



# PROPOSALS/RECOMMENDATIONS FOR FEDERAL BUDGET 2021-22

## Abstract

A set of recommendations that has been developed by SMEDA are based on the inputs received from stakeholders across Pakistan, for consideration in the Federal Budget 2021-22.

Small and Medium Enterprises Development Authority (SMEDA)

## Proposals/Recommendations for Federal Budget 2021-22

Small and Medium Enterprises (SME) Sector is a dynamic sector of Pakistan’s economy. More than 90% of enterprises in Pakistan are SMEs and their total number is estimated to be 5.2 million. Importance of the sector can be assessed from the fact that, SMEs contribute an estimated 40% to Pakistan’s GDP and 25% to exports. In view of the importance of SME sector to the national economy, there is a need to support small and medium sized businesses by providing fiscal incentives in the area of taxation, export promotion, technical up-gradation, marketing, financial and human resource training & development, etc. to overcome size and scale related impediments. Furthermore, in order to promote formalization of businesses, registration procedures may be simplified and tax incentive may be provided. SMEs have been burdened with indirect taxes more particularly those who are regularly filing their income tax returns. Instead of putting additional burden on existing taxpayers, there is a need to bring more people into the tax net. Support from the Government has become critical to mitigate impact of COVID-19 on SMEs productivity, employment and exports. Given below are a set of recommendations developed in consultation with stakeholders across Pakistan, for consideration for inclusion in the Federal Budget 2021-2022:

Sr.	Baseline Situation	Proposed Recommendation	Justification	Expected Impact	Source of Recommendation
<b>Direct and Indirect Taxes</b>					
1.	According to the Doing Business Report 2020, an average businessman in Pakistan pays 34 different taxes. Most SMEs lack capability to fulfil legal, regulatory documentation and compliance requirements.	Special and differential treatment in matters of taxation, rules and regulations for promoting Small to Medium Enterprises (SMEs) should be developed. Number of taxes paid by SMEs be reduced.	In Malaysia, Turkey and India the number of taxes is only 9, 10 and 12 respectively, that is much lower than Pakistan. <sup>1</sup>	Rationalization of total number of taxes paid and documentation procedures will result in encouraging businesses towards formalization and resultantly lead to higher revenue collection.	SMEDA Pre Budget Consultative Session with Stakeholders
2.	Currently, Income tax exemption threshold for	<ul style="list-style-type: none"> <li>It is proposed that the income tax exemption threshold may be</li> </ul>	Market depreciation of Rupee and inflation have negative impact on business growth. In	There is a need to provide level playing field to SME sector.	SMEDA Federal Budget Consultative Sessions

<sup>1</sup> World Bank Doing Business Report 2020

	<p>Association of Person (AoPs) is PKR 0.4 Million</p> <p>Furthermore, Tax rates regarding AOPs and Company are too high which vary from 5% to 35% in case of AOP and 29% in case of company.</p> <p>Currently, 22% corporate tax is applicable on small companies.</p>	<p>enhanced to PKR 1 Million for AoPs.</p> <ul style="list-style-type: none"> <li>Corporate tax for SMEs may be reduced from 22% to 20%.</li> </ul>	<p>Bangladesh, SMEs having turnover up to Tk. 5 million (PKR 9.3 million) are exempted from income tax.</p> <p>In order to provide level playing field to small companies to improve their international competitiveness, there is need to further reduce rate of income tax for small companies. For example, in Pakistan, Small companies are paying 22% corporate tax that is greater 14% in Sri Lanka<sup>2</sup> and 17% in Malaysia<sup>3</sup></p>	<p>Relaxation in taxes will encourage the taxpayers to pay their due taxes and will also discourage tax avoidance, ultimately broadening the tax net.</p>	<p>Bahawalpur Chamber of Commerce and Industry</p>
3.	<p>Government introduced Final Tax Regime under which income tax was fixed @ 0.50% of the export sales realized by the banks, which was subsequently enhanced to 1%. FBR has recently discontinued this facility from the exporters by withdrawing the option to file return u/s 115(4) of the Income Tax Ordinance, 2001.</p>	<p>It is proposed that Final Tax Regime for the export industry in the SME sector may be restored.</p>	<p>SME exporters had been facing several issues with Tax department regarding assessment of their tax liability in the past. The Government had taken into consideration the problems faced by the SME exporters and had accepted the demand of the exporters in 1991 to treat export realizations under Final Tax Regime.</p>	<p>Ease of doing business will be provided to SME exporters.</p>	<p>Sialkot Chamber of Commerce and Industry</p>

<sup>2</sup> <https://taxsummaries.pwc.com/sri-lanka/corporate/taxes-on-corporate-income>

<sup>3</sup> <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-malaysiahighlights-2020.pdf>

			Blanket withdrawal of final tax regime irrespective of the size of the firm is likely to increase cost of doing business of SMEs inasmuch as they would have to incur expenses for engaging service providers/accountants for computation of income and expenditures, filing of normal returns apart from facing difficulties in availability of working capital due to potential delay in release of refunds.		
4.	Currently, rate of income tax withheld at source at the time of realization of export proceeds is 1%.	It is proposed that rate of deduction at source at the time of realization of export proceeds should be reduced from 1% to 0.5% for SMEs for next three years to extend relief to the industry.	Currently, almost all sectors of the economy especially, SME exporters of Sialkot are affected due to Covid-19 pandemic. They are not only gradually losing their competitiveness in the international market due to ongoing inflation but also risk losing their business to their regional competitors. Rationalization of income tax withheld at source will improve availability of working capital.	SME exporters will be facilitated. Exports as well as foreign exchange reserves will increase.	Sialkot Chamber of Commerce and Industry

