imports	72,943	62,549	10,394	16.6	26.10%
Salary	33,260	26,510	6,750	25.5	23.40%
Dividends	13,462	12,463	999	8.0	11.30%
Bank Interest	22,945	18,455	4,490	24.3	8.40%
Contracts	71,054	57,006	14,048	24.6	4.90%
Export	13,065	12,498	567	4.5	5.70%
Cash Withdrawals	11,470	9,118	2,352	25.8	4.60%
Electricity	13,997	9,248	4,749	51.4	4.00%
Telephone	23,209	25,397	-2,188	-8.6	3.00%
Sub-Total (9 major items)	**275,405**	**233,244**	42161	**18.1**	
Share in Total WHT	47.6	40.3			

Sales Tax*:* The sales tax is the top revenue generating source of federal tax receipts. It constitutes 44% of the total net revenue collection. The collection during July-December 2014-15 has been Rs 513.7 billion against Rs. 481.7 billion in the corresponding period of last year. The overall sales tax collection grew by around 7%. The collection of sales tax domestic grew by just 1.7%, whereas, sales tax imports increased by 11.4%. Within sales tax the share of sales tax imports is 53% and the rest 47% is contributed by sales tax domestic. Details of collection of these two components are depicted in (Table-8).

Table 8: Collection of Sales Tax during H1:2014-15

(Rs. Million)

Tax-Head	Net Collection		Growth	
	H1:14-15	H1:13-14	Absolute	%
Sales Tax Imports	274,766	246,680	28,086	11.4
Sales Tax Domestic	238,991	235,004	3,987	1.7
Sales Tax (Total)	**513,757**	**481,684**	**32,073**	**6.7**

Sales Tax Domestic Collection: The overall net collection of Sales Tax Domestic (STD) was Rs.239 billion against Rs.235 billion in the H1: PFY and the net collection grew by only 1.7%. The share of sales tax domestic has declined to 47% from around 49% in the H1: PFY.

Major Revenue Spinners of STD: The collection of sales tax has been highly concentrated in few commodities. This is confirmed by the fact that only petroleum products, fertilizers, electrical energy and natural gas contribute around 56% of the total sales tax domestic. Major 10 items including POL and natural gas shared 74% of the total net sales tax domestic. The detail of major ten items has been shown in Table 9.

Table 9: Net Collection of GST (Domestic) from Major Revenue Spinners

(Rs. Million)

Commodities/Items	Net Collection			Share (%)	
	H1:14-15	H1:13-14	Growth (%)	H1:14-15	H1:13-14
POL Products	95,749	102,676	-6.7	40.1	43.7
Fertilizer	14,118	15,707	-10.1	5.9	6.7
Electrical Energy	12,284	7,335	67.5	5.1	3.1
Natural Gas	12,131	13,856	-12.4	5.1	5.9
Oil Marketing Companies	11,763	4,296	173.8	4.9	1.8
Cement	8,699	8,322	4.5	3.6	3.5
Cigarettes	6,729	6,228	8.0	2.8	2.7
Aerated Waters/Beverage	5,731	6,748	-15.1	2.4	2.9
Sugar	4,639	4,156	11.6	1.9	1.8
Tea	4,560	4,263	7.0	1.9	1.8
Major Ten Commodities	**176,403**	**173,587**	**1.6**	**73.8**	**73.9**
Other	62,588	61,417	**1.9**	**26.2**	**26.1**
All Commodities	**238,991**	**235,004**	**1.7**	**100.0**	**100**

Out of ten major items, four have registered a negative growth during July-December 2014-15. The petroleum products have declined by 6.7%, fertilizers 10.1%, natural gas 12.4% and beverages 15.1%. The collection from oil marketing companies recorded a phenomenal growth of around 174%, followed by electrical energy 67.5% and sugar by around 12%.

Around Rs.7 billion lesser collection has been realized from POL products, which seems the impact of low oil prices. However, the domestic taxable sales of POL products during H1: CFY has increased by 4.7% as compared to the corresponding period of last year. In absolute terms, the taxable sales of POL products were around Rs. 16 billion higher than the July-December 2013-14 (Table 10). The higher sale of POL products is due to the increased demand. The major reason for the higher demand was the lower prices of POL products, but the closure of CNG stations in many parts of the country also played role to shift the consumers to the petrol as a substitute.

Table: 10 Domestic Taxable Sales of POL Products

Rs. Million

H1:14-15	H1:13-14	Growth	
		(%)	Absolute
347,336	331,674	4.7	15,662

Source: Computer Wing, Sales tax, FBR

The share of POL products, top revenue spinner, has declined from 43.7% in H1: PFY to 40.1% during H1: CFY. During the same period the share of oil marketing companies has increased from 1.8% to 4.9%, on the other hand the share of electrical energy and natural gas has declined slightly.

***Sales Tax at Import Stage**:* Sales tax on imports is a significant component of federal tax receipts. The share of sales tax (imports) in total sales tax net collection is more than 50%. The net collection of sales tax imports during H1: 2014-15 stood at Rs. 274.8 billion against Rs. 246.7 billion in H1: 2013-14.

Major 10 commodities of sales tax import have contributed a major chunk i.e. 74% in sales tax (imports) collection (Table 9). Like sales tax domestic, petroleum is a leading source of sales tax collection at import stage. Its share in sales tax imports is 29.4% and the share of top three items i.e. POL products, electrical machinery and iron & steel is around 43% of total collection of sales tax imports. Item-wise details indicate that the collection from POL products was Rs. 80.9 billion against Rs.88.9 billion in the July-December previous year. The collection declined by 8.9%, due to 8.4% decline in the import value of POL products.

The import value of edible oil has marginally increased but the collection from edible oil has recorded a negative growth of 23.9% during first half of CFY. In absolute terms, Rs. 12.7 billion have been collected against Rs. 16.7 billion and its share in collection of sales tax imports has declined from 6.8% to 4.6%.

Out of ten major items, seven items have recorded a substantial growth in the collection. The Oil seeds were at the top with around 199%, followed by electrical machinery 137%, iron & steel 79% machinery 64%, vehicle 29% and plastic resins & fertilizers around 25% each.

Table:11 Major Revenue Spinners(Sales Tax(Imports) July-December

(Rs. Million)

		July-December			Share (%)	
Ch.	**Commodities**	**H1: 2014-15**	**H1:2013-14**	**Growth (%)**	**H1: 2014-15**	**H1: 2013-14**
27	POL Products	80,870	88,785	-8.9	29.4	36.0
85	Electrical Machinery	19,572	8,246	137.4	7.1	3.3
72	Iron and Steel	19,104	10,663	79.2	7.0	4.3
84	Machinery and Mechanical Appliances	18,049	10,986	64.3	6.6	4.5
87	Vehicles (Non-Railway)	15,315	11,890	28.8	5.6	4.8
39	Plastic Resins etc.	14,931	11,987	24.6	5.4	4.9
15	Edible Oil	12,720	16,712	-23.9	4.6	6.8
31	Fertilizers	8,919	7,150	24.7	3.2	2.9
12	Oil Seeds and Oleaginous Fruit; Misc	8,294	2,771	199.3	3.0	1.1
29	Organic Chemicals	6,430	6,071	5.9	2.3	2.5
	Sub Total	**204,204**	**175,261**	**16.5**	**74.3**	**71.0**
	Others	70,615	71,428	-1.1	25.7	29.0
	Gross	**274,819**	**246,689**	**11.4**	**100.0**	**100.0**
	Refund/Rebate	53	9	488.9	0.1	0.0
	Net	**274,766**	**246,680**	**11.4**		

Customs Duty

Customs duty is still one of the significant source of collection of federal taxes. It constitutes 19% and 11.5% of the indirect taxes and federal taxes respectively. The gross and net collection from customs duty during July-December, 2014-15 has been Rs 140.6 billion and Rs. 135.3 billion respectively entailing growths of 22.2% and 22.9% respectively. The base of customs duties is dutiable imports and it grew by 8.6%. The payments of refunds/rebates have recorded a decline of 6.1% during H1: CFY. The maximum rate of custom duty has been slashed down form 30% to 25% during the Budget 2014-15. Moreover, a new slab of 1% has been introduced bringing all the zero rated items into it.

Customs Duty from Major Revenue Spinners During July-December 2014-15

It is evident from Table 12 that around 59% of customs duty has been emanated from 10 major commodities grouped in PCT Chapters. It is encouraging that all the 10 major revenue spinners have exhibited higher growths in the collection except petroleum products which was hit by low international prices.

Automobile (Ch: 87), the leading revenue spinner, has contributed 15.6% in the customs duty during H1:14-15 and recorded growth of 34.8% in the collection due to 25.6% growth in its dutiable imports.

The electrical machinery is the second major contributor of customs duty. The collection of customs from electrical machinery (Ch:85) has exhibited a massive growth of 149.6% during H1:14-15. This growth is mainly driven by around 66% growth in the dutiable imports.

The collection of customs from edible oil (Ch: 15) has grown by 6.6%. The reduction in the import of crude oil and palm olien has vastly affected the collection from edible oils. Edible oil is mainly subject to specific rate of customs duty.

The collection from petroleum products and other (Ch: 27) has come down by 1.6% during H1:14-15 against increased growth of 22.6% in the dutiable imports. This mismatch is due to excessive growth in dutiable imports of LPG and coal which has contributed relative lesser amount of customs duties. The major revenue generator of customs duty in the petroleum products is HSD. The collection from HSD has recorded negative growth of 11% while dutiable imports also declined by 9.3%. Major reason for low growth in the customs from HSD has been attributed to 50% higher growth recorded in the duty free imports. As far as mechanical machinery (Ch:84) is concerned, revenue collection from this source has grown by 49.7% due to 55.3% growth in the dutiable imports. The collection from plastic (Ch: 39) has also increased by 33.8% against of 25.9% growth in the dutiable imports.

A growth of 63.3% was manifested by customs duty in iron & steel (Ch: 72) due to 78% growth in dutiable imports. On other hand, duty free imports of iron and steel have decline by 55.4%. The collection of CD from paper & paper board grew by 51.5% due to 32.9% growth in dutiable imports. Similarly, organic chemicals (Ch:29) recorded increase of 48.1% against 53.3% growth in the dutiable imports. Moreover, the collection from staple fibres (Ch:55) has recorded a growth of 88.5% while its dutiable imports grew by 59.4%.

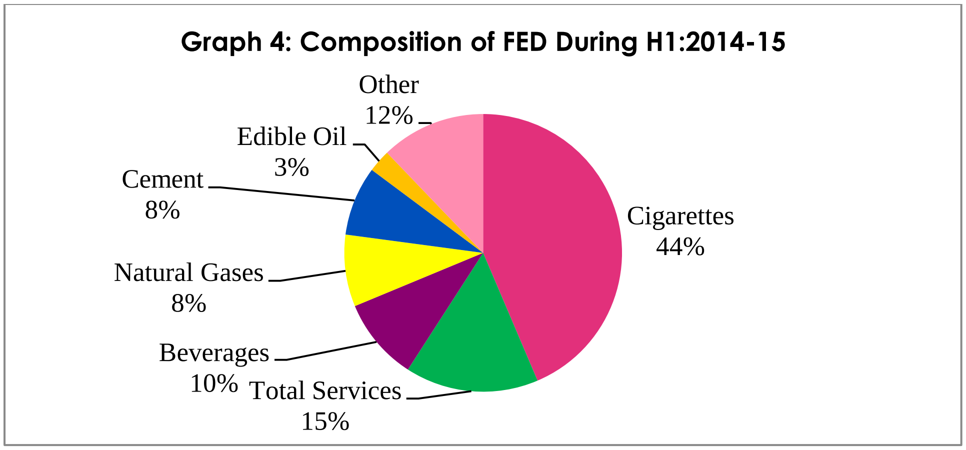
Table 12: Major Revenue Spinners of Customs Duties During H1:14-15

(Rs. Million)

PCT Chapter	Description	Collection of Customs Duties			Contribution in Customs Duties (%)	
		H1:14-15	H1:13-14	Growth (%)	H1:14-15	H1:13-14
87	Automobile	21,888	16,239	34.8	15.6	14.1
85	Electrical Machinery	11,911	4,772	149.6	8.5	4.1
15	Edible oil	10,759	10,091	6.6	7.7	8.8
84	Mechanical Machinery	9,191	6,139	49.7	6.5	5.3
27	POL Products	8,193	8,326	-1.6	5.8	7.2
39	Plastic	6,427	4,802	33.8	4.6	4.2
72	Iron and Steel	4,227	2,589	63.3	3.0	2.2
48	Paper and Paperboard	3,982	2,629	51.5	2.8	2.3
55	Staple Fibres	3,362	1,784	88.5	2.4	1.5
29	Organic Chemicals	3,002	2,027	48.1	2.1	1.8
	Sub-total	**82,942**	**59,398**	**39.6**	**59.0**	**51.6**
	Others	57,680	55,711	3.5	41.0	48.4
	Gross	**140,622**	**115,109**	**22.2**	**100.0**	**100.0**
	Refund/Rebate	**5,325**	**5,021**	6.1		
	Net	**135,297**	**110,088**	**22.9**		

Federal Excise Duty (FED)

FED constitutes 9% of indirect taxes and 5.5% of the federal taxes collected by FBR. The collection from federal excise duties has registered a growth of 10.9% during H1: 2014-15 as compared to the corresponding period last year. The net revenue stood at Rs. 64 billion during July-December, 2014-15 against Rs.57.7 billion during the corresponding period last year. Due to a limited base, the share of six major revenue spinners of FED has been around 88% during July-December, 2014-15. The cigarette is the top revenue generating source of FED and it alone contributed 44% of the collection of FED. Other major items contributing have been services (international air travel), beverages, cement, natural gas and edible oils. The composition of FED during July-December, 2014-15 is depicted in Graph 4.



