

# INSPECTION FREE REGIME & EASE OF PAYING TAXES

# Objective

- ☐ To create a conducive and business friendly environment by decreasing the official interface with industrial undertakings
- To enable the prospective entrepreneurs to focus their creative energies on maximizing business opportunities and spending minimum time in dealing with government laws, rules and regulations.

# History

- Inspections of Labour Department were replaced with self-declaration program and fixed slab system was introduced in Social Security taxes vide Industrial Policy 2003.
- Inspections of following departments/wings were discontinued in 2005 with the direction to outsource or transfer inspection of Boiler/ Electric Inspector to Insurance Companies
  - Electrical Inspector
  - Boiler Inspector
  - Civil Defence

# History

- Response was very poor and only 200 units submitted performas under self declaration scheme in 2003-04 whereas 56 units in 2004-05 (reported by Director Labour).
- Irrigation & Power Department framed a mechanism of third party inspection in respect of Electrical Inspection in 2002 which is still continued whereas no mechanism was developed by other wings
- The said system remained in place till 2012, The ban on inspections was revoked pursuant to the suo moto on Kharak Incident, through a summary for Chief Minister dated 10-02-2012.

#### Overview

Industrial inspections have been identified as one of the major irritants for the business community. Major Departments involved in industrial inspections are Labour Department (Labour Welfare, EOBI (federal), PESSI), Environment Protection Department, Industries Department (Boiler & Weights & Measures Wing), Civil Defence, Health Department, Food Department, Livestock & Dairy Development Department, Energy Department etc.

# Categorization of Departments

Non-fee Sector	Revenue/Fee Involved
Labour Welfare	Boiler Inspector
Department	Weights & Measures
Civil Defence	Punjab Food Authority
Bureau of Statistics	Excise
Environment Protection	PESSI
Department	EOBI
	Electrical Inspector
	Workers Welfare Fund
* Fee includes all payments,	Local Government
contributions, inspection fee,	Health Department
license fee, tax etc.	Livestock Department

## Labour Department

- Legal Provisions:
  - □ Factories Act 1934 and other allied laws
- Purpose of inspection:
  - To check basic condition of employment and labour
  - Compensation of occupational injuries and diseases
  - To ensure occupational health and safety
  - Guide employers and employees about their rights
  - Enforcement of labour laws at work place including notified wages
- Frequency: Annual
- Fee applicable: No Fee
- Note: Amendment in law is required

Director Labour did not support inspection free system on the plea of ILO Conventions ratification & GSP+ status

#### **PESSI**

- Legal Provisions:
  - The Provincial Employees Social Security Ordinance 1965
- Purpose of inspection:
  - Ensure safety of workers/ employees as per provisions of Occupational Safety and Health Convention, 1981 (No. 155) and other related Conventions of International Labour Organization.
  - Ensure implementation of Social Security Ordinance, 1965 with regard to remittance of Social Security Contribution.
- Frequency: Annual
- Contribution applicable: Monthly Contribution @6% of Basic pay & number of employees
- Note:
  - Fee being collected through online portal in Lahore since last month
  - PESSI also conducts visits in regard of labour welfare

#### **EOBI-FEDERAL INSTITUTION**

- Legal Provisions:
  - EOBI Act, 1976.
  - Employees Old Age Benefits (Verification) Regulations, 2007
- Purpose of inspection:
  - To ensure submission of monthly contribution equal to 6 % of minimum wages to be paid by the employer of all industrial undertakings and commercial organizations
  - Frequency: Annual
- Contribution applicable: No inspection fee however Monthly contribution
- □ Note:
  - Provisions of law were discussed however dropped being Federal enactment

#### Workers Welfare Fund-Federal Institution

- Legal Provisions:
  - Workers Welfare Fund Ordinance 1971
- Purpose of inspection:
  - Collection of fund for the welfare of workers through FBR
- Frequency: Nil
- Fee applicable: Annual Contribution @2% of annual income
- □ Note:
  - Provisions of law were discussed however dropped being Federal enactment

#### Civil Defence

- Legal Provisions:
  - Civil Defence (Special Power) Rules 1952
- Purpose of inspection:
- To inspect
  - Fire detection and alarm system
  - Fire extinguishers, fire hydrants and sprinkler system
  - Fire safety plan
  - Emergency exit and evacuation plan
  - Ventilation and air conditioning system
- Frequency: Annual
- Fee applicable: No Fee
- Note:
  - Inspections were required to control fire incidents