**47. Rationalization of Tariff rates for Tanning Industry (Pakistan Tanners Association):**

5.	<p>At present, local sales to DTRE license holders have been provided the benefit of sales tax zero rating, however, local supplies to Export Oriented Units (EOUs) / manufacturing bond is chargeable to sales tax @ 17%, which is an apparent anomaly between the DTRE, EOUs and Manufacturing bond rules. Moreover, local supplier of items being imported by EOU / Manufacturing Bond are unable to supply their materials owing to the fact that persons operating under EOU / Manufacturing Bond prefer to import goods as local purchase would attract 17% sales tax.</p>	<p>It is proposed that zero rating on local supply of goods may be extended to EOUs / Manufacturing Bond in line with the benefit given to DTRE license holders.</p>	<p>Federal Government through its SRO 747(I)/2019 dated July 09, 2019 has withdrawn the facility from the exporters (licensees under SRO 327(I)/2008) to obtain local input goods without payment of Sale Tax and Federal Excise against zero rated invoice issued by the local supplier. It is pertinent to mention that this facility was previously available to the exporters under Rule 10 Sub rule 1 Clause B and C of the SRO 327 (I)/2008 (Export Oriented Units).</p>	<p>It will remove unfair regulatory restriction and considering the fact that material / goods being purchased by DTRE / EOU / Manufacturing Bond are used for the purposes of exports and are subject to strict scrutiny. This will also support exports of the country.</p>	<p>Inputs for Regulatory Guillotine (Sialkot Chamber)</p>
6.	<p>FBR has withdrawn Zero Rating facility on local procurement of input goods by Export Oriented Units and SMEs through amendment in SRO 327(I)/2008 dated March 29, 2008, through SRO747(I)/2019 dated July 9, 2019. Clause (h) of SRO 747(I)/2019 has omitted Clause (b) and (c) of sub-rule (1) of rule</p>	<p>It is proposed that given Clause (b) and (c) of sub-rule (1) of rule 10 of SRO 327(I)/2008 should be restored to revive zero rating facility for Export Oriented Units for local procurement of inputs. 1. (b) The local input goods liable to sales tax shall be supplied to the</p>	<p>In Pakistan 17% sales tax is levied on local products that result in high cost of production. Revival of provision of zero-rated sales tax on local input goods reduce cost of production of local products.</p>	<p>International competitiveness of Pakistan's exports will improve.</p>	<p>Sialkot Chamber of Commerce and Industry</p>

	10 of the original SRO 327(I)/2008.	licensee against a zero-rated sales tax invoice; 2. (c) The local input goods liable to federal excise duty shall be supplied to the licensee against a zero-rated invoice;			
7.	Currently, 2% GST is levied on inputs material for construction sector under PM's package for construction sector.	It is proposed to extend this provision of 2% sales tax to marble sector as marble is widely used in construction projects.  Furthermore, higher taxes may be levied on imported marble to promote local industry and to prevent smuggling through Iran.	Level playing field should be provided to construction sector inputs.	Support will be provided to marble sector.	SMEDA Pre Budget Consultative Session with Stakeholders-Frontier mine owners association KPK
8.	1.5% Minimum Tax on turnover Under Section 113 is levied on all registered businesses.	It is proposed that rate of minimum tax be reduced for all listed and other companies to 1.0%.	Rate of Minimum tax is a major hindrance towards industrialization and business expansion.	Rationalization of Minimum tax on turnover will accelerate industrialization and business development.	SMEDA Pre Budget Consultative Session with Stakeholders  Bahawalpur Chamber of Commerce and Industry
9.	Under section 65 B, Tax credit was available to taxpayers for BMR @ 10%, up till 2019, which was reduced in Finance Bill 2019 to 5%. For FY (2020), no tax credit will be available to tax	It is proposed that 10% tax credit may be restored	Incentive to tax payers for making investments in new technologies.	Restoration of Tax credit (BMR @ 10%) may result in up-gradation of existing technology	SMEDA Pre Budget Consultative Session with Stakeholders  Pakistan Hotels Association

	payers under this section.				
10.	Currently, withholding tax of 4% to 4.5% is imposed across all sectors under u/s 153.	It is proposed that withholding tax may be rationalized for the withholding tax deduction rates may be rationalized for small and medium businesses as defined in the prudential regulations of SBP .	Withholding tax is very high for SMEs as they also pay other taxes including turnover tax, sales tax, corporate tax etc. Withholding tax constrains liquidity of SMEs.	High tax rate affects turnover and production process of small companies. Given their level of operation, reduction in taxes will increase economies of scale and competitiveness of small companies. It will also ensure availability of working capital.	Pakistan Plastic Manufacturers Association
11.	The Government is treating tea as a finished good under 12th Schedule of Income Tax table 3 u/s 148 and charging 5.50 % Advance tax at import stage. Azad Kashmir, FATA/ PATA and tea manufacturers are exempted from the tax. This causes regional disparity among tea manufacturers and importers.	It is proposed that the tea may be treated as raw material and be included in 12th schedule table 2 in order to remove regional disparity and to bring all tea manufacturers and importers in Pakistan either located at Azad Kashmir, erstwhile FATA/PATA or any other location in tax net.  Furthermore, 5.50% Advance tax imposed on tea sector may be reduced to 2%.	Internationally, black tea is treated as raw material where it is being imported in bulk packing and it has different HS codes according to its grading. As per market demand, different quality of teas are blended and mixed with the help of various machines.	Declaration of Tea as a raw material will bring tea manufacturers of Azad Kashmir and erstwhile FATA in to tax net that will result in increase in revenue. Level playing field will be provided to tea manufacturers and importers.	SMEDA Pre Budget Consultative Session with Stakeholders-  Pakistan tea Association
12.	Taxation system at federal and provincial level is complex, therefore, businesses have to fulfil various conditions to comply with tax rules and	Tax system at Federal and Provincial levels may be integrated. In this regard, one window facility may be provided to businesses to	Most SMEs spend considerable time to fulfil business related legal and regulatory requirements / documentation.	Establishment of One Window Facility to deal with such requirements will allow SMEs to comply with legal aspects of	Pakistan Hotels Association