The collection from major revenue spinners during first 6 months of 2014-15 as compared to corresponding period last year has been presented in Table 13.

Table 13: FED Collection from Major Commodities H1:14-15 Vs H1: 13-14

(Rs. Million)

Commodities	Collection		Difference	
	H1: 14-15	H1: 13-14	Absolute	Percent
Cigarettes	27,851	28,046	-195	-0.7
International Air Travel	9,920	6,926	2,994	43.2
Beverages	6,150	6,332	-182	-2.9
Natural Gas	5,348	5,751	-403	-7
Cement	5,166	4,921	245	5
Edible Oil	1,680	1,581	99	6.3
Sub Total	**56,115**	**53,557**	**2,558**	**4.8**
Others	7,841	4,104	3,737	91.1
Grand Total	**63,956**	**57,661**	**6,295**	**10.9**

The collection from cigarettes recorded negative growth of 0.7% during first half year 2014-15 due to decline of 6.9% in the production of cigarettes. On the other hand, it is encouraging that a massive growth of 43.2% has been recorded in the foreign air travel during the period under review. This higher growth in FED collection can be attributed to the enhancement of FED rates on international air travel during Budget 2014-15. The collection from natural gas has come down by 7% during first 6 month of 2014-15. Moreover, the collection of cement grew by only 5% during H1:2014-15 as compared to corresponding period last year. In the Budget 2014-15, the FED rate on the cement sector was changed from specific basis (Rs. 400 per MT) to 5% advalorem on retail price. As far as collection from beverages is concerned, it recorded negative growth of 2.9%. In the Budget 2014-15, the capacity regime for aerated waters has been replaced by normal regime.

II

Industry Profile: Leather Industry in Pakistan[1]

By
Naeem Ahmed

Introduction

The leather industry is an export oriented industry and one of the major foreign exchange earners for the country[2]. Pakistan is considered to be the hub of producing high quality leather and leather products, which is evident from 800 tanneries in the country actively engaged in producing best quality finished leather of cow, buffalo, sheep & goat skins[3]. Pakistan is rich in livestock population which plays vital role in the economy by producing around 670 million hides and skins per annum. The leather industry consists of the sub-sectors like; tanning, leather, footwear, garments, leather gloves, leather shoe uppers etc. The core products of leather industry in Pakistan are leather garments, gloves, tanned leather and footwear. There are 364 companies related to leather and tanneries, registered with Securities and Exchange Commission of Pakistan (SECP)[4].

The leather industry in Pakistan is as old as the history of the country. During the colonial era just a few number of tanneries were working in large cities such as Karachi, Lahore, New Delhi etc. In the 1950s the number of well-equipped tanneries increased in Karachi, Lahore and other major industrial cities. This number continued to rise due to increased demand of finished products as well as raw material in the national and international market. After independence, some tanneries were established in Karachi in 1950's, some were established in Lahore and adjoining areas. Then during 1960's more units, well-equipped with the latest and modern facilities, were installed in other parts of the country like Multan, Sahiwal, Kasur, Gujranwala and Sialkot. The industry progressed further and some more advanced units were established in the 1970's and resultantly, Pakistan started production of finished leather. The period of 1980's witnessed further improvement in quality. In the decade of 1990, the leather industry became one

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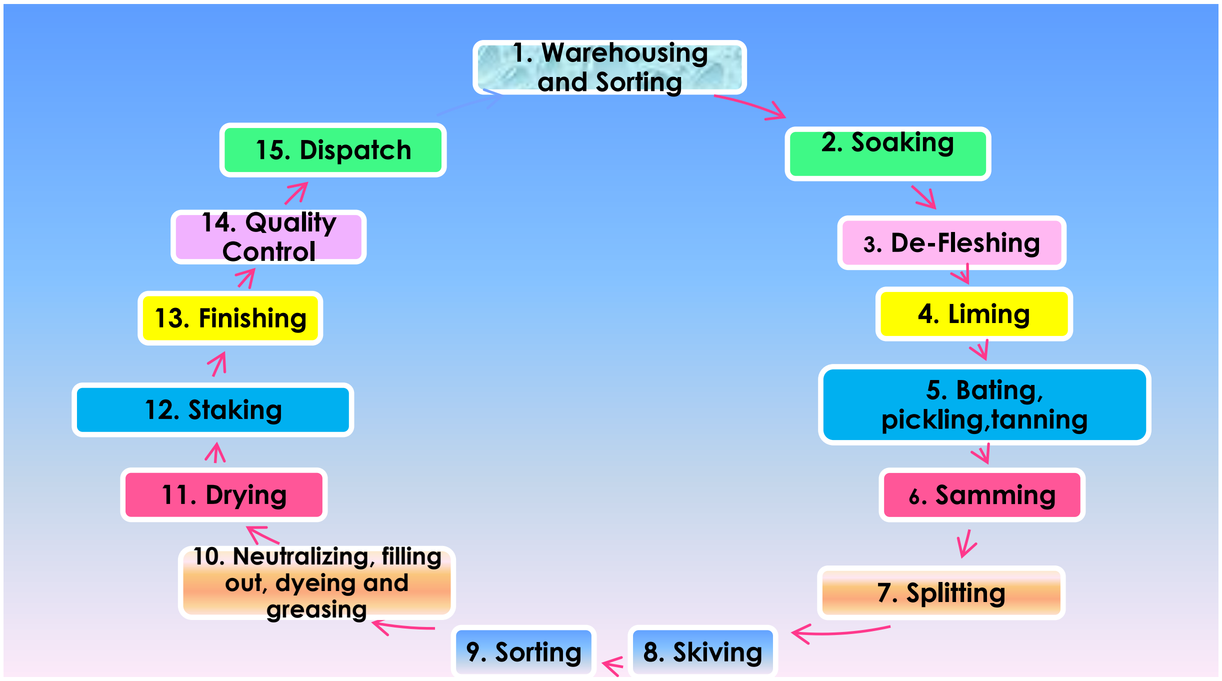
[1] Author is Secretary (SPR&S) FBR. The views expressed in this article are of the Author's own and may not necessarily of the FBR. The Author is grateful to Mr. Abdul Hameed Memon (Chief), Mr. Muhammad Khalid Jamil (Secretary) and Mr. Mir Ahmad Khan (Second Secretary) for expert opinion and support.
[2] Leather, in the largest scope is any hide or skin taken from an animal that has been processed by tanning. There are many different ways of tanning leather. The term "hide" is used for the skin of cattle. The term "skin" is used for the skin of smaller animals like goats, sheep and calves. The animals from which the hides are taken vary depending on what leather product is to be manufactured.

[3] http://www.slideshare.net/farahm3d/leather-industry-of-pakistan-33653096
[4] SECP

of the major foreign exchange earners for the country. Currently, the industry is engaged in producing best quality finished leather of cow, buffalo, and sheep & goat skins.

PRODUCTION PROCESS: The production process generally involves 15 steps, depicted in the following chart;



Note: Plotted on the basis of TDAP report 2012

Various training institutes in the country have also been established to provide leather based academic degrees. These include National Institute of Leather Technology, Karachi (NILT), Leather Products Development Institute, Sialkot (LPDI), Institute of Leather Technology, Gujranwala (ILT) and Footwear training Institute, Charsadda (FTI)[5]. Pakistan Council for Scientific & Industrial Research Institutes (PCSIR) is a national body having a highly qualified manpower in the field of research[6]. It develops technologies which have industrial uses. There is a small section within PCSIR that conduct research on leather industry as well.

Production Capacity of Leather Sector: The data indicates that the leather sector is under-utilized. Its production level is lower than its existing capacity in the country as shown in Table 1.

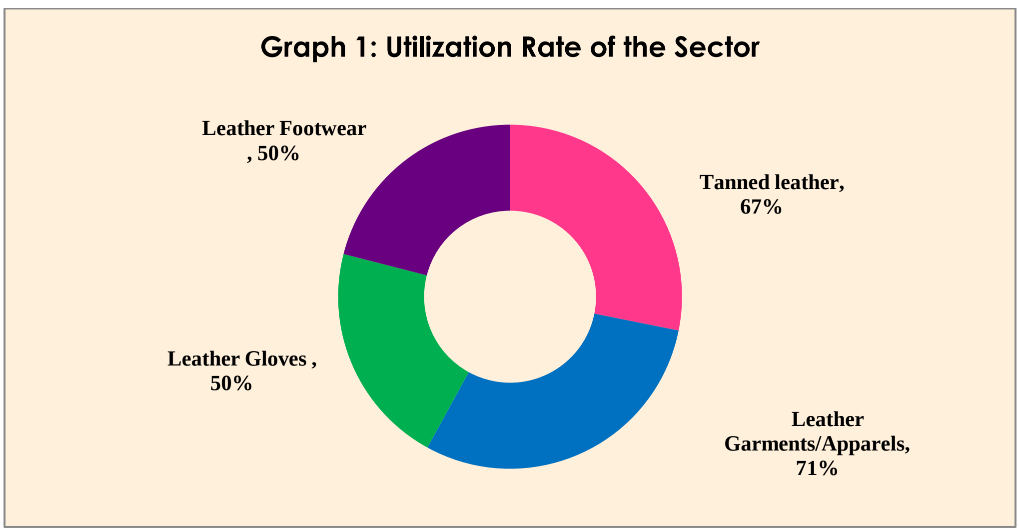
[5] See TDAP Study, "Leather Sector Analysis", September, 2012
[6] See UNIDO/EPB Report "DIAGNOSTIC STUDY OF KORANGI TANNERIES ZONE(KORANGI LEATHER CLUSTER)

Table 1: Production Capacity in Pakistan

Particulars	Estimated Production Capacity	Annual Production
Tanned leather	90 Million Sqr meter	60 Million Sqr meter
Leather Garments/Apparels	7 Million Pieces	5 Million Pieces
Leather Gloves	10 Million pairs	5 Million pairs
Leather Footwear	200 Million Pairs	100 Million Pairs

Source: TDAP Study/Pakistan Tanneries Association

The utilization rate of tanned leather is 67%, leather garments 71%, and leather gloves and footwear is 50% each as reflected in the Graph 1.



Source: data taken from TDAP Study/Pakistan Tanneries Association

The industry constitutes 75% of its requirements of raw hides from local sources while rest of the 25-30% is met through imports. Pakistan imports raw hides from Saudi Arabia, Iran, and China, Dubai, Sudan, Kenya, Australia and Italy. Leather industry also imports machinery needed for manufacturing and about 80% to 95% of machinery is imported from countries like Italy and France.

Contribution in National Economy

Leather industry is one of the prolific contributors to the country's GDP and foreign exchange earnings. The Tanning industry plays a vital role in the progress of the sub-sectors by providing the leather. Today, Pakistan is among the leading countries in the production of leather garments and gloves. The share of leather and leather made-ups industry in GDP is 4%[7] . The industry is employing more than 500,000 workforce directly or indirectly[8]. In the 50s and 60s, most of the tanned leather was exported in raw form but soon after the local tanning industry made rapid progress in making finished products due to availability of raw material, labor and growing demand in the foreign market. More than 450 units of leather garment manufacturers in Pakistan are producing approximately 5 million pieces[9]. Similarly a key sector in leather industry is the leather footwear industry which is capable of producing 200 million pairs annually and its current production is just 100 million pairs. Pakistan's share in the global skin and hides production is around 7% annually which can be doubled within a short span of time provided that great deal of effort and time is allocated to it.

Livestock: The role of livestock is very important in the economy as it is at the heart of the rural socioeconomic system. It is not only a net source of foreign exchange earnings but also generates income for millions of poor people in the rural economy of Pakistan. Quran Says*:*

Have they not seen how We have created for them of Our handiwork the cattle, so that they are their owners, (71) And have subdued them unto them, so that some of them they have for riding, some for food? (72) Benefits and (divers) drinks have they from them. Will they not then give thanks? (Surah Yasin).

