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Five export sectors oppose proposed increase in ST

RECORDER REPORT

LAHORE: Chairmen of five export sector associations, including the Value Added Textile Associations, have vehemently opposed the proposal of the Federal Board of Revenue for increase in the sales tax from two percent to five percent.

The chairmen then criticised the government for failing to pay refunds worth Rs 70 billion, saying, "There should be no sales tax on exports. Even the present two percent sales tax should be withdrawn and replaced it with 'No Payment No Refund Regime'. The government has also held up customs rebate claims of Rs 10 billions and Rs 160 billions in DLTL claims," they said, adding that Rs 240 billion was stuck up with the Federal Board of Revenue.

They said the value-added textile exporters were already burdened because of rising tariff of electricity, gas and other essential raw materials. "Despite having the GSP plus status, Pakistan's textile exports have downed by 16.23 percent in March 2015, while overall exports have downed by 13.44 percent. This shows that any increase in rate of sales tax would further lead to decline in the exports of Pakistan," they added.

They said the bureau should spread tax net rather than punish the genuine taxpayers.

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Export associations threaten strike

By our correspondent

LAHORE: Five zero-rated export associations on Monday threatened to go on strike if the government increased sales tax on inputs from two percent to five percent. They said since government was not making any tax refunds, an increase in tax rates would further burden their finances.

Pakistan Apparel Forum Chairman Jawaid Bilwani, while representing the five associations at a press conference, said that in fact Sales Tax on the export sector should be withdrawn and "no payment no refund" regime revived. He said exporters were suffering a liquidity crises, as Rs70 billion sales tax refund claims, Rs10 billion customs rebate claims, and Rs160 billion in drawbacks of local taxes and levies (DLTL) claims were bottlenecked with the relevant authorities. Moreover, he added the government has been delaying the Textile Policy 2009-14 initiatives for a long time.

He asked the Federal Board of Revenue (FBR) to widen the tax net by bringing in more taxpayers instead of harassing and burdening the documented sector. The genuine taxpayers "the documented sector are the foreign exchange earners".

Bilwani said, "Our country's exporters have a very rough playing field and are battling for their survival in the global market with competitors from neighbouring and other competing countries, who are much better endowed by their governments with attractive incentives." Globally, the export sector is not taxed since it is a source of earning valuable foreign exchange. In Pakistan "no payment no refund" system was introduced in 2005. It continued successfully for almost nine and a half years.

The associations appealed to review not only the decision to increase the sales tax to five percent, but also to withdraw the existing two percent tax.

Pakistan Hosiery Manufacturers Association Central Chairman Saleem Parekh, Pakistan Readymade Garments Manufacturers and Exporters Association Chairman Naseer Malik, Pakistan Carpet Manufacturers and Exporters Association Chairman Usman Ghani, Pakistan Surgical Manufacturers and Exporters Association former chairman Bilal Amin, and Pakistan Gloves Manufacturers and Exporters Association senior vice chairman Nadeem Abdullah attended the event.

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PTEA seeks zero-rated ST facility

RECORDER REPORT

FAISALABAD: Pakistan Textile Exporters Association (PTEA) has demanded the government to allow zero rating sales tax facility on export oriented-textile chain in the coming budget 2015-16 as it will help to restore the competitive edge for Pakistani textiles in international market and will also up lift the exports and strengthen the national economy.

Talking to newsmen here on Monday, Sohail Pasha, Chairman and Rizwan Riaz Saigal, Vice Chairman PTEA said that PTEA has already forwarded a comprehensive proposal of zero rating of sales tax to FBR for implementation in next fiscal year. Zero-rating withdrawal has adversely affected exports at a time when a huge amount of sales tax refunds are already stuck up with the Federal Board of Revenue (FBR) and exporters are facing liquidity crunch. Terming withdrawal of zero rating regime and imposition of sales tax on supplies a detrimental to the business activities as erosion of textile industry's competitiveness, particularly against the huge incentives being provided by the competing countries like China, India and Bangladesh to their industry and exporters. They said that 80 percent of textile produce is exported in one or the other form, with only 20 percent left for local consumption. Therefore, zero rating of the entire value chain for the export is imperative to remain competitive in the international market. Textile exports should be actual zero rated and assisted to become competitive internationally as being done by our regional rival countries, they demanded. Sohail Pasha said that due to energy shortfall, major chunk of finance is diverted to develop energy infrastructure that has squeezed financial streams breading cash flow jerks.