#### Bureau of Statistics-Federal Law

- Legal Provisions:
  - The General Statistics Act 1975
  - General Statistics (Reorganization) Act, 2011
- Purpose of inspection:
  - To get the statistical data about the product, stock, production and sale during month, total employment (Non- production and production workers), wages/salaries paid during the last month
- Frequency: Monthly survey through post for collection of statistical data of industries
- Fee applicable: No Fee
- □ Note:
  - Provisions of law were discussed however dropped being Federal enactment

# Health Department-Federal/Provincial

- Legal Provisions:
  - Drug Act 1976, Drug Rules 2007 Federal /Provincial Law
- Purpose of inspection:
  - Inspection of drug manufacturing units and pharmacies through Drug Inspector
  - Inspection to check dengue larvae sites in the premises of factory

#### Frequency:

- □ Fed. Drug Inspector Biannual Manufacturing Units
- Provincial Drug Inspectors Quarterly + On Complaint –
   Pharmacies, Distributors, Medical Stores
- Fee applicable: No Inspection Fee. License Issuance and Renewal fee Ranging from 2000 to 5000 for 2 years

# Livestock & Dairy Development Department

- Legal Provisions:
  - The Punjab Animals Feedstuff and Compound Feed Act 2016
- Purpose of inspection:
  - To ensure standards of production & quality feedstuff and check adulteration and misbranding of poultry & livestock feed
- Frequency:
  - Two inspections per year
- Fee applicable: No Inspection Fee, however License Fee

### Industries-Weights and Measures Wing

- Legal Provisions:
  - Punjab Weights & Measures (International System)
     Enforcement Act, 1975 & Rules, 1976
- Purpose of inspection:
  - Verification of instruments of weights and measures
- Frequency: Annual
- Fee applicable: Annual fee with regard to capacity & number of instruments
  - Weigh Bridge upto 50 Metric Tonnes-Rs.3000/
  - Weigh Bridge 50-100 Metric Tonnes-Rs.4500/
  - Weigh Bridge 100-200 Metric Tonnes-Rs.6000/
  - Automatic Liquid Measuring Fillers-Rs. 1000/- per filler

# Industries-Boiler Wing

- Legal Provisions:
  - Boilers & Pressure Vessels Ordinance, 2002
- Purpose of inspection:
  - To ensure safety of public & property through safe working of Boilers & Pressure Vessels
- Frequency: Annual
- □ Fee applicable: Annual fee
  - Heating Surface upto 100 Sq.FtRs.2000/-
  - Heating Surface upto 1000 Sq.Ft
    Rs.3200/-
  - Heating Surface upto 6000 Sq.Ft
    Rs.5200/-
  - Heating Surface 30000 Sq.Ft & Above Rs.12000/-
- Note:
  - Third party inspections provided under the law

#### Local Government

- Legal Provisions:
  - Punjab Local Government Act, 2013
- Purpose of inspection:
  - Issuance of License to work
  - Collection of Sanitation fee
- Frequency: Annual
- Fee applicable:
  - License fee Annual
  - Sanitation Fee Monthly
    - Collected through WASA/LWMC

#### **Excise and Taxation**

- Legal Provisions:
  - Punjab Urban Immovable Property (Validation of Tax) Act, 1976
  - Punjab Cotton Control Ordinance 1966
- Purpose of inspection:
  - Collection of Property Tax-Urban Areas
  - Collection of Cotton Fee
- Frequency: Annual
- Fee applicable:
  - Professional Tax
  - Property Tax Annual
  - Cotton Fee-Seasonal & random
    - □ Cotton fee at the rate of Rs. 0.10/Kg

#### **Environment Protection Department**

- Legal Provisions:
  - Punjab Environment Protection Act 1997
- Purpose of inspection:
  - Inspection of units generating hazardous waste
  - Improper waste handling
  - Violation of EPA/Laws are dealt through prosecution/fine
  - Surprise visit to ensure environmental standard
- Frequency: Need & complaints based
- Fee applicable: No Inspection Fee
- □ Note:
  - Inspections required for better control of environment

# Punjab Food Authority

- Legal Provisions:
  - Punjab Pure Food Rules, 2011
  - Punjab Pure Food Regulations, 2018
- Purpose of inspection:
  - To ensure that food is being handled and produced hygienically.
  - To look at the potential risk of food poisoning as a result of food contamination.
  - To ensure that food handling staff are trained in food hygiene.
  - To inspect the condition of the premises and equipment
- Frequency: Based on type of process
- Fee applicable: Annual
- □ Note:
  - Inspections required for provision of hygienic food items