More than 8 million rural small and landless farmers raise livestock, making it an ideal sector for addressing rural poverty in the country[10]. Furthermore, as livestock makes up almost 50 % of the agriculture value added, the future high growth in agriculture is expected to be led by the livestock sector. Pakistan is rich in livestock both in numbers and quality as well. The leather

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7 Ibid. According to PTA it is 5% of GDP

8 http://www.seagoldlimited.com/leather-products.php

9 See Pakistan Tanneries Association website (www.pakistantanners.org)

10 http://lddb.org.pk

Industry of Pakistan fulfills about 70% -75% of its demand from its local livestock sector. The details of livestock population are shown in the table below;

Table 2: Livestock Population in Pakistan

In Million Number

Years	Buffaloes	Cattle	Goats	Sheep	Camels	Total
2006-07	28.2	30.7	55.2	26.8	0.9	141.8
2007-08	29.0	31.8	56.7	27.1	1.0	145.6
2008-09	29.9	33.0	58.3	27.4	1.0	149.6
2009-10	30.8	34.3	59.9	27.8	1.0	153.8
2010-11	31.7	35.6	61.5	28.1	1.0	157.9
2011-12	32.7	36.9	63.1	28.4	1.0	162.1
2012-13	33.7	38.3	64.9	28.8	1.0	166.7
2013-14	34.6	39.7	66.6	29.1	1.0	171.0

Source: Economic Survey 2013-14 (Table 2.19), PTA Website

During last eight years a healthy growth has been noticed in the population of cattle i.e. 29.3%, followed by buffaloes (22.7%) and goats (20.7%).

Currently Pakistan is producing about 67 million skins and hides yearly (Table 3). It includes hides 14.9 million and skins 51.9 million[11].

Table 3: Livestock Production (Skins and Hides)

In Million Number

Years	Hides	Skins	Total
2006-07	11.8	44.3	56.1
2007-08	12.2	45.3	57.5
2008-09	12.6	46.3	58.9
2009-10	13.0	47.4	60.4
2010-11	13.5	48.5	62.0
2011-12	13.9	49.6	63.5
2012-13	14.4	50.7	65.1

[11] *Note: Hides include: cattle, buffalo and camels, whereas Skins include: sheep, goat and lamb skins*

2013-14	14.9	51.9	66.8

Source: Economic Survey 2013-14 (Table 2.20)

Economy of Eid-ul-Azha: The basic strength of Pakistan's leather industry is the sacrificial animals at the time of Eid-ul-Azha. Various reports confirm that the hides of sacrificial animals provide nearly half of the annual requirements of the country's leather industry[12]. The Holy Quran has told us about the benefits of animals as a whole and specifically the animals of sacrifice.

The big animals of sacrifice (like camels and cows) are made by Us among the symbols of Allah for you, in which there is much good for your benefit. (Sura Al-Hajj Verse 36).

It is Allah who made your habitations homes of rest and quiet for you; and made for you, out of the skins of animals, (tents for) dwellings, which ye find so light (and handy) when ye travel and when ye stop (in your travels); and out of their wool, and their soft fibers (between wool and hair), and their hair rich stuff and articles of convenience (to serve you) for a time (Sura An-Nahl Verse 80).

Sacrifice of animals at the occasion of Eid-ul-Azha is a religious obligation which is performed with great religious fervor throughout the Islamic world each year[13]. Some of the scholars argue that instead of sacrificing the animals, equal intended value in cash, among the poor may be distributed. Waqar (2011) attempted to analyze this argument and found that;

"distribution of alms in lieu of sacrifice has negligible economic significance viz-a-viz the economic benefits which accrue from practicing this religious obligation. The study further found that found that the practice provides incentives for animals raising, neutralizes pressure on fodder, provides the basic input to the leather industry and appreciate concern for quality and helps balance the eco- system. The sacrifice of animals at Eid ul Azha has comprehensive fallout for the rural economy."

According to Pakistan Tanners Association (PTA), the tanneries across the country have estimated to buy Rs. 11 billion worth of hides of sacrificial animals during the Eid-ul-Azha in August 2014[14]. The figure included 2.5 million cows, four million sheep and one million goats.

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[12] http://www.viewpointonline.net/component/content/article?id=3409:the-2-billion-eid-sacrifice-commerce
See, Syed Waqar Hussain , Muhammad Mohsin Khan [13] Poverty Alleviation: The Redistribution Impact of Eid-ul- Azha Animals' Sacrifice on Rural Economy , Journal of Managerial Sciences , Volume III, Number 1I
[14] http://www.thenews.com.pk/Todays-News-3-277149-Tanners-to-spend-Rs11bn-on-buying-hides-trade

Last year, people slaughtered around two million cows, 3.7 million to 3.8 million sheep and 700,000 to 800,000 goats. Pakistan's leather industry meets half of the sheep's hides demand through import. Tanners do not import hides of cows and goats as the animals slaughtered in the country are enough to meet local industry's needs. Hides from Khyber Pakhtunkhwa and Balochistan, Afghanistan and some from Iran districts adjacent to Balochistan also reach Lahore market for sale after Eid-ul-Azha. A hide of sacrificed cow is usually 10 to 15 percent larger than that of animal slaughtered in rest of the year. The hides are larger because many people buy healthy animals for sacrificing.

Exports:

In order to enhance export of leather items, the exporters have been provided numerous incentives and facilities[15]. These incentives also includes duty drawback scheme. Leather sector of Pakistan is one of the leading export earners. The exports of leather sector include tanned leather, leather manufactures (gloves, cloths etc.) and footwear. Pakistan export earnings from leather items were about Rs. 133 billion in 2013-14 against Rs.112 billion in 2012-13 (Table 4). The leather related exports have been doubled during last eight years time, showing healthy progress by the industry.

Table 4: Exports by Leather Industry

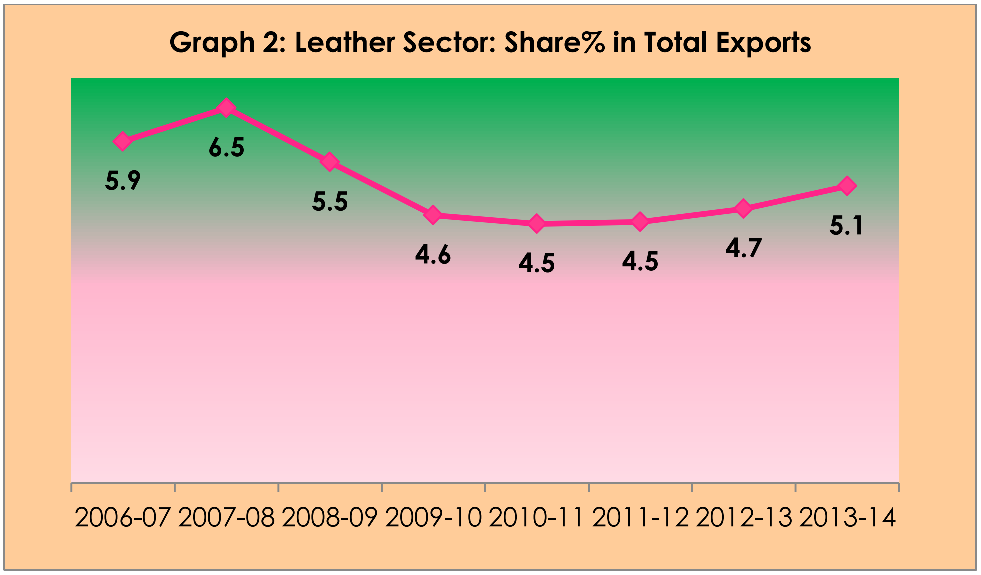
(Rs. Million)

Years	Total National Exports	Tanned Leather (Excl. Reptile Leather)	Leather Manufactures	Foot wear	Total Exports Leather Sector
2006-07	1,029,312	20,237	33,592	6,944	60,773
2007-08	1,196,638	26,026	43,765	7,778	77,569
2008-09	1,383,718	23,394	43,473	9,875	76,742
2009-10	1,617,458	28,699	38,413	7,763	74,875
2010-11	2,120,847	39,569	46,178	9,296	95,043
2011-12	2,110,605	39,841	46,536	8,860	95,237
2012-13	2,371,879	48,378	54,000	10,037	112,415
2013-14	2,583,463	56,399	64,012	12,169	132,580

Source: Economic Survey 2013-14

The share of the leather sector in total exports declined during 2008-09 to 2011-12, however, later on its share again started increasing in 2012-13 and 2013-14 and reached to 5.1 (Graph 2).

[15] Source TDAP



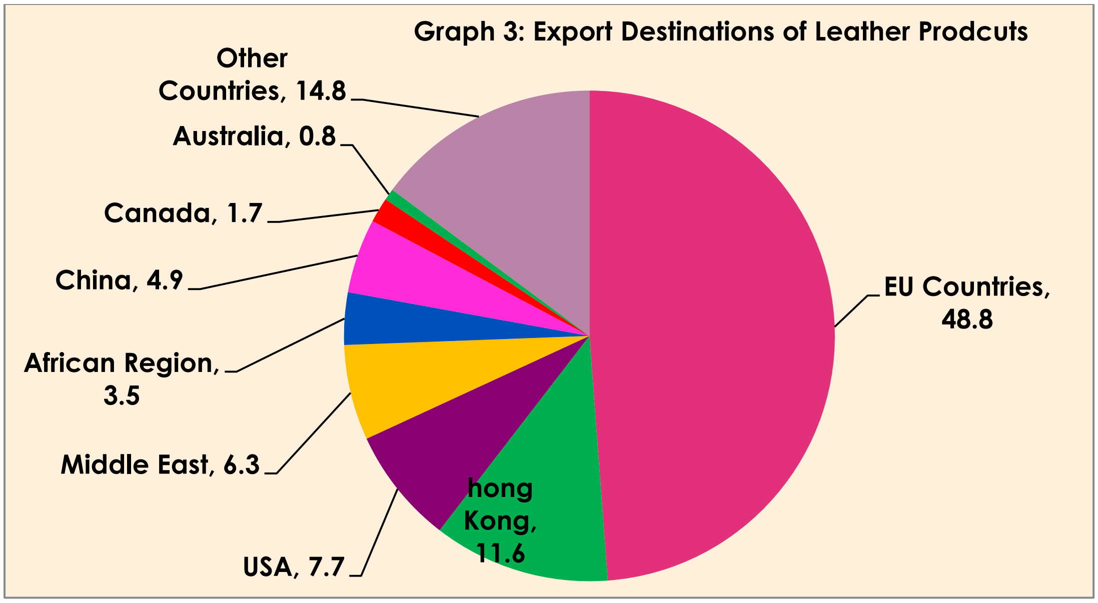
Yearly growth patterns in leather exports have not been even. During 2007-08 the exports grew by 27.6% and then fell by 1.15 and 2.4% in next two years. After recording a healthy growth in 2010-11, it again dipped to 0.2% in 2011-12, nonetheless, during last two years the leather exports again recorded a very healthy growth (Table 5).

Table 5: Year on Year Growth (%): National Vs Leather Sector Exports

Years	National Exports (Growth%)	Leather Sector Exports (Growth%)
2007-08	16.3	27.6
2008-09	15.6	-1.1
2009-10	16.9	-2.4
2010-11	31.1	26.9
2011-12	-0.5	0.2
2012-13	12.4	18.0
2013-14	8.9	17.9

Export Destinations

Pakistan's major export destination is Europe (48.8%), followed by Hong Kong (11.6%), USA (7.7%), Middle East (6.3%) and China by 4.9% (Graph 3).



Source: basic data taken from http://www.pakistantanners.org/industrial_statistics.html

Tax Policy:

Taxes are one of the tools of fiscal policy applied for multifaceted objectives like revenue generation, equitable distribution of resources, facilitation of taxpayers and to promote investment in the economy. A prudent tax policy plays important role to boost businesses in the country on the one hand and enhances the tax revenues for the government exchequer without creating distortions in the economy. FBR being the major revenue collecting organization have been trying to frame suitable tax policies to attain these objectives. Keeping in view the bad impacts of high tax rates, FBR took bold initiatives and offered drastic reduction in tax rates of banking, public and private companies under the ongoing tax reform program. The rates of tax imposed on corporate sector have been gradually reduced from 66% in 1992 to 33% in 2014. The overall reduction in the tax rates is nearly 50% which is a major shift in the tax policy to encourage the corporate taxpayers.

The leather sector related businesses, companies, individuals etc. are taxed under the Income Tax Ordinance 2001.

According to Income Tax Ordinance 2001;

[**(45A)** (a) The rate of deduction of withholding tax under clauses (a) and (b) of sub-section (1) of section 153 shall be one per cent on local sales, supplies and services provided or rendered to the [taxpayers falling in the]following categories [ ] namely:-

(i) textile and articles thereof;

(ii) carpets;

(iii) leather and articles thereof including artificial leather footwear;

(iv) surgical goods; and

(v) sports goods;

During Budget FY 2012-13 the sectors with zero rating facility have been brought under tax and 2 percent sales tax was imposed on local supplies of five leading export sectors including leather. There is one percent withholding tax on exports. The PCT chapters 41, 42 and 43 deal with leather and articles of leather. There are also some concessions and exemptions given through SROs on the imports under FTAs.