	<p>regulations. SMEs lack capability to fulfil legal, regulatory documentation and compliance requirements related to taxation.</p> <p>Sales Tax is being charged by FBR, Punjab Revenue Authority (PRA), Sindh Revenue Authority (SRB), Balochistan Revenue Authority (BRA) and Khyber Pakhtunkhwa Revenue Authority (KPRA). Every Tax Authority (FBR, PRA, BRA and KPRA) has its different statute, rules and procedures. It is very difficult for tax payers to maintain tax compliance in this complex tax system.</p>	<p>comply with federal and provincial tax rules and regulations.</p> <p>Furthermore, a national tax authority may be considered to unify filing of returns, settlement of liabilities and harmonization of taxes to avoid double taxation.</p> <p>Taxation process may be fully automated with no human interface.</p>	<p>Currently, Business Community has to deal with around 28 federal &amp; provincial departments and institutions for regulatory and taxation purposes, which has monetary and time implications.</p>	<p>taxation without any hassle.</p>	<p>SMEDA Pre Budget Consultative Session with Stakeholders</p> <p>Pakistan Tanners Association</p> <p>Inputs for Regulatory Guillotine (Sialkot Chamber)</p>
13.	<p>Withholding Agent under Serial # 4 of the Eleventh Schedule to the Sales Tax Act, 1990, are those who collect tax on behalf of FBR and deposit in Government Accounts. Every incorporated Company is WHT Agent in Pakistan. While in case of AOP and sole Proprietor whose turnover is more than 50 Million falls in WHT Agent list.</p>	<p>It is proposed that the concept of withholding agent may be eliminated from Sales Tax Law.</p>	<p>Acting as withholding agent burdens the taxpayers with unnecessary documentation/filings and costs. Companies acting as withholding agent incur unnecessary cost and maintain large volumes of data thereby reducing ease of doing business and departing</p>	<p>Tax administrations should consider the compliance cost for business when preparing rules. Companies acting as withholding agent incur unnecessary cost and maintain large volumes of data thereby reducing ease of doing business and departing from international best practices. Therefore,</p>	<p>Inputs for Regulatory Guillotine (Sialkot Chamber)</p> <p>Karachi Iron and Steel Merchants Association</p>



			from international best practices	elimination of withholding tax agent will facilitate ease of doing business.	
14.	Huge amount of income tax refund has piled up and processing of income tax refund is critically slow. Due to delay in payment of refunds, businesses face shortage of working capital.	Pending payments for sales tax and duty drawback refunds shall be disbursed first to SMEs. One filter can be to process smaller refunds first.	Huge amount of sales tax and duty drawback refund has piled up for SMEs. Due to delay in payment of refunds, SMEs face shortage of working capital. Therefore, it is imperative to give preference to SMEs while processing refunds.	Refund payment within the stipulated time period as per law will provide much needed working capital for business to make investments. Resultantly, businesses will grow; enhancing contribution to revenue and tax collected. The size of the economy will grow. It will also facilitate creation of a business-friendly environment in the country.	National SME Policy Action Plan 2020  SMEDA Pre Budget Consultative Session with Stakeholders
15.	There is a need to rationalize withholding tax for businesses operating at SME level.	It is proposed that withholding taxes should be brought down as follows: <ul style="list-style-type: none"> <li>• On Services withholding tax rate should be 5% instead of 8%. (in case of company in Active Tax Payer list company)</li> <li>• On contracts withholding tax rate should be 5% instead of 7%. (in case of Active Tax Payer company)</li> </ul>	At SME level, most businesses buy their inputs from unregistered enterprises, hence they pay all deductions from their own pockets, instead of collecting from their suppliers that resulting in high production costs.	It will have positive impact on revenue collection.	SMEDA Pre Budget Consultative Session with Stakeholders

16.	<p>Under section 8B of the Sales Tax Act, 1990, Input Sales Tax is adjustable at 90% of output sales tax.</p> <p>Furthermore, Input tax on construction material is not allowed under section 8(1)(h) of the Sales Tax Act, 1990 except that used directly in the production or manufacture of taxable goods.</p>	<p>It is proposed that adjustable limit of Input Sales Tax may be increased to 95% of output sales in order to facilitate manufacturers.</p> <p>It is proposed that input tax adjustment may be allowed on construction material.</p>	<p>Such restriction on legitimate businesses discourages investment that further reduces economic activity.</p>	<p>Proposed amendment will have positive impact of local businesses and will promote investment in construction sector.</p>	<p>Pakistan Hotels Association</p> <p>SMEDA Pre Budget Consultative Session with Stakeholders-Quetta</p> <p>Inputs for Regulatory Guillotine (Sialkot Chamber)</p>
17.	<p>Certificate of collection or deduction of tax from withholding agents under section 164 of the Income Tax Ordinance, 2001 are not acceptable to tax authorities while processing refund claims or adjusting advance tax against tax liability. In the same way credit for tax collected and deducted under section 168 of the Income Tax Ordinance, 2001 is not being given to taxpayers unless direct verification from withholding agent is done.</p>	<p>It is proposed that tax withheld under section 164 and 168, where Computerized Payment Receipts (CPRs) are not generated (including tax deducted on vehicles, token taxes, airline tickets, utilities, Profit on debt, cash withdrawal etc.), certificates given by withholding agents should be treated as sufficient evidence of deduction of taxes for processing of refunds.</p>	<p>Refund claims of tax payers are either being delayed or large amounts of refunds become stuck due to hurdles in direct verification from withholding agents.</p>	<p>It will facilitate filing of refund claims.</p>	<p>Sialkot Chamber of Commerce and Industry</p>
18.	<p>The honorable Prime Minister of Pakistan has announced special relief package for</p>	<p>It is proposed that the tax relief package may also be extended to the new and</p>	<p>Hospitality sector including hotels, motels, tourist resort faced huge losses due to</p>	<p>Investment in hospitality sector will increase that will result in growth of tourism.</p>	<p>Pakistan Hotels Association</p>

