



PAKISTAN HOSIERY MANUFACTURERS & EXPORTERS ASSOCIATION
(Government approved sole representative body of Knitted Goods & Apparel Manufacturers)



Ref.No.2023/PHMA/016
Dated: 2nd March, 2023

MOST IMMEDIATE

Dr. Asif Mahmood Jah,
Federal Tax Ombudsman (FTO),
Federal Tax Ombudsman Secretariat,
5-A, Constitution Avenue,
ISLAMABAD.
Tel: 0519211382 | Fax: 0519205553
E-mail: ombudsman@fto.gov.pk

APPEAL FOR COGNIZANCE AGAINST UNJUSTIFIED AND INORDINATE DELAYS IN REFUNDS CLAIMS OF SALES TAX ON SERVICES OF TEXTILE EXPORTERS IN SRB SINCE ITS ESTABLISHMENT UNDER SALES TAX ON SERVICES ACT 2011 DUE TO LACK OF INTEGRATION OF SALES TAX FILING SYSTEM OF FBR & SRB

Dear Sir,

Pakistan Hosiery Manufacturers & Exporters Association (PHMA) presents best wishes and compliments and states that Value-Added Textile Exporter Members file the Sales Tax Refund Claims on goods with the Federal Board of Revenue under the Sales Tax Act 1990 in the FBR's FASTER (Fully Automated Sales Tax e-Refund) system and the relevant claims are processed and released in accordance with the provision of Sales Tax Act & Rules. Likewise, the exporters also file their refund claims against Sales Tax on provincial Services being charged such as in the Sindh Province by the Sindh Revenue Board (SRB) since the enactment of Sindh Sales Tax on Services Act 2011 and establishment of SRB thereof and later on other provincial revenue authorities. However, it is highly unfortunate that refunds against Sales Tax on Services are 100 percent deferred since year 2011 and not a single Rupee claim has been refunded till date. Such adversity is being caused owing to lack of automated integration between the online filing systems of FBR & SRB which has not been upgraded/ updated to reconcile the Sales Tax Refunds claims filed by exporters causing 100 percent deferment resulting to severe liquidity pressure on exporters as their refunds claims have been stuck-up, in contravention to the relevant laws and rules, since year 2011. It was claimed by FBR that a single return for cross adjustment will resolve this issue however nothing has been done to release these pending refunds against services.

Foregoing in view, your good-self is appealed to kindly take cognizance of this very important taxation matter causing grievances to exporters and multiplying their liquidity hardships and necessary directives may please be given to both FBR & SRB to take immediate steps and measures to urgently streamline and upgrade/ integrate their online systems for 100 percent reconciliation, approval and swift release of exporters' claims of Sales Tax on Services enabling them to further enhance exports and earn valuable foreign exchange for Pakistan.

Your immediate intervention in this regard shall be highly solicited.

Thanks and best regards

Yours sincerely,
For Pakistan Hosiery Manufacturers & Exporters Association

Muhammad Jawed Bilwani
Patron In-Chief & Former Chairman, PHMA
Chairman, Pakistan Apparel Forum



CENTRAL OFFICE

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FEDERAL TAX OMBUDSMAN SECRETARIAT

No. 1-1597-KHI-23-IMP

Dated: 27-07-2023

Complaint No 1597/KHI/ST/2023

To,

The Secretary
Revenue Division, Islamabad.

FINDINGS/RECOMMENDATIONS/ORDER

A copy of the Findings/Decision/Order of the Hon'ble Federal Tax Ombudsman dated 27/07/2023, in the complaint cited above is sent herewith for compliance.

2. Compliance report be submitted to this office within the prescribed time mentioned in the Findings/Recommendations.
3. It is intimated that the aggrieved party has an option to seek a review of this order before the Ombudsman or to file a representation before the President. The limitation for both these remedies is 30-days, however, the remedies are not concurrent.

THIS ISSUES WITH THE APPROVAL OF HON'BLE FEDERAL TAX OMBUDSMAN

(Muhammad Majid Qureshi)
Registrar
Federal Tax Ombudsman Secretariat
Islamabad

A copy of the Findings/Decision/Order is forwarded for information to:

- ✓ 1. Muhammad Jawed Bilwani Patron M/s Pakistan Hosiery Manufactures & Exporters Association, P.H.M.A House No 37-H, Block No 6, P.E.C.H.S, Karachi. (021-9333226)
2. The Member (IT), FBR, Islamabad.
3. The Member, Tax Policy, FBR, Islamabad.
4. The Member (Operations), FBR, Islamabad.
5. Office Copy.

(Muhammad Majid Qureshi)
Registrar
Federal Tax Ombudsman Secretariat
Islamabad

NOTE

In pursuance of President's Secretariat (Public) Aiwan-e-Sadar,
Islamabad Office Memorandum No.246/WM/2020 Dated 19.11.2021,

"It is hereby informed that if you want to file appeal, in Complaint

. No. 1597/KHI/ST/2023 representation must reach the

Hon'ble President

By 02.09.2023"

**Registrar
Federal Tax Ombudsman
Secretariat Islamabad**

**THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

Complaint No.1597/KHI/ST/2023

Dated: 24.03.2023* R.O. Karachi

Mr. Muhammad Jawed Bilwani Patron,
M/s Pakistan Hosiery Manufacturers & Exporters Associations, PHMA House No. 37-H,
Block No.6, P.E.C.H.S,
Karachi *... Complainant*

Versus

The Secretary,
Revenue Division,
Islamabad. *... Respondent*

Dealing Officer	:Mr. Badruddin Ahmad Quraishi, Advisor
Appraising Officer	:Mr. Muhammad Nazim Saleem, Advisor
Authorized Representative	:The complainant in person
Departmental Representative	:Nemo

FINDINGS/RECOMMENDATIONS

The above-mentioned complaint was filed in terms of Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) for inordinate delays in refund claims of sales tax on services by textile exporters in Sindh Revenue Board (SRB) due to lack of integration of sales tax filing system of FBR & SRB.