Export Rebate: Export rebate is given to the exporters to facilitate the export sectors. According to this policy Custom duty, Sales tax and Excise duty etc. paid on imported raw materials required for production are refundable on export of manufactured goods against the claims of the exporters. The leather sector is also included among the five export oriented sectors liable for export rebates. The rebate figures of leather sector are presented in table 11.

Tax Base:

Income Tax: Currently there are more than 2000 income tax registrants of leather sector in the country. Out of 2002 total registrant, 1807 (90%) are registered in six RTOs namely; RTO Sialkot, RTO-II, Karachi, RTO-I & II Lahore, RTO Gujranwala and RTO Rawalpindi. RTO Sialkot with 42% share is on top, followed by RTO-II Karachi (22%), RTO-II Lahore (10%) and RTO-I Lahore (8%). The details are given in the following table;

Table 6: Income Tax base of Leather Industry

S.No.	LTU / RTO	Units
1	LTU KARACHI	4
2	LTU LAHORE	2
3	RTO ABBOTTABAD	2
4	RTO FAISALABAD	23
5	RTO GUJRANWALA	92
6	RTO HYDERABAD	2
7	RTO ISLAMABAD	30
8	RTO MULTAN	26
9	RTO PESHAWAR	25
10	RTO QUETTA	17
11	RTO RAWALPINDI	76
12	RTO SARGODHA	4
13	**RTO SIALKOT**	**837**
14	RTO-I KARACHI	48
15	RTO-I LAHORE	163
16	RTO-II KARACHI	447
17	RTO-II LAHORE	192
18	RTO-III KARACHI	12
Total		**2,002**

Source: PRAL

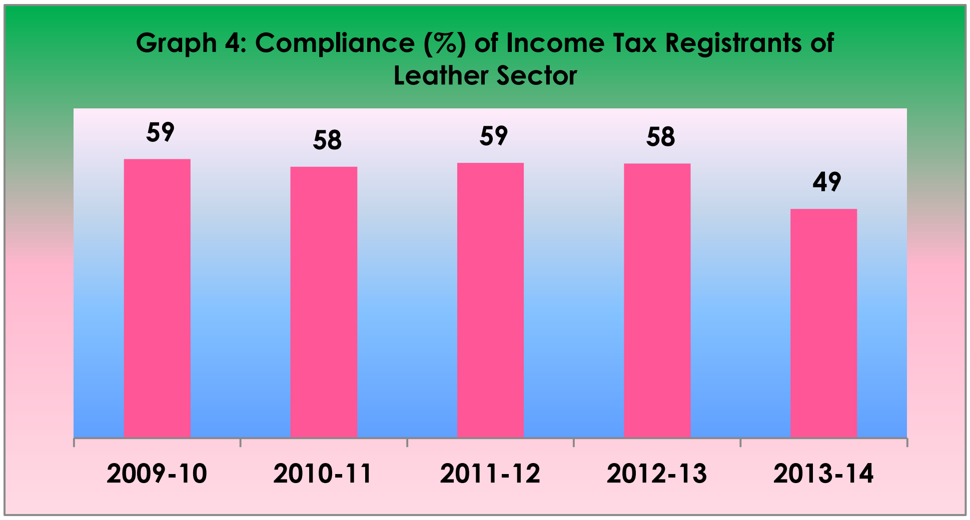
Sales Tax: In the sales tax there are 2,195 registrants including manufacturers, exporters, retailers, wholesalers and importers. The details are given in table 7 below:

Table 7: Sales tax Registrants of Leather Sector

Year	Registrants	Filers	Non-filers	Compliance Ratio (%)
2010-11	2008	1301	707	64.8
2011-12	2076	1333	743	64.2
2012-13	2125	1320	805	62.1
2013-14	2195	1376	819	62.7

Source: Sales tax Comp Wing, FBR

Income Tax Filers (Compliance): There are around 2000 registrants/NTN holders and nearly half of them are the non-filers of income tax returns. In the year 2013-14, 1026 were the non-filers as compared to 833 non-filers in 2012-13. The compliance level during 2009-10 to 2013-14 has ranged from 49% to 59%. The year-wise compliance level of the income tax registrants is shown in graph 4;



Tax Contribution by the Leather Industry

The leather industry pays income tax and sales tax at domestic stages. At the imports stage custom duty, sales tax, FED and withholding taxes are collected on the import of leather products and articles of leather. The tax contribution of the industry is shown in the table 8. The industry has paid Rs. 2,383 million in the heads of income tax, sales tax and custom duties, which is just 0.11% of total federal taxes. The growth in collection is not smooth and also not aligned with the growth in total federal taxes.

Table 8: Federal Taxes Paid by the Leather Sector

Rs. Million

Years	Total Federal Taxes	Growth (%)	Paid by Leather Sector	Growth (%)	Taxes paid by Leather Sector as % of total Taxes
2009-10	1,327,382		1,310		0.10
2010-11	1,558,014	17.4	2,361	80.2	0.15
2011-12	1,882,693	20.8	2,071	-12.3	0.11
2012-13	1,946,360	3.4	2,300	11.1	0.12
2013-14	2,254,500	15.8	2,374	3.2	0.11

The head-wise revenue profile of the leather sector is discussed below;

Direct Taxes:

The industry is liable to pay all types of federal taxes and duties whenever these are applicable. However, it has to be emphasized that the income tax is the actual contribution of the industry as its burden is not passed on to the final consumers. On the other hand, the incidence of other taxes that are indirect in nature, the burden is passed on to consumers. From national stand-point, even though both, the direct and indirect taxes are important for mobilizing resources, but the significance of the former cannot be denied to achieve equity gains. With a progressive income tax system, the resources flow automatically from higher income to low income groups and the objective of redistribution of income is achieved. Within this scenario, the significance of the industrial sector, particularly the large taxpayers, to comply with tax obligations becomes even more important.

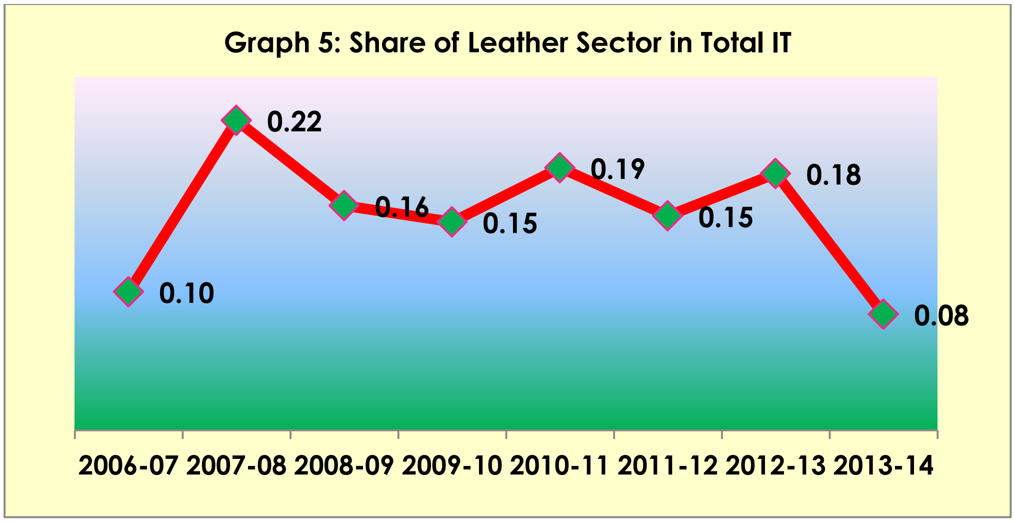
The net income tax contribution by the leather industry is not healthy rather dismal. The income tax paid by the industry during last eight years is reflected in table 9.

Table 9: Income Tax Paid by the Leather Sector

(Rs. Million)

Years	Gross	Refund	Net
2006-07	387.1	59.7	327.4
2007-08	914.1	62.4	851.7
2008-09	888.2	182.6	705.6
2009-10	1,102.8	326.3	776.5
2010-11	1,409.8	289.8	1,120
2011-12	1,496.7	375.7	1,121
2012-13	1,777.7	425.3	1,352.4
2013-14(*)	882.6	155.6	727

(*) Provisional , source: PRAL



During last eight years period the net collection of income tax paid by leather sector ranged from Rs. 327 million to Rs. 1.3 billion, which is on average just 0.1% of total income tax. Whereas, on the other hand the share of leather sector in exports has been more than 5% during same period. The income tax contribution seems too low when compared with more than Rs. 132 billion exports of leather sector during 2013-14.

Sales tax Domestic:

A major chunk, more than 75%, of the leather items are exportable sales and about 24% are the taxable sales and the rest are the exempt sales (Table 10).

Table 10: Leather Sector Sales Profile

Rs. Million

Years	Taxable Sales	Export Sales	Exempt Sales	Total Sales
2006-07	3,080	40,186	9,962	53,228
2007-08	3,264	52,504	11,760	67,528
2008-09	13,863	104,243	2,149	120,255
2009-10	19,633	72,718	1,041	93,392
2010-11	22,191	113,885	2,721	138,797
2011-12	25,580	84,795	1,070	111,445
2012-13	29,153	91,011	84	120,248
2013-14	32,959	106,004	147	139,110

Source: Sales Tax Computer wing, FBR

The leather sector was zero-rated sector; however, 2% GST was imposed on local supplies of five leading export sectors including leather in FY: 2012-13. The net collection of sales tax domestic is shown in the following table;

Table 11: Sales Tax Domestic Paid by Leather Industry

Rs. Million

Years	Gross	Refund	Net
2009-10	443	428	15
2010-11	1137	1046	91
2011-12	876	751	125
2012-13	529	332	197
2013-14	801	401	400

Input Output Ratio:

The input tax is the tax paid by registered person on the taxable goods and services purchased or acquired by him. This includes the sales tax paid on imports. Input tax adjustment is the deduction of input tax from output tax to arrive at the net amount of sales tax payable by the taxpayer. Output tax is the sales tax charged and levied on the sale or supply of goods or services on which sales tax is leviable. According to section 8B of Sales Tax Act 1990 in relation to a tax period, a registered person shall not be allowed to adjust input tax in excess of 90 percent of the output tax for that tax period. According to SRO 647 (I)/2007 some sectors are excluded from the purview of Section 8B. The input output ratio of leather sector for last five years is shown in the table 12. The input output ratio is in excess of 90% during five years period.

Table 12: Input-Output Ratio: Leather Sector

Rs. Million

Year	**Input**	**Output**	**Input / Output Ratio (%)**
2009-10	1657	920	180.1
2010-11	8079	1220	662.2
2011-12	2530	1276	198.3
2012-13	2624	1854	141.5
2013-14	3666	2015	181.9

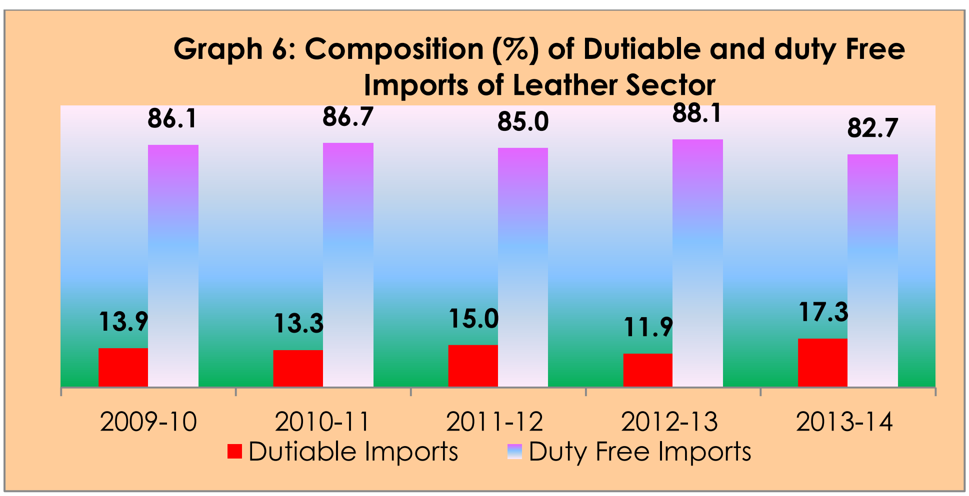
Trade Taxes:

At the import stage the imports of leather related items are liable to pay custom, sales tax, FED and withholding taxes. However, due to various concessions/exemptions the dutiable import portion is quite small and more than 80% imports are duty free. Total import value during last two years has been Rs.13.5 billion and Rs. 11.7 billion as compared to duty free import value of Rs. 10.3 billion and Rs.11.2 billion.