	<p>construction sector that mainly includes:</p> <ul style="list-style-type: none"> <li>• Fixed Tax Regime</li> <li>• No WHT on builders and developers (except steel &amp; cement purchases)</li> <li>• Source of income shall not be asked</li> <li>• Capital Gains tax on one family house exempted</li> <li>• 90% tax waived for affordable housing</li> </ul>	<p>under construction hotels, motels, tourist resort projects by the hospitality sector.</p>	<p>COVID-19 pandemic. Currently, the sector is facing low growth and decrease in investment in projects. Support may be provided to hospitality sector to promote tourism.</p>		
19.	<p>FBR has introduced Further Tax through Finance Act 2013 sub section 1A to the section 3 of the Sales Tax Act 1990. As per the subsection, Further tax at 3% along with the 17% standard sales tax is chargeable at the time of supply to unregistered person in sales tax even if he is registered to Income Tax.</p>	<p>It is proposed that the 3% further tax on supply to the unregistered person may be withdrawn.</p>	<p>Appellate Tribunal Inland Revenue (ATIR) has ruled that persons, who are not legally required to obtain sales tax registration, cannot be burdened with Further Tax under Section 3(1A) of the Sales Tax Act, 1990 and they are under no obligation to pay "Further Tax" as section 3(1A) has no application to their case.</p>	<p>Further Tax becomes part of the cost of product as it is imposed on unregistered buyers therefore, it is not adjustable against the output.</p>	<p>SMEDA Pre Budget Consultative Session with Stakeholders</p> <p>Karachi Iron and Steel Merchants Association</p> <p>Bahawalpur Chamber of Commerce and Industry</p>

PCT NO.	Description	Tariff Rate of Duty 2020-2021	Proposed Rate of Duty 2021-2022	Brief Justification/Rationale for Change
8208.9090	Splitting/Shaving/Fleshing Blades	20%	3%	Blades are not being manufactured locally more than 1500mm and quality is also not good.
6805.2000	Buffing Papers	20%	3%	Buffing papers are not being manufactured locally.

20.	Federal Board of Revenue through S.R.O 1339(I)/2020 dated 16 December 2020 introduced an incentive of 5% cash back on the Sales Tax to the customers of Tier-1 retailers who have integrated their system to Board's computerized system for real-time reporting of sales.	It is proposed that this incentive should be extend to the restaurants of the Hospitality industry who have integrated their system on FRB's computerized systems to encourage customers to get 5% cash back on all invoices issued from the restaurants.	Cash Back incentives to Tier-1 retailers has positive impact on sales of retail businesses. Provision of same incentive to restaurants will improve their sales hence their contribution in revenue will also increase.	This will not only increase the business volume of the hospitality industry but also broaden the tax base, hence will increase the tax collection.	Pakistan Hotels Association
21.	17% GST and 1% income tax is levied on the cutlery unit having production upto Rs. 10 million.	The exemption limit of GST (@17%) and collection of @ 1% income tax be enhanced from Rs.10 million to Rs. 30 million.	Most of the local manufacturers do not register with FBR due to audit problems/threats. In this regard, increase in exemption limit up to Rs. 30/- million may improve business registration, increase in production and export.	Business Registration of Cutlery Sector will improve resulting in high tax revenue.	Pakistan Cutlery Association
<b>Customs and Tariffs</b>					
22.	Over the period of time, government has made efforts to ensure uninterrupted supply of raw material and machinery to manufacturing sector through rationalization of custom duties and tariff. However, some manufacturing sectors are still facing issues related to duty free import of inputs goods including raw material and machinery.	It is proposed that: 1. Customs Duty and Sales Tax on Import of machinery, raw materials and technical equipment that are not produced locally may be brought down to zero for hospitality industry. 2. Custom Duty may be rationalized for the import	Rationalization of tariff for manufacturing sector will improve acquisition of state of the art technology and quality input material that will have positive impact on productivity of local industry.	Local and global productivity and competitiveness of businesses will improve.	SMEDA Pre Budget Consultative Session with Stakeholders  Pakistan Hotels Association

