



Fiscal Incentives for SEZs under BOI Act: A Comparison of Pakistan with different countries

Policy Brief



CENTRE OF EXCELLENCE
China-Pakistan Economic Corridor



Financing and Financial
Sector Integration
under CPEC

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Preamble:

This policy brief gives the comparison of Fiscal Policies, such as corporate income tax and custom/import duty adopted by various countries of South Asia and South East Asia. Based on the comparison the policy recommendation for SEZs in Pakistan is given in the end.

Country Comparison:

Based on the extensive document of “Fiscal Incentives for SEZs under BOI Act: A comparison of Pakistan with Other Countries” the following findings and policy Recommendations are available below:

Countries\Incentives	Corporate Income Tax	Custom / Import Duty
Pakistan	Exemption from all taxes on income for a period of 5 years for developers and 10 years for enterprises commencing commercial production by the 13 th June, 2020, in the SEZs for the next ten years; “Provided that exemption from all taxes on income for those zone enterprises or firms which commence commercial production after the aforesaid date shall be for the next five years”.	One time exemption from all custom duties on plant and machinery imported into SEZ except the items listed under chapter 87 ¹ of the Pakistan Customs Tariff.
India	100% Income Tax exemption on export income for first 5 years 50% for next 5 years 25% for next 5 years	SEZ Units are free to import from the domestic sources without paying any duty on capital goods, raw materials, consumables, spare, packing materials, office equipment, DG sets, etc. for implementation of their project in the zone without any license or specific approval. Goods those are imported duty free could be utilized over the approval period of 5 years. • Sales to DTA (Domestic Tariff Area) by SEZ units is always regarded as import and is subject to all normal import duties, including Countervailing Duty, SAD, etc. • SEZ units may sub-contract a part of their

¹ Imports of vehicles for personal use.

		production through units in DTA/SEZ/EOU/EPZ with the permission of the customs authorities. Sub-contracting may also be permitted for processing abroad with the permission of the board of approval.
China	² 25% Tax for all businesses inside and outside SEZ <u>upto ? years then</u>	Customs duties exemption on import of production equipment, construction materials and production inputs
Bangladesh	100% exemption for the first 10 years; 70% for 11th year; 30% for the 12th year.	Exemption of import duties on items that cannot be sourced locally General office equipment and household items are not duty exempt
Cambodia	100% exempt for up to 9 years	Custom duty exemption on import of production equipment, construction materials and production inputs
Vietnam	10-20% exemption for those firms which starts production within 10-15 years.	Customs duties exemption on import of production equipment, construction materials and production inputs
Myanmar	Exemption for seven years, then 50% relief for five years, then 50% relief on current legal income tax for profit that is reinvested for five years	Customs duties exemption on import of production equipment, construction materials and production inputs
Belarus	No tax on all goods and services for five years, then 50% tax exemption No taxes on real estate and purchasing vehicles	No custom duties on raw material and equipment imported from outside the Belarus. Exemption from VAT, Customs fees, anti-dumping fees, and offset fees for import of goods to a separate area within the SEZ providing duty free zone import of goods

² This is the modern policy of China, while in the past they had given more than 50% tax holiday to the SEZs.

Thailand

Under general activities, Exemption of corporate income tax for a period of 3 years, but altogether not exceeding 8 years.

Under targeted activities, Exemption of corporate income tax for a period of 8 years (not exceeding 100 percent of investment value excluding cost of land and working capital) and 50 percent reduction of corporate income tax for a period of 5 years

Exemption of import duties on machinery, Exemption of import duties on raw material or essential materials used in manufacturing of export products

Laos PDR

Services sector shall be granted the exemption of profit tax for a period 2 - 10 years and afterward 8% or 10% corporate profit tax will be applied based upon investment capital. Trade sector shall be granted the exemption of profit tax for a period 2 - 5 years and afterward 10% corporate profit tax will be applied. Industrial sector shall be granted the exemption of profit tax for a period 5 - 10 years and afterward 8% corporate profit tax will be applied.

Exemption of duty and tax on the import of equipment, vehicle and raw materials for construction;

Policy Recommendations:

- a. Capacity issues seems chronic as there are only two main officers are working in BOI for SEZs. There are no financial and legal experts available at the BOI, who can handle all of the assigned tasks according to the Act. So, transformation of institution is required. It is written in the Act of 2012 that BOI secretariat must be formed, which is still not existed.
- b. SEZs must be besides Urban Centre or connected with the urban for sustainable operation and growth. On the other hand the SEZs in the far flung areas may be taking long time to construct the infrastructure for cities so SEZs will start too late in the given scenario where most of the priority SEZs have been selected in the far flung areas.
- c. SEZ would be a good source of generating economic activities as compare to other means like the real estate sector which is piled up, because people have no other easy and relatively secure avenue to invest in Pakistan. But a strong management, strengthened institutions both at federal and provincial level and proper branding and effective marketing are required for making the success stories of the SEZs.
- d. By comparing the incentives of all other countries, we can easily see the difference that our incentives are not so attractive. While our industrial incentives other than SEZs are more or less same. So for attracting the business community we should follow the incentive model of India, Myanmar or Bangladesh. China had so much relaxed policies for SEZs in 1980's but now they are developed, that's why they are no more needed the incentive attraction as we needed now.
- e. In our incentive plans, we don't see any tax exemptions for raw materials, which is an essential item for production. We can see that in many countries raw material have no tax in EPZs and SEZs but in local market they pay tax. Amendment for raw material is very important and is need of the time. If we want to populate our SEZs, policies should be focused on attraction of the business community.
- f. For cost reduction purpose, free land or otherwise concessional long term land financing should be part of incentives. While in Pakistan the land prices are very high and this affect the overall cost of the investment. So the need is to ease this factor for the investors for their attraction and comfort. Land on annual rent would be a affordable and can attract investors. This is more sustainable way of development both for developers (Investors) and suppliers (land owners). A legal framework may be drafted for it.

- g. Protection of business community is very essential. It creates confidence in investors. If the person thinks that his asset is at safe place then he'll be in a position to invest more. Some specific safety rules are required for the protection of investments and investors.
- h. Our incentive package for SEZs is needed a revision regarding incentive package, which is not according to the world's success stories. Ease of doing business, is important to address. Specially within the SEZ and hence a comprehensive and effective one window for complete business life cycle for the developers and enterprises is must.
- i. The difference between custom and non-custom zone is very important. Everywhere in the world the SEZs are considered as custom zones because they already take so many incentives being a part of SEZ. So the production from SEZ is always dutiable but in our law we have depleted this discrimination and it ultimately hurt the local industry. So revision is required in this area.
- j. In important decision making meetings there are always participation of public sector and private sector but the space always left for the experts. So experts are the key players to be part of those meetings where they can help the policy makers for right decision making and sharing their concerns regarding expert opinions.
- k. It is written that developer can rent the sheds but it feels conflicting because it is commercial activity, while it is written in the Act that commercial activity should not exceed from 30%. Manufacturing activity is allowed as 70%. So if developer will rent the sheds then the commercial activity will increase then that'll be against the Act.