Table 13: Import Value of Leather and Articles of Leather

Rs Million

Heads	2009-10	2010-11	2011-12	2012-13	2013-14
Total Import Value	7,408	10,875	11,429	11,747	13,525
Dutiable Imports	1,030	1,445	1,715	1,402	2,344
Duty Free Imports	6,378	9,430	9,714	10,345	11,181



Consequent to a significant portion of duty free imports, a small amount is being collected at the imports stage under all the heads. The trade taxes collected from leather items at import stage are less than 1% of total import taxes. Last five years data is presented in the table below:

Table 14: Taxes Collected at Import Stage on Leather and Articles of Leather (PCT: 41, 42, 43)

Rs. Million

Tax Heads	2009-10	2010-11	2011-12	2012-13	2013-14
Custom duty	249.1	521.0	371.5	297.5	429.6
ST(M)	156.6	400.4	267.3	275.3	579.7
WHT	113.0	229.0	186.0	178.0	238.0
Total	**518.7**	**1150.4**	**824.8**	**750.8**	**1247.3**

Source: Directorate of Research & Statistics, FBR

Rebates: The leather sector on average avails 20% of the total rebates. As a whole, the leather sector has been paid rebates to the tune of Rs. 1.7 billion during FY: 2013-14 by the FBR. During last few years, the rebates of more than Rs.5 billion have been paid back to leather sector. Within the leather sector, a major chunk (51%) of rebate amount goes to leather garments & made-ups, followed by leather hides & skins with 41% share (Table 15).

Table 15: Export Rebate Customs- Leather Sector

Rs. Million

Heads	2009-10	2010-11	2011-12	2012-13	2013-14
1. Leather garments & made-ups	656.7	681.6	540.0	936.0	867.3
2. Finished leather garments	0.7	3.6	36.0	1.5	6.9
3.leather hides & skins all sorts	162.2	236.5	196.0	365.3	704.2
4.leather shoes and their parts	36.3	27.0	17.4	22.7	44.3
5.Artificial leather rexine	20.2	5.6	0.4	38.8	76.2
Rebate Leather Sector	**876.1**	**954.3**	**789.8**	**1364.3**	**1698.9**
Total Rebate	**3,512.1**	**4,012.8**	**4356.2**	**7886.2**	**7,930.7**
Leather Sector Rebate as % of Total Rebate	***24.9***	***23.8***	***18.1***	***17.3***	***21.4***

Issues and Concerns:

Low Tax Contribution by the Leather Sector: Overall tax contribution by the leather sector is below 1% of the federal taxes, which is in fact a meager share. The leather industry is one of the major foreign exchange earners for the country as most of its products are exported in finished form. The exports were to the tune of around Rs. 133 billion in FY 2013-14, whereas the industry's income tax contribution was below Rs. 1 billion during the same period. The overall tax payments by the industry including direct and indirect taxes were Rs.2.4 billion in 2013-14, which is just 0.11% of total federal taxes.

Low IT filers (Non-compliance): The provisional data of income tax filers shows that the compliance level is just 50%. In the year 2013-14, 49% of the total registrants were the filers as compared to 58% filers in the year 2012-13. The compliance level during 2009-10 to 2013-14 has ranged from 49% to 59%. Low income tax contribution and nearly 50% non-filers raise various questions like; the leather sector a one of the leading foreign exchange earners, why its income tax contribution is too low? Moreover, why large of number of registrants are not the filers of income tax returns?

Higher Input Adjustments: The input adjustment is the policy of government to encourage and facilitate the taxpayers in order to boost the economic activities and to attain larger economic gains. The input adjustment is allowed upto 90% to most of the sectors however; there are some exceptions to this rule as well. The data shows that the leather industry has claimed huge input adjustments during last 5 years. The industry avails various concessions and facilitation from the government but in response net contribution in shape of taxes is too low, which is the point of major concern for FBR.

Inconsistent Growth Patterns in Exports: The last five years export data indicates unsmooth growth trend in the export of leather goods. Inconsistency in the growth of exports of leather items needs to be analyzed by the policy makers. Is it the matter of inconsistent demand in the world market or the production capacity or the issue of quality?

Under Capacity Production: The under-utilization of the leather industry has been witnessed. The utilization rate of tanned leather is 67%, leather garments 71%, and leather gloves and footwear is 50% each. The stakeholders, particularly the PTA and TDAP need to find out the causes of under-utilization of the manufacturing units in order to increase the production to the capacity level.

Other Issues:

Due to reduced disposable incomes of people during last few years on the one hand and higher prices of the animals and hides & skins on the other, people prefer collective sacrifice of animals resulting into lesser number of skins and hides. Moreover, the soaring prices of hides also affect the competitiveness of the industry in the world market. The leather industry also faces various issues like livestock diseases, smuggling and environmental hazards. The environmental hazards caused by tanning industry are also a big challenge. The major environmental challenges are the improper water & solid waste management and air emissions. The cost of meeting environmental standards is high and it has forced to shift the activity from developed to developing countries. Industry is also facing infrastructure problems as there are not sufficient and proper road linkages, moreover, industry also complaints about the poor drainage system. The availability of water in sufficient amount is basic requirement of the industry, hence to ensure smooth working the tanneries have to purchase water. Industry also faces the problem of shortage power supply. The energy and water crises hurt the industry's performance in many ways. It leads to under-utilization than the existing production capacity, raises the cost of production, hampers the smooth working and hence the vulnerability in the world market enhances.

Concluding Remarks:

The leather industry is one of the key industries of Pakistan playing vital role in the economy of Pakistan. The industry shares around 4% in GDP, provides jobs to nearly half million people and earns a huge amount of foreign exchange for Pakistan. However, its overall tax contribution and specifically, income tax is very low and moreover, the compliance level of income tax registrants is just 50%.

The industry is underutilized and there is an ample scope for further expansion and efficiency. More institutional support should be provided to the industry for full utilization of the production capacity and to overcome the environmental and other issues. Special efforts and attention is also needed to supply sufficient water and power for smooth and uninterrupted working of the industrial units. There is a need of trade diversion and Pakistan should find more markets in Asia and neighboring countries. The one of the major strengths of leather sector is the occasion of Eid-ul-Azha, which provides a significant portion of raw material to the industry every year. Further coordination and creation of systematic linkages among various sub-sectors, upstream & downstream industries, can be highly effective to enhance the economic benefits in the country.

It is also imperative to draw the attention of income tax registrants and exporters that currently the tax contribution of the industry is too small. The income tax paid by the industry is about Rs. 1 billion, which does not, match to its size and contribution in GDP and the exports earnings of the industry. Moreover, out of 2000 income tax registrants only half are the filers of income tax returns. Major source of government's income is the tax revenues and without sufficient amount of tax collections government is forced to borrow from internal and external sources, but the borrowing has a huge cost. Therefore, tax revenues are the more effective source of financial resources to keep the economy on the fast track of economic development and prosperity without compromising on the national dignity and independence. Thus, the industry should pay its due share in the taxes to support the government to accomplish the developmental projects and also to eradicate the poverty from the country.

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III

Analysis of Customs Tariff in Pakistan

By
Mir Ahmad Khan[16]

Introduction

A tariff is a tax levied on imports, or more rarely on export of a good at the border. It can be *ad valorem* or specific. However, it is mostly *ad valorem* due to its easy handling. Besides raising government revenues, tariff is utilized as vital tool for protecting domestic industries that require shelter against foreign competition, limiting the consumption of imported luxury and unnecessary goods. Moreover, the determination of a tariff structure entails a number of socio-economic considerations and international obligations. The experience shows that the reduction of tariff has also played an active role in liberalization of trade and helped in achieving higher degree of openness in the world.

The high level of protection in the past has not only generated gross inefficiencies in the system as the quality of goods produced by the domestic industry suffered badly but it has also become a major obstacle for growth of the economy. Protection makes it more difficult for exporters to compete because of its direct effect on cost of raw materials/intermediate inputs, and its indirect effects on the cost of labour and the exchange rates (Flatters 2001). Moreover, higher protection encouraged smuggling which is also detrimental for growth of domestic sector. According to Flatters (2001), protection is a subsidy to smugglers, thus, increases in protection, increase the incentive to smuggle.

In order to mitigate these concerns, the introduction of trade reforms during the second half of 80s were initiated to make indigenous industries more competitive, efficient and receptive to face the future trade-related challenges emanating from regional countries and the world at large. Moreover, a downward revision was also necessary to reduce the gap between bound tariff under WTO and applied tariff, and to reduce the incidence of smuggling and higher cost of doing business.

The main purpose of this article is to revisit the structure of tariff, level of protection and its role in the trade liberalization and volume of revenues. Apart from that, an attempt has been made to analyze the fluctuations in duty free imports and structure of revenue foregone due to exemptions in customs regime.

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[16] ***Author is the Second Secretary, SPR&S Wing, FBR. The views expressed in the article are of the author and do not necessarily represent the policy of FBR.***

Tariff Rationalization and Trade Liberalization in Pakistan

The first phase of trade liberalization was started in 1983-84. Main thrust of the liberalization was on non-tariff measures like gradual reduction of negative list. On the other hand, para tariffs were levied @10% general surcharge, 5% iqra surcharge and 6% licensing fees that time. No revenue loss incurred due to first phase of trade liberalization as effective rate was increased from 38% in 1979/80 to 53% in 1987-88. Unlike first phase, the government launched second phase with main thrust on tariff reduction.

Although Pakistan started to slash down its tariff to a great extent in 1988-89 but has lost the initiatives by delaying the trade openness with strong intensity in the 90s but lead was taken by India and Sri Lanka. According to World Bank[17] study, during 1990s, most countries in South Asia liberalized their trade policies significantly, while Pakistan postponed broader and deeper tariff rationalization until end of the decade. This was one of the core reasons for slow growth of GDP and low level of openness. Similarly, Dr Ishrat Hussain (2008) has also elucidated that although the contours of reforms were drawn in 1991, the pace of implementation picked up only after 1999. At the start of the 2000s, the tariff reforms were religiously followed and fruits of these reforms were the robust growth of the GDP and Pakistan was among the highest growing economies of the world. Unlike other countries, Pakistan's tariff rationalization reflects low protection to the agriculture sector despite agriculture being the mainstay of the economy of the country.

The gradual reduction of the maximum statutory rate of customs duty presented in Table 1 clearly elucidates how seriously the policy of tariff reforms has been pursued in the country. Not only that the maximum rate of duty has been reduced from 150% in 1987-88 to 25% in 2003-04 raised to 35% in 2008-09 slashed down to 30% during 2013-14 and 25% in the Budget 2014-15. Not only general maximum tariff has slashed down significantly, but also standard tariff slabs were also reduced from 17 in 1987-88 to 6 (1, 5%, 10%, 15%, 20%, 25%) in 2014-15.

With the revision of statutory rates, the effective tariff rate of customs duties relative to dutiable imports declined from 53.6% in FY 1987-88 to 14% in FY 2013-14. Similarly, the effective rate based on total imports has also declined significantly from 33.8% to 5.4% during this period. As a result, the share of customs duty in federal tax receipts has also come down drastically from 50.1% in FY: 1987-88 to only 10.8% in FY: 2013-14.

[17] See for more details "World Bank (2006), Pakistan Growth and Export Competitiveness".

Table 1: Tariff Structure, Customs Duties, Effective Rates and Trade Openness

Year	Max Tariff Rate (%)	Net Customs Duties (Rs. (Millions)	Share of CD in FBR Revenue (%)	Effective Rates(%)		Trade Openness %
				Dutiable Imports	Total Import	
1987-88	150	38,001	50.1	53.6	33.8	28.3
1988-89	125	42,362	47	48	31.2	29.4
1990-91	125 / 95	50,528	45.7	53.7	29.5	30.3
1991-92	90	61,821	44.2	46.4	26.9	33.2
1993-94	80	64,240	37.2	38.3	24.9	29.7
1994-95	65	77,653	34.3	35.7	24.2	30.7
1997-98	45	74,496	25.4	22	17.1	30.2
1998-99	35	65,292	21.2	18.4	14	29.1
1999-00	35	61,659	17.8	17.8	11.6	25.5
2000-01	30	65,047	16.6	16.8	10.4	27.7
2002-03	25	68,836	14.9	15.8	9.6	28
2003-04	25	91,045	17.5	14.5	10.1	28.5
2004-05	25	115,374	19.5	13.3	9.4	32
2005-06	25	138,384	19.4	13.1	8.1	32.8
2006-07	25	132,299	15.6	13.1	7.1	31.2
2007-08	35	150,663	14.9	11.7	6	34.9
2008-09	35	148,403	12.8	11.1	5.4	31.1
2009-10	35	160,273	12.1	12.5	5.7	30.5
2010-11	35	184,853	11.9	12.7	5.6	30.5
2011-12	35	216,906	11.5	14.1	5.6	30.5
2012-13	30	239,459	12.3	15.1	5.7	29.9
2013-14	30	242,810	10.8	14	5.4	28.5
2014-15 Upto February	25	180,765	11.8	10.8	6	

Source: Calculation by Author based on data from
i) Pakistan Economic Surveys (various issues)
ii) FBR Data Bank

As far as trade openness in Pakistan is concerned, it was only 28.3% in 1987-88 which was peaked in 34.9% in 2007-08 and come down drastically to 28.5% in 2013-14. In case of India, due to liberalization, the trade openness ratio doubled around 15% in most of the 80s to 27% in 2000s and gone up to 47% in 2006 (Alessanadrini, futtouh, Ferrarini and Scaramozzino 2009).Trade openness in UK was 61.6% in 2013[18]. The major reason for low openness in

[18]**Department for Business, Innovation and Skill, UK(2015),"Openness to Trade Export Plus imports as a share of GDP, ranked against major competitors.**

Pakistan as compared to international standard is mainly attributable to the export. Export to GDP ratio during 1987-88 was 11.6% which has come down to only 10.2% in 2013-14. The main reason behind this performance is the lack of diversification as export of Pakistan has been concentrated into few commodities. On the other hand, import to GDP ratio has gone up from 16.7% in 1987-88 to 18% in 2013-14.