# **Energy Department**

- Legal Provisions:
  - □ Electricity Act 1910
- Purpose of inspection:
  - To inspect, examine and test electrical installations of public buildings & institutions
  - Inspections by 3<sup>rd</sup> party (Licensed Contractor)
  - Ensure electrical installation / wiring as per standard to avoid mishap
- Frequency: two years
- Fee applicable: inspection fee payable to contractor

<b>Executive Summary</b>		
Sr. No	Department / Wing Name	
1	Weights & Measures	
2	Boiler	
3	Local Government	
4	Excise & Taxation	
5	EOBI	
6	PESSI	

**Punjab Food Authority** 

Workers Welfare Fund

Livestock & Dairy Development

**Environment Protection Department** 

**Energy Department** 

**Bureau of Statistics** 

**Labour Department** 

**Health Department** 

Department

Civil Defence

9

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11

12

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15

Inspection frequency Annual Annual

Annual

Annual

Annual

Annual

Annual

2 Years

Biannual

Annual

Annual

Monthly Survey

Based on type of process

Based on quality of effluent

Need based inspections

Fee

Annual

Annual

Annual

Annual

2 Years

No Fee

No Fee

No Fee

No Fee

No Fee

License fee

Annual / monthly

Annual/seasonal

Monthly Contribution

Monthly Contribution

# LCCI Input

- Manual collection of revenue/fee through inspectors be banned at once
- Inspections in respect of Safety
   (Boiler/Building/Environment/Fire safety & Labour etc) are supported and be made through third parties registered with PEC & concerned departments
- Risk & complaint based inspections in respect of Safety (Boiler/Building/Environment/Fire & Labour etc) are supported however be made with 30 days prior notice in writing

# LCCI Input

- Central system for tax/revenue collection be made
- PESSI & EOBI Contributions may not be linked with wages rather it should be a fixed amount
- PESSI & EOBI Contributions may not be linked with number of workers rather be associated with covered area of unit or electricity consumption
- Health card scheme for workers
- Amnesty scheme be announced by Government for registration of maximum number of units

# LCCI Input

- Online portal as already working for registration of business
- Amendments in relevant laws be made instead of executive order
- No fixed increase in fees, may be reassessed on yearly basis

# Categorization of Departments

Safety Sector	General Sector
Labour Welfare	Weights & Measures
Department	Excise
Civil Defence	PESSI
Energy Department	EOBI
Environment Protection	Workers Welfare Fund
Department	Local Government
Punjab Food Authority	Bureau of Statistics
Boiler Wing	
Livestock Department	
Health Department	

#### SPECIFIC RECOMMENDATIONS

# Weights & Measures

- Short Term
  - No Inspection at Factory Inspections at retail outlets only
  - Elimination of manual fee collection
  - Issuance of printed Challan & submission of fee in bank by Entrepreneurs themselves
- Medium Term
  - Registration of Industries through web portal & online fee collection mechanism

<sup>\*</sup> Inspections at Retail will also help in getting registration of non registered units under W&M

#### **PESSI**

- Proposed No Inspection
  - □ Contributions at 6% of Wages/Salary Expense claimed in annual tax return
  - PESSI to develop checklist of elements relating to worker welfare
  - □ Factories self report on the checklist, 20% back check by PESSI
  - Factories that do not submit self-assessment will be inspected

# Boiler Wing

- Short Term
  - Inspections to continue till registration of third parties or if firms get full boiler insurance
  - Online fee collection mechanism
- Medium Term
  - Inspection through registered third parties third parties to be responsible for safety
  - 20% back check of third parties quality, license cancelled if found to perform low quality work
  - Or Firms can privately Insure

# **Energy Department**

- Short Term
  - Inspections are already by third-party
  - 20% back check of third-party certifications
- Medium Term
  - Modernization of available legal framework (Electricity Act 1910) with regard to technology advancement and to ensure transparency & facilitation

<sup>\*</sup>energy efficient installations are available these days & industrial units may work with low power whereas inspection below 100KW had been absolved

#### Civil Defence

- No inspections
  - Registration of third parties related to fire safety / risk management
  - Inspection through registered third parties third parties to be responsible for safety
  - 20% back check on quality on third-party certifications
- Medium Term
  - Modernization of available legal framework putting the responsibility on businesses to carry out their own Fire Risk Assessments.