		<p>of machinery for facilitating import substitution industry.</p> <p>3. Custom duty on Packaging material for pharmaceutical sector be zero rated.</p> <p>4. Customs duty on major raw materials of chipboard &amp; particle board industry that are not manufactured locally may be brought down to Zero.</p> <p>5. Custom duty on import of film related equipment may be exempted.</p>			
23.	<p>Mining in the marble and granite sector is mostly carried out by blasting due to lack of state-of-the-art technology and modern machinery that results in wastage of natural resources.</p>	<p>It is proposed that zero rated import of mechanized mining and processing machines may be allowed to support mining sector</p>	<p>it will help mining sector to curtail wastage of natural resources due to blasting.</p>	<p>Reduce wastage of natural resources and promotion of mechanized mining in the country.</p>	<p>Pakistan Stone Development Company</p>
24.	<p>SRO 655(1)2006 allows zero percent customs duty on import of raw material that is not produced locally, for the manufacturing industries. Commercial importers are not included in it.</p>	<p>It is proposed that the provision that is given to manufacturers under SRO 655(1)2006 may also be extended to commercial importers to facilitate local SMEs</p>	<p>In Pakistan, considerable number of SMEs operating in the country are dependent on commercial importers for purchasing raw material and other capital goods, including machinery for production purposes. SMEs acquire raw material from commercial</p>	<p>These SMEs face issues related to cost of production due to high prices of imported raw material that affect their productivity and international competitiveness. Provision of zero rated</p>	<p>Lahore Chamber of Commerce and Industry</p>

			importers that is subject to custom duties while the import of raw material is duty free for manufacturers under SRO 655(1)2006.	facility will improve production and competitiveness of SMEs.	
25.	Duty Drawback against exports is calculated as a certain percentage of the FOB value of the export consignments, whereas Custom Duty, Sales Tax etc. is charged at C&F value of the consignment at the time of import.	It is proposed that Custom Duty and other taxes should be charged at FOB value of the import shipment.	In the past, this practice had minimal impact due to relatively less quantum of freight but recently the freight charges have been substantially increased by the shipping companies and charging of Duties and Taxes at C&F value has increased cost of import of inputs and raw materials for the manufacturing sector.	Input cost of the industry relating to imported raw materials could be decreased to promote ease of doing business in Pakistan in the current crisis.	Sialkot chamber of commerce and industry
26.	Currently Hospitality Industry is paying 11% custom duty on import of pre-fabricated room structure for setting up of new hotels / motels in hill stations, Gilgit-Baltistan, AJK and Costal Areas of Baluchistan (excluding hub).	It is proposed that custom duty imposed on the import of pre-fabricated construction material may be rationalized for Hospitality industry for construction of new hotels in hill stations, Gilgit-Baltistan, AJK and Costal Areas of Baluchistan (excluding hub).	It will boost up the tourism and hospitality sector in northern areas, Gilgit Baltistan, AJK and costal areas of Baluchistan where the conventional construction cost is very high as compared to pre-fabricated structure.	Proposed duty-free import of pre-fabricated structure will enhance the investment opportunities for setting up of new hotels and will ultimately increase the flow of foreign / local tourists.	Pakistan Hotel Association
27.	Custom duty is imposed on import of samples.	It is proposed that samples worth US\$ 10,000 should be	Imposition of custom duty on the import of samples makes	Samples received from abroad by	Sialkot Chamber of Commerce and Industry

		exempt from levy of duties and taxes during a year to facilitate the export sector of Pakistan.	it difficult for the SME Exporters to manage the cost of import of samples as import of such samples has been a regular feature for the export business.	manufacturers in Pakistan play a vital role in development, innovation and reverse engineering of those items, which would ultimately help in soliciting new orders for similar items developed and manufactured in Pakistan	
28.	The Duty Drawback rate on Leather Gloves is currently 1.54% while it is 7.54% on Leather Jackets and 4.7% on Footwear.	It is proposed to enhance duty drawback rate on leather gloves from 1.5% to 10% to provide incentive to the Gloves industry.	The regional competitors like Bangladesh and India have been paying 15% and 10% Duty Drawback on Leather Gloves respectively.	Local gloves manufacturing industry will be encouraged.	Sialkot Chamber of Commerce and Industry
29.	Local industry imports expensive diamond tools from international market.	It is proposed to allow duty free import of following material for manufacturing diamond tools locally. <ul style="list-style-type: none"> <li>• Metal powders</li> <li>• Bronze, Copper, Iron, Zinc, Tin powders, etc.</li> <li>• Industrial diamond, Graphite material</li> <li>• Steel blanks</li> </ul>	Huge quantity of diamond tools are imported by the local industry. Duty free import of material for manufacturing diamond tools locally will strengthen local industry.	Incentivizing the industry which is relatively new may also open avenues for further investments, export, employment, skill development and preservation of foreign exchange of the country in addition to providing opportunities of import substitution.	Pakistan Stone Development Company

30.	Current inflow of cheap imports of cutlery and kitchenware products & printing material are affecting local industry.	It is proposed that regulatory duty/ custom duty on import of cutlery & kitchenware articles and printing material that are produced locally to protect local industry may be increased.	The local industry/units are unable to compete in the same products in other countries, which is a major issue. Due to this reason unemployment rises and the local industry is vulnerable.	Sale of cutlery and kitchenware articles will be increased and in future the production capacity of cottage/small and medium enterprises will be enhanced.	Cutlery Association of Pakistan
31.	High rate of Custom Duty is levied on following basic raw material: <b>1. HS code 7225</b>  <b>Custom Duty:</b> Prime & Secondary 11% <b>Additional Custom Duty 2%</b> <b>2. HS code 7208, 7209 &amp; 7210</b>  <b>Custom Duty:</b> Prime 11%, Secondary 20% <b>Additional Custom Duty:</b> Prime 2%, Secondary 7%	It is proposed to reduce custom duty to the mentioned HS codes to 5% and Additional Custom Duty may be abolished.	Steel is a basic raw material not only be steel re rolling industry but also for other related sectors such as construction and automobile. Reduction in custom duty will have positive impact on input cost of the businesses.	Sectoral productivity and competitiveness will be improved.	Karachi Iron and Steel Merchants Association
<b>Export Promotion Measures</b>					
32.	The Federal Government facilitates exporters of non-textile sector drawback on local taxes and levies on exports via "SRO. 711(I)/2018"1, dated June 8th, 2018 that is valid till June 30th, 2021. Two streams of the rates @3% and @ 4% are specified under	It is proposed to enhance existing rate of 3% to 5% to support exporters and to extend the scheme till June 30 <sup>th</sup> , 2027.  This scheme may also be extended to Plastic sector.	Increase in drawback rate and extension of the scheme will facilitate and encourage local exporters.  The Scheme provides additional 2% drawback on local duties, taxes and levies in case of export to non-	Exports to traditional and non-traditional markets will increase.	Sialkot Chamber of Commerce and Industry  Pakistan Plastic Manufacturers Association