Current Structure of Tariff

Table 2 provides structure of tariff in relation to the slabs and products during 2014-15. Out of 7018 tariff lines, 439 tariff lines are subject to newly created slab 1% tariff and applied on mainly essential items. The highest category of tariff lines involving 2,323 tariff lines are subject to 5% on machinery, primary and secondary goods while 995 tariff lines are under 10% related to intermediate/secondary raw materials. The slab of 15% rate is applied on 501 tariff lines related to mostly locally manufactured raw materials etc. Similarly, 20% rate of duty is applicable on semi-finished/finished goods while 25% duty is applied on finished products. Above this, higher tariff rates alongwith specific rates have been applied on remaining tariff lines.

Table 2: Slab-wise Tariff Lines and Products during 2014-15

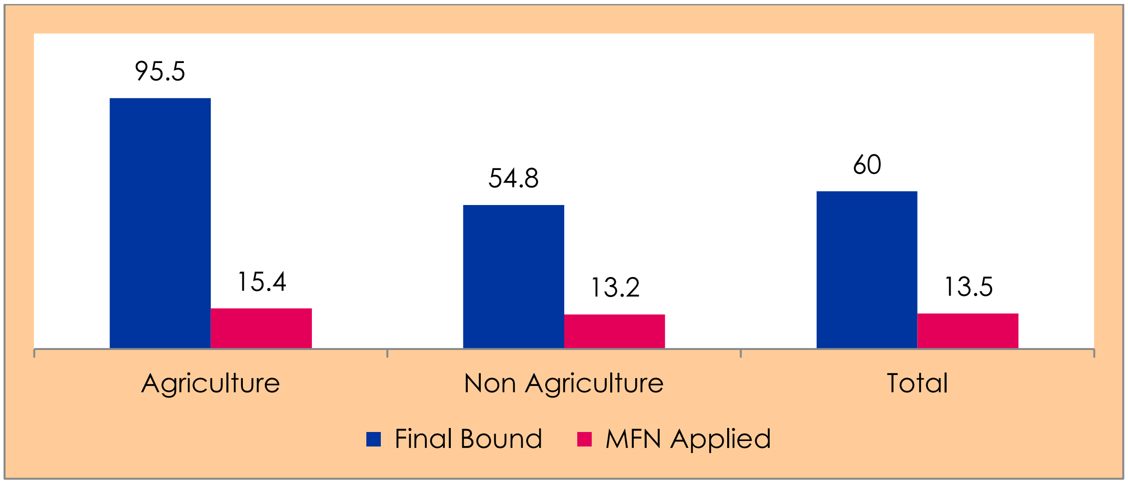
Slabs	Tariff Lines	Products
1	439	Essential food items (onions, potatoes, tomatoes, ginger, garlic, edible oil seeds, etc); Primary raw materials (basic metal ores and scrap, chemicals, rubber, hides & skins, wood, cotton computers, petroleum products (excl.HSD), Fertilizers etc.
5	2,323	Machinery, Primary/Secondary raw materials/inputs, chemicals, medicines, etc.
10	995	Secondary raw material/intermediate goods, (chemicals, locally available textile inputs, steel sheets, Foods items (Fish, Dry fruits, Tea & Coffee, other prepared foods), etc.
15	501	Mostly locally manufactured raw materials, intermediate goods, inputs etc.
20	877	Mostly semi finished/finished goods (lubricating oils, Plastic tubes & pipes fittings, BOPP films wood items for further working, locally available paper, secondary quality steel sheets, locally available machinery and parts.
25	1,454	Mostly finished goods (locally produced textile, paper, leather, iron & steel, glass, sports goods etc)
30	27	Auto sector like trucks, tractors and special purpose vehicles
35	267	Auto parts.
50	15	Cars & Jeeps up to 800 cc Auto rickshaws
55	8	Cars & Jeeps (801 cc to 1000 cc).
60	15	Cars & Jeeps (1001 cc to 1500 cc) Trucks not exceeding 5 tones.
65	15	Motorcycles.
75	4	Cars & Jeeps (1501 cc to 1800 cc).
90	16	Alcoholic beverages
100	15	Cars & Jeeps above 1800cc
Specific	47	Mostly on edible oils, betel leaves, mobile phone, silver and gold.
Total	**7018**	

Source: Budget Section, customs wing, FBR

Applied Vs Bound Tariff Rates

Customs duty that is actually charged on imports is applied tariff rate. This can be below the bound rate prescribed by WTO. On the other hand, bound rates are the rates which restrict the governments not to increase the rates beyond an agreed level. Pakistan has achieved binding coverage of 98.7% for all tariff lines while 99% for non-agriculture. Pakistan is well placed in terms of bound rates as evident from Graph 1 that applied rates are exceedingly lower than the bound rates. This reflects the resolve of the government of Pakistan to meet the international obligations.

Graph 1: A comparison of Simple Average Bound and Applied Rates in Pakistan



Source: Based on World Tariff Profiles 2014

Simple Average Tariff [19]

Simple average tariff is a useful measure of degree of protection and is simply the mean of tariff in a country or region tariff schedule as whole or part of it. It illustrates the level of protection applied by a country or region, on average. Higher average tariff signifies higher protection and lower values reflect less protected economy.

South Asia is the most protected region of the world. Pakistan provides higher protection than all the south Asian countries except Maldives. Pakistan simple mean tariff is even higher than low Income Countries both in primary products and manufactured products. A comparison of Pakistan and selected countries/regions is spotlighted in Table 3.

[19]Although this measure has some drawbacks as it does not take into account the significance of various products like high tariff on insignificant products might overstate the degree of protection, but still is widely used as measure of protection.

Table 3: Simple Mean Tariff (%) - Cross Country Comparioon

Countries	**All Products**	**Primary Products**	**Manufactured Products**
High Income Countries	3.9	5.0	3.7
Low Income countries	11.5	13.2	11.3
South Asia	13.2	16.5	12.7
Pakistan	14.8	14.5	14.8
India	11.5	20.0	10.2
Sri Lanka	8.7	15.8	7.9
Bangladesh	13.9	16.3	13.6
Nepal	12.6	13.3	12.4
Maldives	21.7	17.5	22.8
Thailand	11.2	15.9	10.5
Malaysia	6.8	10.1	6.0
Turkey	2.5	13.9	1.2

Source: World Development Indicators 2014

It is evident form Table 4 that average tariff rate for agricultural sector in Pakistan is quite low as compared to India, Sri Lanka and Bangladesh. It implies that Pakistan has exhibited greater liberalization of agriculture sector. India provides higher protection to the agriculture sector in South Asia. On the other hand, Pakistan average tariff for non-agriculture sector is lower than Bangladesh while higher than India, Sri Lanka and Nepal.

Table 4: Average Tariff (%) in South Asian Countries

Sectors	**Pakistan**	**India**	**Sri Lanka**	**Bangladesh**	**Nepal**
Agriculture	15.4	33.5	25.7	16.8	13.8
Non-Agriculture	13.2	10.2	7.5	13.4	12.0

Source: World Tariff Profiles, 2014,

Dispersion of Tariff-Cross Country Comparison[20]

In order to know the comparison of the consistency of tariff, a measure called co-efficient of variation is used. Coefficient of variation is the measure of variability of the data. When the value of coefficient of variation is higher, it means that the data has high variability and less stability. When the value of coefficient of variation is lower, it means the data has less variability and high stability.

Higher the co-efficient of variation, lower will be the consistency in the tariff. According to Table 5, there is a great amount of dispersion in tariff in case of India, Sri Lanka, Thailand, Malaysia and Turkey. On the other hand, Pakistan, Nepal and Bangladesh fall in consistent tariff category.

Table 5: Co-efficient of Variation of Tariff-Cross Country Comparison

Countries	Co-efficient of Variation
Pakistan	83
India	125
Sri Lanka	157
Bangladesh	67
Nepal	84
Thailand	143
Malaysia	300
Turkey	220

Source: World Tariff Profiles 2014

Transformation of Tariff Lines From Higher to Lower Tariff slabs

Another change within the customs duty framework in Pakistan has been the drifting down of commodities from high tariff slabs to lower slabs. This change was essential to have proper cascading between primary, semi-manufactured and manufactured products. The evidence from Table 6 confirms that until 2000-01, no commodity was subjected to 5% rate of duty. However, it was introduced in 2001-02 and covered $1/5^{th}$ of total tariff lines and this share had gone up to $1/3^{rd}$ or more of total tariff lines since 2006-07 to 2014-15. Moreover, the shares of tariff lines

[20] Co-efficient of Variation is often abbreviated as C.V and is expressed as the ratio of Standard Deviation and Mean.

for slabs 10%, 15% and 20% have come down enormously with the passage of time. The proportion of tariff lines facing tariff of 25% has also declined from around 24% in 2005-06 to 16% in 2013-14 but increased sharply to 21% mainly due to abolition of higher slab of 30%.

Table 6 : Trends in the Composition of Tariff Lines(%)

Tariff Band	95-96	00-01	01-02	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
0%								6	6	6	7	7	7	6	
1%															6
5%			10	18	25	39	39	36	37	36	36	36	36	33	33
10%	3	26	32	27	23	14	13	13	14	14	14	14	15	14	14
15%	7	8	0	14	15	3	6	7	7	7	7	7	7	7	7
20%	3	0	17	39	34	13	13	14	14	14	14	14	14	13	13
25%	11	19	0	0	0	24	21	21	17	17	17	17	17	16	21
Sub	23	53	59	98	97	93	92	98	95	95	95	95	95	89	94
Other	77	47	41	2	3	7	8	2	5	5	5	5	5	11	6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Author calculations on the basis of tariff line provided by DR&S

A 0% slab which was created during 2007-08 which was abolished and instead new slab of 1% has also been created in the Budget 2014-15. Moreover, tariff peaks have also been curtailed. These tariff peaks apply mainly to the automobile sector and beverages**.** Only 382 tariff lines (tariff peaks) are higher than maximum rate of duty @25% constituting only 5.4% of the total tariff lines.

As far as specific duty rates are concerned, these have been concentrated mainly in edible oils (Chapter 15) of the customs tariff. There are 47 tariff lines subject to the specific rates and their effective duty rates are extremely higher and may correspond to tariff peaks as well. *Ad valorem* rates are quite easy to administer and there is a need to transform them into *ad valorem* duty rates.

Revenue Foregone in Customs Duties

Exemptions/concessions of customs duties have been granted in the form of SROs as well which also entails revenue foregone. A huge amount of Rs. 132 billion has been estimated as cost of exemptions for 2013-14 on account of customs duties which was 54% of the actual collection of customs duties.

An attempt has been made to compile chapter-wise cost of exemptions on account of customs provided through SROs during 2014-15[21]. Similarly, chapter-wise details in case of India were also retrieved for 2013-14. For apple to apple comparison, the shares of major cost of exemptions in both the countries calculated and presented in Table 7.

Chapter-wise structure of cost of exemption reveals vast divergence of policy in Pakistan and India. For instance, Pakistan has foregone more than 1/5th of revenue from exemptions granted to the automobile (Ch: 87) against only 0.7% in India. Top cost of exemption in India pertains to mainly POL products and other fuels (Ch: 27) i.e. 27.5% while it is only 11.6% in Pakistan. On the other hand, significant share of 24.8% relates to machinery in overall revenue foregone almost double than India. In Pakistan, other major cost of exemptions shares goes to iron and steel, edible oils, organic chemicals etc. On the other hand, apart from POL products, India's other major cost of exemptions were related to precious stones/metals (Ch: 71), edible oils (Ch: 15) etc.