#### **Environment Protection Department**

- No Inspection by public sector
  - □ Third-party inspections and NOC issuance
  - Third-parties must have all requisite laboratory works and equipment
  - □ 20% back check of third-party works by EPA
  - Penalties on third-parties and firms on misreporting

<sup>\*</sup> Time limit for issuance of NOC after IEA

#### Labour Welfare

- No inspection
  - Issuance of Comprehensive Check List of requirements
  - Factories to appoint a qualified labour welfare officer
  - Factories self-report on the checklist for compliance
  - Factories not submitting compliance will be fined and immediately inspected
  - 20% of the factories randomly back checked with heavy fines on misreporting
- Medium Term
  - Consolidation of laws Department dealing with 10 laws directly & around 50 laws indirectly

#### **Others**

- Punjab Food Authority
  - Need & complaint based inspections
  - Awareness & Education of Entrepreneurs about the hygiene & quality standards
- Health Department
  - Need & Complaint based inspections- Pharma Industry (Usman Khan to talk to industrialists of pharma sector)
  - Dengue inspections can be done by third party (frequency of spray)
- Livestock Department
  - Inspections of animal feed by third party
  - Awareness & Education of Entrepreneurs about the quality standards for better level of compliance

#### **Others**

- Excise & Taxation Department
  - Professional Tax from manufacturing industries abolished
- Local Government
  - Mapping of all fees/taxes \*\*
  - Assess rationality and explore possibility of online payments
- Punjab Bureau of Statistics
  - No inspections

#### Establishment of Online Portal

- Portal / software development by PITB
- Awareness Campaign through respective Chambers
- Voluntary registration by industrial undertakings
- Base line Survey Assessment by combined team of relevant departments
- Issuance of data entry pin to undertakings
- Industrial undertakings responsible for data authenticity
- Auto reminder generation to Unit & concerned deptt
   after lapse of 15 days of due date of data provision

#### Establishment of Online Portal

- All inspections/ data reporting on annual or need basis except PESSI & EOBI which require monthly reporting
- Audit by concerned department after the lapse of 15 days from first reminder
- Combined inspection if unit fails to provide requisite data of more than fifty (50) % of departments
- Hundred (100) % inspection of defaulting /non registered units

# Way Forward

- Legal Amendments / Notifications by respective departments
- Workout mechanism for single tax collection
- Development of web portal by PITB

### Tax/Fee Details

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fund Boiler

**Punjab Food** 

Authority
Energy Department

Tax/ I cc Details						
Sr. No.	Department	Tax	Fee applicable	Frequency	Remarks	
1	Excise	Cotton Fee	-	-	10 paisa per Kg	
		Property Tax	-	Annual	As per covered area & property	
2	Social security	-	Contribution	Monthly	6% of basic pay of No. of workers	
3	EOBI	-	Contribution	Monthly	6% of basic pay of No. of workers	
4	WASA	-	Bill	Monthly	As per usage	
5	Local Government/ TMA	-	License fee	Annual	As per schedule notified by each Local council	
6	W & M	-	Verification fee	Annual	As per quantity and capacity of W&M instruments	
7	Workers welfare	_	Contribution	Annual	2% of Annual income	

Contribution

Fee

Fee

Fee

Annual

Annual

Annual

Two years

2% of Annual income

As per capacity of instrument

License Fee

Inspection fee



## Main Approach

- Integration of departments with the online web portal for two purposes.
  - Reduce Inspections at Factory Premises
  - Ease of paying taxes / fee
  - Elimination of manual fee collection
  - Amnesty scheme for registration through facilitation portal
  - Base line survey of unit at the time of registration and reassessment after every five years

## Main Approach

- Inspections of departments related to Safety (Boiler, Environment, Labour, Civil Defence etc.) through third parties, each department to register such third parties.
- Uploading of requisite data, fee & inspection report within fifteen (15) days of the due date under the system of "Self Declaration" failing which inspections be made to such units
- Well defined follow up procedure through 100% inspection of defaulting units after a prior notice

### Main Approach

- Single performa of fee/revenue/tax collection
- Online Challan generation and fee submission
- Annual fee rationalization

## Way Forward-IPWM

- Mechanism for Third party inspection of Boilers have been provided under the law, SOPs to be finalized in the meeting of Provincial Board
- Inspections of Weights & Measures in factories can be abolished through executive order and no amendments in law are required
- Fee collection at Petrol Pumps may be made through respective Oil Marketing Companies, however inspections may not be eliminated being retail level.

# Categorization of Departments

General	Special
Labour Welfare	Environment Protection
Department	Department
Civil Defence	Boiler Inspector
Electrical Inspector	Weights & Measures
PESSI	Punjab Food Authority
EOBI	Excise
Workers Welfare Fund	Health Department
Local Government	Livestock Department
Bureau of Statistics	

#### **EOBI**

- Short Term
  - No inspection Reporting by self-assessment
  - Audit for establishments reporting less than 5 percent annual increase in contribution
- Medium Term
  - Rationalization of the fee and explore possibilities of a simple measure linked to sales or electricity bill.