	<p>this incentive. The scheme covers twenty-two chapters and 1,141 tariff lines in total under PCT. Further bifurcation shows that, 15 chapters and 853 tariff lines are covered under 3% drawback rate, while 9 chapters and 288 tariff lines are covered under 4% drawback rate.</p>		<p>traditional markets. The nontraditional markets consisted of five regions including Africa, Latin America, Non-EU European countries, Commonwealth of Independent States and Oceania. Around 143 countries are included in the list.</p>		<p>Inputs for Regulatory Guillotine (Sialkot Chamber)</p>
33.	<p>S.R.O 760 (I)/2013 was issued on 2<sup>nd</sup> September, 2013 in supersession of notification no. SRO 266 (1) 2011 dated 7<sup>th</sup> may 2001 to regulate exports of gold.</p>	<p>It is proposed that the incentives given to Gold Industry under SRO 266(1)2011 dated 7<sup>th</sup> May, 2001 may be revived to support the industry. SRO 266 provides various incentives for gold manufactures and exporters.</p>	<p>SRO 706 has made export of finished jewelry very tough which has affected gold jewelry exports. Revival of SRO 266 will provide much needed support to the sector.</p>	<p>Exports of Gold Jewelry will increase.</p>	<p>Gold &amp; Gems Art Promotion Council of Pakistan</p>
34.	<p>The 6% R&amp;D support was granted to leather footwear sector by Government vide SRO871 (I)/2006 dated 25 Aug 2006, but the facilitation has been withdrawn with effect from 26 June 2008.</p>	<p>6% R&amp;D support may be restored and extended to key SME growth sectors such as leather, sports goods, horticulture, surgical instruments, cutlery, garments and home textiles.</p>	<p>Research and Development constitutes high cost for industry that makes the industry uncompetitive in the international market.</p>	<p>Productivity and Competitiveness of the sector will increase resulting in increased exports from Pakistan.</p>	<p>SMEDA Budget Consultative session</p>
<b>SMEs Access to Finance</b>					

35.	<p>Access to finance is a long-standing problem that limits SME performance. At present limited financial schemes are available for start-ups. There is a need to introduce SME specific schemes to resolve the issue.</p>	<p>To enhance SMEs access to formal financing, it is proposed that:</p> <ul style="list-style-type: none"> <li>• Low interest rate loan schemes should be announced to facilitate investment in key SME sectors including garments, surgical instruments, sports goods, auto part manufacturing, light engineering, leather and leather goods, fairs and exhibition industry.</li> <li>• Special financial schemes be designed to offer reduced interest rate to key SME sectors against their performance in terms of exports. Margins against collateral may be flexible.</li> <li>• Hospitality sector may be allowed loan facility up to 20% of the gross turnover based on the audited accounts of 2020. Rate of interest on these loans may be reduced from the existing rate and principal repayment may be in 5 years with 2 year of grace period.</li> </ul>	<p>Given the state of SMEs in Pakistan, there is need to introduce SME specific financial products pertinent to their requirement. In Pakistan, banks are usually reluctant to provide financing for new businesses. Therefore, many potential entrepreneurs are unable to establish businesses.</p>	<p>Financial issues of SMEs will be addressed, that will allow SMEs to obtain formal financing at lower interest rates. Such initiatives will promote new enterprise establishment. The culture of job seeking will turn into job creation. More job opportunities will be available for increasing labour force.</p>	<p>German-Pak Chamber of Commerce and Industry SMEDA Pre Budget Consultative Session with Stakeholders-Peshawar</p> <p>Gold &amp; Gems Art Promotion Council of Pakistan</p> <p>Pakistan Hotels Association</p> <p>Pakistan Film Producers Association</p> <p>Pakistan Stone Development Company</p>
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		<ul style="list-style-type: none"> <li>• Financial support may be given to gold jewelry manufacturers and exporters.</li> <li>• It is proposed to develop exclusive financial schemes for film producers to provide them financial assistance.</li> <li>• It is proposed to develop credit line for marble and granite sector in order to enable them to acquire state of the art machinery.</li> </ul>			
36.	Leasing and Modaraba companies are not allowed to be a part of concessional schemes being offered and administrated by State Bank of Pakistan (SBP) as these companies do not fall under ambit of SBP.	It is proposed that Leasing and Modaraba Companies which fulfil prescribed participation criteria may be allowed to participate in financial schemes for SMEs announced by State Bank of Pakistan (SBP). SBP regulations/ criteria may be amended to allow financial institutions registered with SECP to participate in financial schemes.	Commercial banks being risk averse, usually do not prefer to advance loans to SMEs and mainly focus on high net-worth individuals and corporate entities. Consequently, Financial schemes to promote SMEs access to finance have not achieved desired results.	Inclusion of Leasing and Modaraba Companies in Financial Schemes of SBP may play an important role in extending finance to SME sector.	NBFI & Modaraba Association of Pakistan
37.	Currently, there are limited financial schemes available for Women Entrepreneurs.	It is proposed that financial schemes for women entrepreneurs may be	In Pakistan, women participation in enterprise creation is low due to limited	Women Entrepreneurs will be able to get formal finance at lower interest	SMEDA Budget Consultative session