[21] *Instead of 2013-14, the chapter-wise cost of exemption has been taken because some of the SROs have been withdrawn in the Budget 2014-15. The comparison with India would have not been upto the mark if the impact of these SROs is ignored.*

Table 7: India Vs Pakistan: Chapter-wise Shares (%) of Revenue Foregone

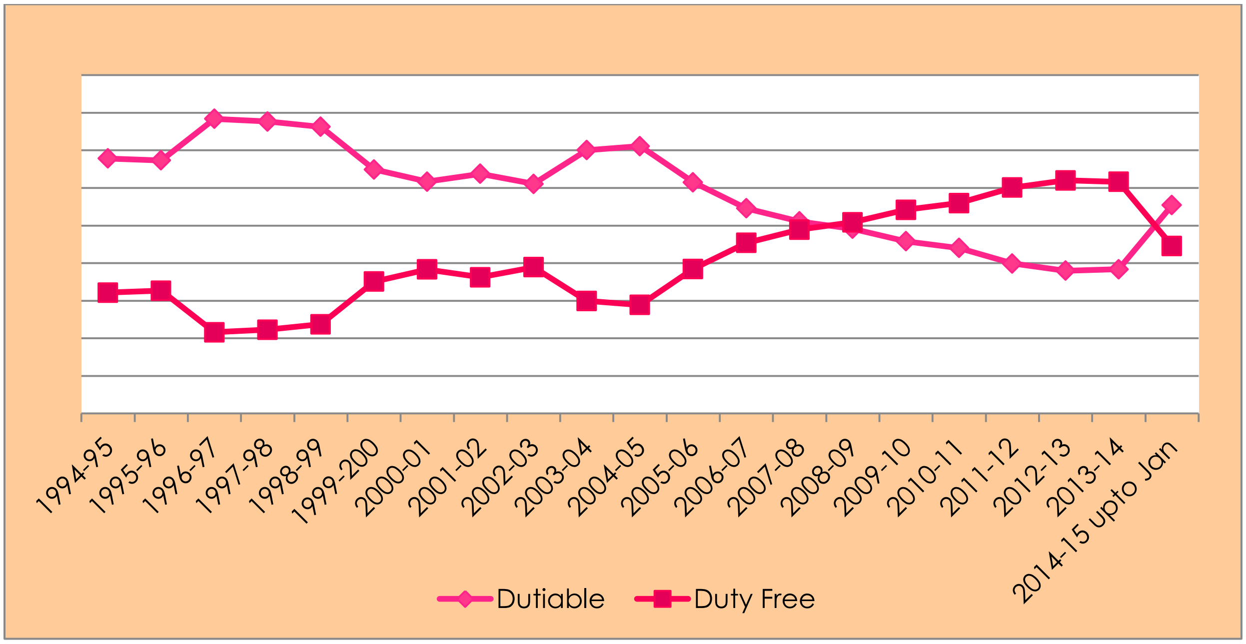
Chapters	Description	Pakistan 2014-15	India 2013-14
87	**Vehicles**	**22.0**	**0.7**
84	**Mechanical Machinery**	**12.6**	**5.8**
85	**Mechanical Machinery**	**12.2**	**4.9**
27	**POL Products etc**	**11.6**	**27.5**
71	**Precious Stones/Metals**	**0.1**	**17.2**
15	**Edible oils etc**	**2.5**	**13.2**
72	**Iron & Steel**	**3.4**	**2.2**
29	**Organic Chemicals**	**3.3**	**4.1**
73	Articles of Iron and Steel	3.1	0.9
58	Woven Fibers	0.5	3.7
23	Food Industries Residues/Waste	2.0	0.1
54	Textile Materials	0.6	3.1
39	Plastic Resins etc.	2.0	1.3
48	Paper & Paperboard	1.6	0.5
10	Cereals	1.6	0
38	Misc Chemical products	1.5	0.7
96	Misc Manufactured Articles	1.5	0.5
30	Pharmaceutical Products	1.4	0.4
08	Edible Fruits & Nuts	1.2	0.7
28	Organic/Inorganic Chemicals	1.0	1.5
90	Optical Photographic	1.1	1.4
40	Rubber Products	0.8	0.9
94	Furniture, Mattresses	0.9	0.1
55	Staple Fibres	0.9	0.3
	Sub Total	89.4	91.3
	Others	10.6	8.7
	Total	**100.0**	**100.0**

Source: Pakistan: Author calculations based on
i) PRALdata on cost of exemptions during 2014-15 upto February
ii) Receipts Budget, India 2013-14.

Composition of Imports—Dutiable Vs Duty Free

During 1994-95, the share of dutiable imports was around 70% while remaining was duty free. From 2008-09 to 2013-14, duty free imports were higher than dutiable imports. Now the situation has changed which is evident from Graph 2 that share of dutiable imports has started to pick up strongly during 2014-15. This reversal is attributable to abolition of 0% slab and withdrawal of exemptions through some SROs in the Budget 2014-15 which has resulted in increased share of dutiable imports.

Graph 2: Shares of Dutiable and Duty Free Imports In Total Imports



Revenue foregone due to exemptions/concessions from customs duties was estimated at Rs. 132 billion during 2013-14. These exemptions also included specific concessions/exemptions to various countries/regions etc. Cost of exemptions for these regions/countries etc was Rs. 27 billion out of which Rs 22 billion relates to China. The Government of Pakistan is working on three years plan for elimination of concessions/exemptions. First set of exemptions/concessions relating to customs has already been withdrawn during Budget 2014-15.

Conclusion

Pakistan has made efforts to reform its tariff for greater trade liberalization. The tariff was slashed down significantly in the 90s and 2000s. Not only that slabs have also been reduced considerably and tariff lines have been drifted from higher tariff to lower tariff slabs. The import was improved to a great extent due to liberalization policy but export could not signal marked improvement. So Pakistan could not achieve high level of trade intensity as compared to countries like India. On the other hand, encouraging side of trade liberalization is that tariff reduction has cast welfare enhancing impact on the household income, increased labour and capital as well (Rizwana and Zafar Iqbal 2001).

Pakistan has not only harmonized its tariff in accordance with WTO but also well placed in terms of coverage of bound tariff. Moreover, most of the tariff is below the bound tariff which reflects the resolve of the Government of Pakistan in fulfilling the international commitments. The structure of tariff reflects that although there is a considerable dispersion but still even consistent than Turkey, India and Sri Lanka.

Despite large scale tariff rationalization, Pakistan still has average tariff rates for non-agricultural products higher than countries of the region like India and Sri Lanka. Simple mean tariff in Pakistan is higher than South Asia region and even higher than average of low income countries of the world. For greater competition and achieving higher trade intensity, Pakistan will have to slash down its maximum tariff to 15% and eventually to 10% in the second stage. Although Pakistan has low average tariff for agriculture but manufacturing sector tariff is comparatively higher.

One of the serious issues surfaced during last many years was the unprecedented surge in the duty free import which surpassed dutiable imports from 2008-09 to 2013-14. But due to withdrawal of various SROs during 2014-15 and abolition of 0% slabs has increased the share of dutiable imports to a great extent. It is hoped that the trend will continue in the next two years.

A huge amount of revenue foregone due to exemptions/concessions from customs duties has been estimated when viewed in the context of resource shortage with the government. A three year program of withdrawal of exemptions has been chalked out and first set of exemptions has already been withdrawn. The cost of exemptions in Pakistan has mostly been concentrated in automobile, machinery, iron and steel etc. On the other hand, Indian priority on exemptions from customs duties is in the petroleum, precious stones/metals, edible oils etc.

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Statistical Tables

Comparative statements of

Month-to-Month and Progressive

Collection for the period (July-December, 2014-15 and 2013-14 full year)

Collection of Federal Taxes 2014-15 Vs. 2013-14

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Goss	Reb/Ref	Net	Goss	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**
JULY	M	134,159	9,899	124,260	135,503	11,246	124,257	-1,344	-1,347	3	-1.0	-12.0	0.0
AUGUST	M	188,808	9,882	178,926	156,216	8,995	147,221	32,592	887	31,705	20.9	9.9	21.5
	P	**322,967**	**19,781**	**303,186**	**291,719**	**20,241**	**271,478**	**31,248**	**-460**	**31,708**	**10.7**	**-2.3**	**11.7**
SEPTEMBER	M	245,852	11,155	234,697	210,149	6,271	203,878	35,703	4,884	30,819	17.0	77.9	15.1
1st Quarter		**568,819**	**30,936**	**537,883**	**501,868**	**26,512**	**475,356**	**66,951**	**4,424**	**62,527**	**13.3**	**16.7**	**13.2**
OCTOBER	M	192,372	9,508	182,864	160,141	6,815	153,326	32,231	2,693	29,538	20.1	39.5	19.3
	P	**761,191**	**40,444**	**720,747**	**662,009**	**33,327**	**628,682**	**99,182**	**7,117**	**92,065**	**15.0**	**21.4**	**14.6**
NOVEMBER	M	188,679	7,774	180,905	181,845	10,651	171,194	6,834	-2,877	9,711	3.8	-27.0	5.7
	P	**949,870**	**48,218**	**901,652**	**843,854**	**43,978**	**799,876**	**106,016**	**4,240**	**101,776**	**12.6**	**9.6**	**12.7**
DECEMBER	M	280,575	10,290	270,285	244,085	12,545	231,540	36,490	-2,255	38,745	14.9	-18.0	16.7
2nd Quarter		**661,626**	**27,572**	**634,054**	**586,071**	**30,011**	**556,060**	**75,555**	**-2,439**	**77,994**	**12.9**	**-8.1**	**14.0**
Upto 2nd Qtr		**1,230,445**	**58,508**	**1,171,937**	**1,087,939**	**56,523**	**1,031,416**	**142,506**	**1,985**	**140,521**	**13.1**	**3.5**	**13.6**
JANUARY	M				177,788	11,871	165,917						
	P				**1,265,727**	**68,394**	**1,197,333**						
FEBRUARY	M				168,657	5,409	163,248						
	P				**1,434,384**	**73,803**	**1,360,581**						
MARCH	M				221,811	7,693	214,118						
3rd Quarter					**568,256**	**24,973**	**543,283**						
Upto 3rd Qtr					**1,656,195**	**81,496**	**1,574,699**						
APRIL	M				178,098	7,878	170,220						
	P				**1,834,293**	**89,374**	**1,744,919**						
MAY	M				219,742	11,556	208,186						
	P				**2,054,035**	**100,930**	**1,953,105**						
JUNE	M				305,327	3,900	301,427						
4th Quarter					**703,167**	**23,334**	**679,833**						
Annual					**2,359,364**	**104,832**	**2,254,532**						

(*) M- Monthly, P-Progressive

DIRECT TAXES

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	42,096	7,718	34,378	38,923	8,178	30,745	3,173	-460	3,633	8.2	-5.6	11.8
AUGUST	M	58,141	7,105	51,036	47,123	2,549	44,574	11,018	4,556	6,462	23.4	178.7	14.5
	P	**100,237**	**14,823**	**85,414**	**86,046**	**10,727**	**75,319**	**14,191**	**4,096**	**10,095**	**16.5**	**38.2**	**13.4**
SEPTEMBER	M	108,185	3,905	104,280	89,591	3,181	86,410	18,594	724	17,870	20.8	22.8	20.7
1st Quarter		**208,422**	**18,728**	**189,694**	**175,637**	**13,908**	**161,729**	**32,785**	**4,820**	**27,965**	**18.7**	**34.7**	**17.3**
OCTOBER	M	68,502	1,589	66,913	53,513	3,047	50,466	14,989	-1,458	16,447	28.0	-47.9	32.6
	P	**276,924**	**20,317**	**256,607**	**229,150**	**16,955**	**212,195**	**47,774**	**3,362**	**44,412**	**20.8**	**19.8**	**20.9**
NOVEMBER	M	68,344	3,249	65,095	66,308	7,518	58,790	2,036	-4,269	6,305	3.1	-56.8	10.7
	P	**345,268**	**23,566**	**321,702**	**295,458**	**24,473**	**270,985**	**49,810**	**-907**	**50,717**	**16.9**	**-3.7**	**18.7**
DECEMBER	M	144,159	6,934	137,225	119,048	8,050	110,998	25,111	-1,116	26,227	21.1	-13.9	23.6
2nd Quarter		**281,005**	**11,772**	**269,233**	**238,869**	**18,615**	**220,254**	**42,136**	**-6,843**	**48,979**	**17.6**	**-36.8**	**22.2**
Upto 2nd Qtr		**489,427**	**30,500**	**458,927**	**414,506**	**32,523**	**381,983**	**74,921**	**-2,023**	**76,944**	**18.1**	**-6.2**	**20.1**
JANUARY	M				64,493	7,575	56,918						
	P				**478,999**	**40,098**	**438,901**						
FEBRUARY	M				64,031	2,880	61,151						
	P				**543,030**	**42,978**	**500,052**						
MARCH	M				103,996	5,219	98,777						
3rd Quarter					**232,520**	**15,674**	**216,846**						
Upto 3rd Qtr					**647,026**	**48,197**	**598,829**						
APRIL	M				61,921	2,686	59,235						
	P				**708,947**	**50,883**	**658,064**						
MAY	M				87,053	9,255	77,798						
	P				**796,000**	**60,138**	**735,862**						
JUNE	M				144,966	3,573	141,393						
4th Quarter					**293,940**	**15,514**	**278,426**						
Annual					**940,966**	**63,711**	**877,255**						

SALES TAX (TOTAL)

