The Akhtar & Hasan *letter*

No. 93 | Jan 2011

We wish you a Happy and Prosperous 2011

Sindh Minimum Wages Board proposes to recommend Minimum Wage 7,000 p.m.

Sindh Government Notification MWB/58(VI)/2010 (Unskilled) dated 11 Oct 2010 contains a recommendation "which the Minimum Wages Board (MWB) proposes to make under Section 4 of the Minimum Wages Ordinance, 1961 in respect of adult unskilled and juvenile workers employed in industrial/commercial undertakings in the Sindh Province". Thirty days were allowed for objections and suggestions.

The MWB's final recommendations will be submitted to the Sindh Government. The Sindh Government may either adopt and notify them, or refer them back to the MWB.

EOBI contributions depend on Minimum Wages under the 1969 Ordinance

Clause (p) of Section 2 of the Employees' Old-Age Benefits Act, 1976 defines the term "Wages" to mean:

"the rates of wages as declared under the Minimum Wages for Unskilled Worker Ordinance, 1969 (W.P. Ordinance XX of 1969)"

In view of this reference to the 1969 Ordinance, we doubt whether the Sindh Government's decision under the 1961Ordinance would apply to EOBI contributions. Raising the Minimum Wage so as to affect EOBI contributions requires the Sindh (and other Provincial Governments) to go through a legal process with this specific objective. As far as we are aware, no Provincial Government has done this as yet.

Readers affected should take legal advice on whether contributions should continue to be calculated on Rs 6,000 p.m., which was the applicable Minimum Wage on 30 June 2010.

The General Sales Tax Bill, 2010: possible impact on life insurance

The GST Bill, 2010, is long and complicated. We are not constitutional, legal or tax experts. But in view of its importance, and its possible impact on life insurance, we submit the following remarks.

GST would be a Value Added Tax (VAT), with a different name to make it more palatable.

VAT works best in countries with a unitary tax regime for both goods and services.

The GST Brief on the Federal Board of Revenue's website says:

"Under the existing constitutional framework, the Federal government can impose taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed. The Federal government has been levying excise duty on services. <u>After passage of the 18th Constitutional Amendment, taxation of services now wholly falls within the domain of Provincial governments</u>"

The word "wholly", in the sentence under-lined by us, is not strictly correct. Under S.1(2), services in the Islamabad Capital Territory remain a Federal subject.

The under-lined words are another way of saying that GST/VAT on services is not a good constitutional fit for Pakistan.

To make it work, complete agreement is needed, <u>now and in future</u>, between the Federal and all Provincial Governments.

Σ ***Akhtar & Hasan (Pvt) Ltd*** **Actuaries**

3rd Floor (Annexe), State Life No 1 Building, Chundrigar Road, Karachi 74000, Pakistan
Phones: + 92 (0) 21-111-00-00-53 Fax: + 92 (0) 21-3241-7810 E-Mail: actuaries@akhasan.com
www.akhasan.com

Implications for life insurance

Federal Excise Duty (FED) is levied @ 16% on “insurance services other than life”. Despite the 18th Amendment, FED is still charged on non-life premiums. No doubt there is some legal cover for this.

Federal Insurance Fee (FIF) @ 1% is also charged on non-life premiums.

Initially, FIF was levied on life insurance also. The life insurance industry protested that saving is the major component of almost all life premiums. It is illogical to charge FIF on life insurance premiums, just as it would be illogical to charge it on bank deposits or on money put into other savings. Eventually, FIF was lifted from life insurance.

The Bill does not exempt or zero-rate life insurance in the Islamabad Capital Territory.

There is a danger that GST will be levied on life insurance, just as FIF was initially levied. The life insurance industry should lobby hard to try to prevent this.

When GST becomes payable

S.19 of the Bill says GST becomes payable at the earliest of the following times:

“(a) the time of supply; (b) the time when an invoice for the supply is issued by the supplier; or (c) the time when any part of the consideration for the supply is paid.”

This will create severe practical difficulties. Item (a) means that even before an invoice is raised, the supplier must tender the GST. Item (b) means that the supplier has to finance the GST even before he is paid. In both cases, there will be a strain on working capital.

Item (c) is the only workable solution. Items (a) and (b) should be dropped.

AIG’s IPO raised US$ 17.8 billion

Readers will recall that AIG, the US insurance giant, could not meet claims caused by the sharp fall in US property values. The US Government gave them US$ 182 billion to bail them out. To repay this, AIG started selling some operations.

One of its two large life insurance operations is American International Assurance (AIA). In March 2010, AIG agreed to sell AIA to the UK’s Prudential plc, for US $ 35.5 billion. But Pru shareholders did not want to pay for a US$ 20 billion rights issue, needed to make up the purchase price. So that deal fell through.

However, on 29 Oct 2010, AIG raised US$ 17.8 billion under a Hong Kong IPO for 58% of its share capital, at HK$ 19.68 per share. After the IPO, the shares rose 17% to HK$ 23.05. At this price, AIA’s market capitalisation would be US$ 35.8 billion, about the same as the price agreed in the aborted transaction with the Pru.

Malaysian and Chinese investors, and the Kuwait Investment Authority, were big participants in the IPO.

Under the Pru transaction, AIG would have got the money. But the IPO was priced at a discount from the price agreed with the Pru. IPO investors got the benefit of this discount.

“The USA is everybody’s neighbour”

Military bases all over the world, satellite surveillance, drone strikes, and now Wikileaks, show the pervasive presence of the USA.

President de Gaulle of France described this succinctly, more than 40 years ago. At a banquet in Paris, he said to President Ayub Khan that “the USA is everybody’s neighbour”.