		<p>introduced including relaxation in markup rates, loans on soft conditions related to collaterals and guarantees.</p> <p>Furthermore, special attention may be given to Women owned construction and hard-core manufacturing businesses. Lending schemes for WEs for purchase of machinery may also be introduced.</p>	<p>financial resources. There is a need to introduce special financial schemes for WEs.</p>	<p>rates. As a result, women participation in overall economic activity will increase.</p>	
38.	<p>Mining across Khyber Pakhtunkhwa is performed via conventional methods which results in massive wastage. Almost 70% of the non-renewable asset is wasted. Therefore, the end product is only acceptable in the local market.</p> <p>Mechanized mining and processing machines are not being manufactured locally</p>	<p>It is proposed to introduce financial schemes for Mining Sector for acquisition of modern machines.</p> <p>Furthermore, collaboration with foreign investors for manufacturing of machines locally may be promoted.</p>	<p>To curtail import burden and high prices of imported machines.</p>	<p>Locally manufactured machines will be less costly and will save foreign exchange</p>	<p>Frontier Mine Owners Association Khyber Pakhtunkhwa</p> <p>Pakistan Stone Development Company</p>
<b>Skills Development, Technology Up gradation and Infrastructure Development</b>					
39.	<p>In Pakistan, around 3% of economic establishments are</p>	<p>Women Business Complex may be established in Khyber</p>	<p>Facilitation will be provided to existing and potential Women Owned Businesses</p>	<p>It will facilitate Women's participation in economic activity that</p>	<p>SMEDA Pre Budget Consultative Session with Stakeholders</p>

	<p>owned by Women Entrepreneurs’.</p> <p>WEs operating in Khyber Pakhtunkhwa and Balochistan need infrastructural support to get connected with buyers directly.</p>	<p>Pakhtunkhwa and Balochistan to provide infrastructural support to WEs operating the province.</p>	<p>of Khyber Pakhtunkhwa and Balochistan.</p>	<p>will provide much need support to achieve targets of economic development and poverty alleviation.</p>	
40.	<p>Pakistan has huge reserves of different variety of world class marble and granite. The absence of scientific quarrying practices, lack of technology, trained manpower and proper equipment however, has resulted in huge losses in form of wastages and poor quality.</p>	<p>It is proposed that Marble and Granite Cities may be established across CPEC route to provide state of the art infrastructure. Marble &amp; Granite Training Institute may also be established for training and skill development.</p> <p>Furthermore, Marble City Risalpur, Khyber Pakhtunkhwa may be included in CPEC project.</p>	<p>There is a wide gap between conventional practices of quarrying and modern methods. Modern technology produces dimensional stones with maximum wastage of 45%. The local investor lacks both awareness and capital to adopt these new methods. The new scientific approach not only requires modern machines but a sound infrastructure and trained manpower to run these specialized machines. Establishment of marble and granite cities is critical for sectoral growth.</p>	<p>Establishment of Marble and Granite cities will channelize industrialization and encourage investment in the sector.</p>	<p>Pakistan Stone Development Company</p>
41.	<p>Film Industry in Pakistan operates on old technologies. Most of post-production work is</p>	<p>It is proposed that Film City, an integrated film studio complex, may be</p>	<p>Upgradation of technology will immensely improve quality of work. It will</p>	<p>These special zones and common areas will encourage film makers,</p>	<p>Pakistan Film Producers Association</p>

	done from abroad which increases the cost of film making and loss in revenues. Foreign exchange is also spent for obtaining these services from abroad. No state of the art lab facilities are available for film making industry in the country.	developed to facilitate Film makers to provide modern technology and infrastructure critical to produce Films of international quality. Furthermore, Labs with latest equipment and technologies may also be made part of film cities.	improve Pakistan's image at international level and will result in increase in revenue and foreign exchange for the government.	where they will be able to utilize common facilities at much cheaper rates.	
42.	Gemstone industry faces issues related to access to International Standard Gems Cutting & Polishing Facilities.  Furthermore, gems city is planned to be developed at Islamabad whereas Lahore, Karachi and Hyderabad are hub of gems sector.	It is proposed to establish Gem cities at Lahore, Karachi and Islamabad to provide infrastructural support and international Gems Cutting and Polishing Facilities to SMEs operating in the sector. Furthermore, labs may also be established for gemstone certification.	Pakistan is rich with gems stones that are popular worldwide. Lack of gems cutting and polishing facility results in export of gems in raw form. Therefore, Pakistani gems are sold at low prices as compared with competing nations including India, Thailand and Sri Lanka.	Pakistan has emerged as the fifth frontier for the occurrence of gemstones on the world map but it has been unable to penetrate the international market. With the Government support, Gemstone sector can significantly enhance export revenue.	SMEDA Pre Budget Consultative Session with Stakeholders
43.	Business Centres have been established at Gujranwala and Sialkot to support SMEs.	Lahore Business Centre be established to meet requirements of SMEs operating in Lahore and Quetta	Business Centre at Lahore shall provide an opportunity to conduct national and international B2B meetings with local and international buyers, which is necessary to enhance business outreach.	Business centers worldwide provide unique opportunity for exploring new business opportunities. Business Centre establishment at Quetta will enhance outreach of local SME sector.	SMEDA Pre Budget Consultative Session with Stakeholders