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	70,461	1,045	69,416	72,649	2,536	70,113	-2,188	-1,491	-697	-3.0	-58.8	-1.0
AUGUST	M	97,990	1,694	96,296	82,820	5,088	77,732	15,170	-3,394	18,564	18.3	-66.7	23.9
	P	**168,451**	**2,739**	**165,712**	**155,469**	**7,624**	**147,845**	**12,982**	**-4,885**	**17,867**	**8.4**	**-64.1**	**12.1**
SEPTEMBER	M	98,684	6,190	92,494	90,522	2,531	87,991	8,162	3,659	4,503	9.0	144.6	5.1
1st Quarter		**267,135**	**8,929**	**258,206**	**245,991**	**10,155**	**235,836**	**21,144**	**-1,226**	**22,370**	**8.6**	**-12.1**	**9.5**
OCTOBER	M	86,802	7,169	79,633	78,550	2,596	75,954	8,252	4,573	3,679	10.5	176.2	4.8
	P	**353,937**	**16,098**	**337,839**	**324,541**	**12,751**	**311,790**	**29,396**	**3,347**	**26,049**	**9.1**	**26.2**	**8.4**
NOVEMBER	M	86,717	3,792	82,925	85,683	2,512	83,171	1,034	1,280	-246	1.2	51.0	-0.3
	P	**440,654**	**19,890**	**420,764**	**410,224**	**15,263**	**394,961**	**30,430**	**4,627**	**25,803**	**7.4**	**30.3**	**6.5**
DECEMBER	M	95,786	2,793	92,993	90,437	3,714	86,723	5,349	-921	6,270	5.9	-24.8	7.2
2nd Quarter		**269,305**	**13,754**	**255,551**	**254,670**	**8,822**	**245,848**	**14,635**	**4,932**	**9,703**	**5.7**	**55.9**	**3.9**
Upto 2nd Qtr		**536,440**	**22,683**	**513,757**	**500,661**	**18,977**	**481,684**	**35,779**	**3,706**	**32,073**	**7.1**	**19.5**	**6.7**
JANUARY	M				83,548	3,379	80,169						
	P				**584,209**	**22,356**	**561,853**						
FEBRUARY	M				75,469	1,714	73,755						
	P				**659,678**	**24,070**	**635,608**						
MARCH	M				83,012	1,827	81,185						
3rd Quarter					**242,029**	**6,920**	**235,109**						
Upto 3rd Qtr					**742,690**	**25,897**	**716,793**						
APRIL	M				82,992	4,626	78,366						
	P				**825,682**	**30,523**	**795,159**						
MAY	M				95,090	1,747	93,343						
	P				**920,772**	**32,270**	**888,502**						
JUNE	M				107,994	114	107,880						
4th Quarter					**286,076**	**6,487**	**279,589**						
Annual					**1,028,766**	**32,384**	**996,382**						

SALES TAX (IMPORTS)

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	38,305	1	38,304	37,918	2	37,916	387	-1	388	1.0	-50.0	1.0
AUGUST	M	51,690	4	51,686	40,148	0	40,148	11,542	4	11,538	28.7	#DIV/0!	28.7
	P	**89,995**	**5**	**89,990**	**78,066**	**2**	**78,064**	**11,929**	**3**	**11,926**	**15.3**	**150.0**	**15.3**
SEPTEMBER	M	52,200	2	52,198	43,594	2	43,592	8,606	0	8,606	19.7	0.0	19.7
1st Quarter		**142,195**	**7**	**142,188**	**121,660**	**4**	**121,656**	**20,535**	**3**	**20,532**	**16.9**	**75.0**	**16.9**
OCTOBER	M	45,218	0	45,218	40,601	4	40,597	4,617	-4	4,621	11.4	-100.0	11.4
	P	**187,413**	**7**	**187,406**	**162,261**	**8**	**162,253**	**25,152**	**-1**	**25,153**	**15.5**	**-12.5**	**15.5**
NOVEMBER	M	43,407	46	43,361	44,263		44,263	-856	46	-902	-1.9	#DIV/0!	-2.0
	P	**230,820**	**53**	**230,767**	**206,524**	**8**	**206,516**	**24,296**	**45**	**24,251**	**11.8**	**562.5**	**11.7**
DECEMBER	M	43,999	0	43,999	40,165	1	40,164	3,834	-1	3,835	9.5	-100.0	9.5
2nd Quarter		**132,624**	**46**	**132,578**	**125,029**	**5**	**125,024**	**7,595**	**41**	**7,554**	**6.1**	**820.0**	**6.0**
Upto 2nd Qtr		**274,819**	**53**	**274,766**	**246,689**	**9**	**246,680**	**28,130**	**44**	**28,086**	**11.4**	**488.9**	**11.4**
JANUARY	M				41,784	2	41,782						
	P				**288,473**	**11**	**288,462**						
FEBRUARY	M				35,704	2	35,702						
	P				**324,177**	**13**	**324,164**						
MARCH	M				35,615	0	35,615						
3rd Quarter					**113,103**	**4**	**113,099**						
Upto 3rd Qtr					**359,792**	**13**	**359,779**						
APRIL	M				41,498	1	41,497						
	P				**401,290**	**14**	**401,276**						
MAY	M				47,164	2	47,162						
	P				**448,454**	**16**	**448,438**						
JUNE	M				46,897	5	46,892						
4th Quarter					**135,559**	**8**	**135,551**						
Annual					**495,351**	**21**	**495,330**						

SALES TAX (DOMESTIC)

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	32,156	1,044	31,112	34,731	2,534	32,197	-2,575	-1,490	-1,085	-7.4	-58.8	-3.4
AUGUST	M	46,300	1,690	44,610	42,672	5,088	37,584	3,628	-3,398	7,026	8.5	-66.8	18.7
	P	**78,456**	**2,734**	**75,722**	**77,403**	**7,622**	**69,781**	**1,053**	**-4,888**	**5,941**	**1.4**	**-64.1**	**8.5**
SEPTEMBER	M	46,484	6,188	40,296	46,928	2,529	44,399	-444	3,659	-4,103	-0.9	144.7	-9.2
1st Quarter		**124,940**	**8,922**	**116,018**	**124,331**	**10,151**	**114,180**	**609**	**-1,229**	**1,838**	**0.5**	**-12.1**	**1.6**
OCTOBER	M	41,584	7,169	34,415	37,949	2,592	35,357	3,635	4,577	-942	9.6	176.6	-2.7
	P	**166,524**	**16,091**	**150,433**	**162,280**	**12,743**	**149,537**	**4,244**	**3,348**	**896**	**2.6**	**26.3**	**0.6**
NOVEMBER	M	43,310	3,746	39,564	41,420	2,512	38,908	1,890	1,234	656	4.6	49.1	1.7
	P	**209,834**	**19,837**	**189,997**	**203,700**	**15,255**	**188,445**	**6,134**	**4,582**	**1,552**	**3.0**	**30.0**	**0.8**
DECEMBER	M	51,787	2,793	48,994	50,272	3,713	46,559	1,515	-920	2,435	3.0	-24.8	5.2
2nd Quarter		**136,681**	**13,708**	**122,973**	**129,641**	**8,817**	**120,824**	**7,040**	**4,891**	**2,149**	**5.4**	**55.5**	**1.8**
Upto 2nd Qtr		**261,621**	**22,630**	**238,991**	**253,972**	**18,968**	**235,004**	**7,649**	**3,662**	**3,987**	**3.0**	**19.3**	**1.7**
JANUARY	M				41,764	3,377	38,387						
	P				**295,736**	**22,345**	**273,391**						
FEBRUARY	M				39,765	1,712	38,053						
	P				**335,501**	**24,057**	**311,444**						
MARCH	M				47,397	1,827	45,570						
3rd Quarter					**128,926**	**6,916**	**122,010**						
Upto 3rd Qtr					**382,898**	**25,884**	**357,014**						
APRIL	M				41,494	4,625	36,869						
	P				**424,392**	**30,509**	**393,883**						
MAY	M				47,926	1,745	46,181						
	P				**472,318**	**32,254**	**440,064**						
JUNE	M				61,097	109	60,988						
4th Quarter					**150,517**	**6,479**	**144,038**						
Annual					**533,415**	**32,363**	**501,052**						

FEDERAL EXCISE

(Rs Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	3,687	0	3,687	7,115	1	7,114	-3,428	-1	-3,427	-48.2	-	-48.2
AUGUST	M	9,918	0	9,918	8,913	0	8,913	1,005	0	1,005	11.3	-	11.3
	P	**13,605**	**0**	**13,605**	**16,028**	**1**	**16,027**	**-2,423**	**-1**	**-2,422**	**-15.1**	**-**	**-15.1**
SEPTEMBER	M	11,855	0	11,855	9,353	0	9,353	2,502	0	2,502	26.8	#DIV/0!	26.8
1st Quarter		**25,460**	**0**	**25,460**	**25,381**	**1**	**25,380**	**79**	**-1**	**80**	**0.3**	**-100.0**	**0.3**
OCTOBER	M	14,492		14,492	10,457		10,457	4,035	0	4,035	38.6	-	38.6
	P	**39,952**	**0**	**39,952**	**35,838**	**1**	**35,837**	**4,114**	**-1**	**4,115**	**11.5**	**-**	**11.5**
NOVEMBER	M	10,958	0	10,958	10,498	0	10,498	460	0	460	4.4	#DIV/0!	4.4
	P	**50,910**	**0**	**50,910**	**46,336**	**1**	**46,335**	**4,574**	**-1**	**4,575**	**9.9**	**-100.0**	**9.9**
DECEMBER	M	13,046	0	13,046	11,327	1	11,326	1,719	-1	1,720	15.2	-100.0	15.2
2nd Quarter		**38,496**	**0**	**38,496**	**32,282**	**1**	**32,281**	**6,214**	**-1**	**6,215**	**19.2**	**-100.0**	**19.3**
Upto 2nd Qtr		**63,956**	**0**	**63,956**	**57,663**	**2**	**57,661**	**6,293**	**-2**	**6,295**	**10.9**	**-100.0**	**10.9**
JANUARY	M				9,899	0	9,899						
	P				**67,562**	**2**	**67,560**						
FEBRUARY	M				10,467	0	10,467						
	P				**78,029**	**2**	**78,027**						
MARCH	M				11,787	0	11,787						
3rd Quarter					**32,153**	**0**	**32,153**						
Upto 3rd Qtr					**89,816**	**2**	**89,814**						
APRIL	M				14,211	0	14,211						
	P				**104,027**	**2**	**104,025**						
MAY	M				15,876	0	15,876						
	P				**119,903**	**2**	**119,901**						
JUNE	M				18,183	0	18,183						
4th Quarter					**48,270**	**0**	**48,270**						
Annual					**138,086**	**2**	**138,084**						

C U S T O M S

(Rs. Million)

MONTHS	M/P	Collection											
		FY 2014-15			FY 2013-14			COMPARISON			Growth (%)		
		Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net	Gross	Reb/Ref	Net
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
JULY	M	17,915	1,136	16,779	16,816	531	16,285	1,099	605	494	6.5	113.9	3.0
AUGUST	M	22,759	1,083	21,676	17,360	1,358	16,002	5,399	-275	5,674	31.1	-20.3	35.5
	P	**40,674**	**2,219**	**38,455**	**34,176**	**1,889**	**32,287**	**6,498**	**330**	**6,168**	**19.0**	**17.5**	**19.1**
SEPTEMBER	M	27,128	1,060	26,068	20,683	559	20,124	6,445	501	5,944	31.2	89.6	29.5
1st Quarter		**67,802**	**3,279**	**64,523**	**54,859**	**2,448**	**52,411**	**12,943**	**831**	**12,112**	**23.6**	**33.9**	**23.1**
OCTOBER	M	22,576	750	21,826	17,621	1,172	16,449	4,955	-422	5,377	28.1	-36.0	32.7
	P	**90,378**	**4,029**	**86,349**	**72,480**	**3,620**	**68,860**	**17,898**	**409**	**17,489**	**24.7**	**11.3**	**25.4**
NOVEMBER	M	22,660	733	21,927	19,356	621	18,735	3,304	112	3,192	17.1	18.0	17.0
	P	**113,038**	**4,762**	**108,276**	**91,836**	**4,241**	**87,595**	**21,202**	**521**	**20,681**	**23.1**	**12.3**	**23.6**
DECEMBER	M	27,584	563	27,021	23,273	780	22,493	4,311	-217	4,528	18.5	-27.8	20.1
2nd Quarter		**72,820**	**2,046**	**70,774**	**60,250**	**2,573**	**57,677**	**12,570**	**-527**	**13,097**	**20.9**	**-20.5**	**22.7**
Upto 2nd Qtr		**140,622**	**5,325**	**135,297**	**115,109**	**5,021**	**110,088**	**25,513**	**304**	**25,209**	**22.2**	**6.1**	**22.9**
JANUARY	M				19,848	917	18,931						
	P				**134,957**	**5,938**	**129,019**						
FEBRUARY	M				18,690	815	17,875						
	P				**153,647**	**6,753**	**146,894**						
MARCH	M				23,016	647	22,369						
3rd Quarter					**61,554**	**2,379**	**59,175**						
Upto 3rd Qtr					**176,663**	**7,400**	**169,263**						
APRIL	M				18,974	566	18,408						
	P				**195,637**	**7,966**	**187,671**						
MAY	M				21,723	554	21,169						
	P				**217,360**	**8,520**	**208,840**						
JUNE	M				34,184	213	33,971						
4th Quarter					**74,881**	**1,333**	**73,548**						
Annual					**251,544**	**8,733**	**242,811**						