To remain afloat, PTEA office-bearers urged to bring the textile exports out of inflationary pressure as well as to cut the production cost. They said that due importance has not been accorded to textile export sector which is earning 60 percent of the total foreign exchange of the national economy. They urged the government to allow zero rating sales tax regime for whole textile export chain in coming budget.

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APTMA seeks zero-rated regime and not subsidies

RECORDER REPORT

LAHORE: The All Pakistan Textile Mills Association is seeking an effective zero-rating regime and not subsidies to increase the country's exports.

A spokesman said the textile industry was an export-oriented industry and it should not be burdened with innovative taxes and inefficiencies of the system and feared that heavy closures in case the government alters the reduced rate regime.

He said, "An early release of stuck up refunds as well as the liquidity supply to the textile industry is an urgent need of the hour … The textile industry in Pakistan is facing a crisis like situation due to the high cost of doing business oozing out of the energy constraints, high cost of finance and labour wages as against the regional competitors. A latest study by the GHEZRI/IBA has revealed that the manufacturing of 20s and 30s single cotton yarn is around 15% cheaper in India due to various factors. The textile industry in Pakistan is being burdened with various types of innovative taxes and inefficiencies of the system, which cannot be passed to the buyers." He has urged the government to restore competitiveness of textile industry by brining the rupee on its real value, uninterrupted energy supply at regionally affordable tariff, notify Technology Upgradation Funds Scheme and announce zero-rate regime for five export-oriented textile industry sectors.

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Tax hike to give rise to flying invoices: experts

By Mansoor Ahmad

LAHORE: The government is planning to increase sales tax from two to five percent for the top five export sectors in the next budget, but taxation experts have warned this will result in re-emergence of flying invoices.

The five major sectors of the industry are having nightmares on the reports of enhanced sales tax as they run from pillar to post to get refunds of even two percent sales tax.

The experts point out that even current rate of two percent sales tax could facilitate FBR in documenting the economy through manufacturers, provided the capacity and transparency is enhanced.

Increasing the sales tax would simply block cash for the exporters as the refunds are inordinately delayed for years, they said and warned that increasing the sales tax rates to five percent will create an arbitrage that would encourage re-emergence of flying invoices.

"Flying invoices, during the Shaukat Aziz era, resulted in a situation when the sales tax collected by the FBR was lower than the refunds," said economist Faisal Qamar.

He regretted that the FBR has not learnt lessons from the experience.

During that period unscrupulous elements presented sales tax invoices of FBR registered sales tax agents and claimed export refunds worth billions of rupees.

The registered sales tax parties then vanished from their registered offices that were duly verified by the FBR officials.

Qamar said the fact that the refunds were promptly made on the flying invoices indicates that the whole racket operated with the connivance of the sales tax staff and the refunds of genuine exporters were subjected to long delays - the practice still continues today.

However, he pointed out, the threat of flying invoices was controlled when two years back the government announced reduced sales tax scheme for five exporting sectors including textiles, leather, sports goods and surgical instrument.

Group Leader All Pakistan Textile Mills Association (APTMA) Gohar Ejaz said flying invoices do not concern genuine exporters and these could be eliminated if the FBR makes its officers accountable for the registration of sales tax persons and companies.

"What concerns the exporters is the fear of non-refunds," He said, adding that on paper it looks fair that an exporter pays sales tax on its inputs and gets refunds when exports are executed.

However in practice this does not happen. The refunds should be made immediately after exports are held up on one pretext or the other.

Under the current regime there is no sales tax on cotton or polyester fibre, Ejaz said.

The proposal for next budget is to charge five percent sales tax on cotton and polyester. However, the planners fail to take into account the fact that those spinners buy cotton for the entire year in one go to ensure uniform quality.

They would have to pay sales tax at the time of buying and it would be refunded gradually in one year as the exports are executed.

This would block a huge amount of liquidity for the spinners in sales tax.

Moreover, up till now the exporters were exempted from paying sales tax on utilities like gas and electricity.

The refunds against these would be an additional headache for the entire exporting sector, he added.