44.	The export Industry lacks internationally accredited, state of the art material testing laboratories for high value-added sectors like footwear, Surgical Instruments, Sports Goods and Sports Wear, Leather products etc.	The Government may establish state of the art materials testing laboratories for high value-added sectors on Public Private Partnership basis.	Due to the absence of laboratories, exporters have to send their samples abroad to get their products tested and certified to be accepted worldwide. This practice ultimately adds to the cost of doing business and is logistically cumbersome.	Exports of high value-added sector will increase.	SMEDA Pre Budget Consultative Session with Stakeholders
45.	Industry and academia collaboration to promote industry led economic growth needs to be promoted in Pakistan.	Government may provide special funds to Universities aiming to enhance their involvement to address industry related technology issues through innovation.	To promote invention and innovation in the country, there is need to strengthen industry-academia linkages and involving students in technology related activities. Strong academic programs and labs have been developed to cater the needs of growing industry in Japan, Malaysia, Turkey, Korea and India. The same should be replicated in Pakistan.	Strengthening industry-academia linkages to boost research and innovation will bring technological revolution in the country.	SMEDA Pre Budget Consultative Session with Stakeholders
46.	In Pakistan, there are 5.2 million establishments operating in the country.  Given the high number of establishments, the existing Industrial Estates do not fulfil	It is proposed that an Industrial estate may be established for SMEs exclusively in each province, to provide state of the art facilitation aiming to enhance productivity and	There is a need for industrial estates for SMEs. In this regard, government should allocate land to accommodate minimum 1000 small and medium sized industrial units in each industrial Estate.	Productivity and competitiveness of SMEs will improve.	SMEDA Pre Budget Consultative Session with Stakeholders

the needs of SME sector, given the high costs of land.	<p>competitiveness of local businesses.</p> <p>Furthermore, existing clusters of business outside the Industrial Estates may be given the status of Industrial Estate, so that, they may get benefits at Industrial Estate on their existing location. Additionally, provision of water treatment plants may also be made inside Industrial Estates for better utilization of water.</p>			
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Respective heading	Samples	different duty rates	free of duty and taxes	Due to their high importance in new development and most of the time export orders depend on these samples. Therefore, the method of their custom clearance should be simple, swift & free of all taxes. So, we can compete the Global market in right time with attractive price.
Respective heading	Machinery and Spare parts used in tanning industry	17 sales Tax	0% Sales tax	although the sales tax is refundable but it affects our cashflow badly and cause of difficulties in running business smoothly.

**48. Rationalization of Tariff Rates for Soap Manufacturers: (Pakistan Soap Manufacturing Association)**

Change in Tariff								
S. No.	PCT	Description	Rate of Duty 2020 - 2021		Proposed for 2021-2022			Brief Justification/Rationale for Change in Duty
			Custom Duty	Under FTA	Rate of Duty	ACD	I.Tax	



1	1513.1900	RBD Coconut Oil	Rs. 10800 PMT	Rs. 9720/- (Malaysia)	5%	2%	2%	Primary Raw Material Not produced Locally
2	1513.2900	RBD Palm Kernel Oil	Rs. 10800 PMT	Rs. 9180/-  (Malaysia & Indonesia)	5%	2%	2%	As Above
3	3823.1920	Palm Acid Oil	11%	0% Malaysia 5% Indonesia	0%	2%	2%	As Above
4	3823.1990	Palm Kernel Fatty Acid Distillate / Palm Kernel Acid Oil	16%	-	5%	2%	2%	As Above
5	3823.1930	Coconut Fatty Acid Distillate / Coconut Acid Oil	16%	-	5%	2%	2%	As Above
6	3302.9090	Mixture of Odoriferous Substance/Fragrance	11%	5% SAARC	5%	2%	2%	As Above
<b>Change in SRO 565(I)/2006</b>								
S. No	Description of Goods to be manufactured	Descriptions of Raw Materials		PCT	Current Tariff	Proposed Tariff		
7	Stearic Acid / Distilled Fatty Acid (DFA)	(1) Palm Stearin		1511.9010	5%	0%		

		(2) Inedible Vegetables or Animal Oils & Fats	1518.0000	15%	This Entry may be deleted
New	Toilet Soap	(1) Palm Stearin	1511.9010	Rs. 9,050 PMT	5%

**49. Rationalization of Custom Duty for Fiber Optic (Fiber Electronic Private Limited):** Custom duty may be rationalized on the given products that are not produced locally.

S. No.	PCT Code	Description	Existing Rate of Duty 2020-21	Proposed Rate of Duty 2021-22
(1)	(3)	(4)	(6)	(7)
1.	8536.7000	Connectors Consisting of Ferrules, Housing, Boots, Crimp Rings and Dust Caps Material: Zirconia, Steel, Plastic	CD 20% +Additional CD 7% Total 27%	5%
2.	8544.7000	Fiber Optic Cable (Single/ Multimode Optical Fiber). <b>This cable is for Indoor applications/ FTTH.</b>	CD 20% +Additional CD 7% Total 27%  Regulatory Duty 10%	5% & Regulatory Duty 0%
3.	3921.9090	Polishing / Lapping Film/Sheets Material: Plastic Consumable Material	CD 20% +Additional CD 7% Total 27%	0%

4.	3506.1000	Epoxy (Resin) Packs Tracon Consumable Material	CD 20% +Additional CD 7% Total 27%%	0%
5.	3919.9090	Pack Brady Laser Tab Labels Consumable Material	CD 20% +Additional CD 7% Total 27%	0%
6 .	4818.2000	QBE Wipes Consumable Material	CD 20% +Additional CD 7% Total 27%	0%