2. Briefly, the complainant on behalf of Pakistan Hosiery Manufacturers & Exporters Associations (PHMA) lodged this complaint against non-payment of sales tax refund on services due to lack of automated integration of online return filing system between FBR & SRB. As per complaint, these refund claims on services are being deferred since 2011 in contravention of relevant rule & regulations resulting to severe liquidity hardship to exporters. It was claimed by the FBR that a single return for cross adjustment will resolve this issue, however nothing has been done to release these pending refunds against services. The complainant

* Date of registration in FTO Sectt

submitted a list of twenty exporters of textile industry wherein deferred sale tax refund on services amounting to Rs. 580 million remained pending for payment and prayed for necessary directives to FBR & SRB to take immediate steps to streamline and upgrade/integrate their online systems for 100% reconciliation and swift release of sales tax refund on services.

3. The complaint was referred to the Secretary, Revenue Division for comments in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. In response thereto, the Second Secretary (ST-L&P) vide letter dated 27.04.2023 submitted that the basic issue related to lack of integration / synchronization between the online filing system of FBR and SRB which has not been upgraded / updated despite FBR's commitments for the Single Return to resolve the said issue.

2X 4. On the other hand, when the issue was confronted to SRB, SRB vide letter dated 06.06.2023 & 13.06.2023 submitted that SRB tax returns were being e-filed on a fully automated system (e.srb.gos.pk) designed, developed and operationalized by PRAL, a subsidiary of FBR. SRB has authorized FBR to full access through PRAL to the SRB tax returns data relating to Sindh sales tax on services. As regards Single Return, the matter of designing and operationalization of Single Return is being done by FBR and PRAL who have not yet rolled out the same to SRB despite SRB's willingness and consent conveyed to FBR and PRAL. Thus, the FBR and it's field formations, themselves need to review and justify why the exporters' refund claims in relation to Provincial sales tax i.e; Sindh sales tax are still pending despite the SRB Authorization dated 26.10.2011 and FBR's Circular No. 01/2020 (IR Operations)

dated 04.08.2020 read with FBR's amending order dated 11.05.2023.

5. Arguments heard and record perused.

6. It is an undeniable fact that the exporters are entitled to claim sales tax refund against input tax paid on services in terms of Section 10 read with Section 2(14) of the Sales Tax Act 1990 (the Act) which states:

10. Refund of input tax.— (1) If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than forty-five days of filing of refund claim in such manner and subject to such conditions as the Board may, by notification in the official Gazette specify."

"2(14) "input tax", in relation to a registered person, means –

(a) tax levied under this Act on supply of goods to the person;

(b) tax levied under this Act on the import of goods by the person;

(c) in relation to goods or services acquired by the person, tax levied under the Federal Excise Act, 2005 in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services;

(d) Provincial Sales Tax levied on services rendered or provided to the person; and

(e) levied under the Sales Tax Act, 1990 as adapted in the State of Azad Jammu and Kashmir, on the supply of goods received by the person;"

However, despite presence of above provisions for entitlement of sales tax refund on services to exporters; the input tax against payment of services are deferred by the FASTER of FBR webportal.

7. Presently, Sales Tax registered persons are required to file their monthly Sales Tax returns separately to every tax jurisdiction where they conducted business, such as FBR, Sindh Revenue Board, Punjab Revenue Authority, Khyber Pakhtunkhwa Revenue Authority and Balochistan Revenue

Authority, Azad Jammu & Kashmir and Gilgit-Baltistan Revenue Authority. This is a cumbersome task, which often led to complications and disputes over jurisdiction. FBR on its ongoing drive for digitization and automation of various processes involved in revenue collection after negotiations between FBR and the provincial revenue authorities; developed "Single Sales Tax Portal" to facilitate the taxpayers and ensure the ease of doing business. The system will automatically apportion input tax adjustment as well as tax payments across the sales tax authorities. Federal Board of Revenue and all the four Provincial Revenue Authorities signed a Memorandum of Understanding (MOU) for a single sales tax return and single web portal. Accordingly, an Office memorandum for 'Launching of single sales tax return' was issued on 24.12.2021 by the Second Secretary (BDT-IT-II) , FBR for filing single sales tax return for December 2011 to be filed in January 2022. However, till date the concept of single sales tax return did not materialize.

8. Moreover, these deferred refund claims on services are pending at field offices for processing in terms of FBR's Circular No. 01/ 2020 (IR Operations) dated 04.08.2020 read with FBR's amending order dated 11.05.2023. FBR vide circular No.01/2020 dated 04.08.2020 has issued SOP for over ruling of objections raised by FASTER / STARR in deferred claim. The overruling of objection on adjustment of input tax on provincial services was previously allowed on production of invoices, return & proof of payment subject to verification from Provincial authorities. Lately, vide letter dated 11.05.2023, FBR has relaxed this condition and now verification is not required from the provincial authorities.


FINDINGS:

9. The delay in payment of sales tax refund on services to exporters within the time limit stipulated under Section 10 of Sales Tax Act 1990 read with Rule 39F of Sale Tax Rules 2006 tantamount to maladministration in terms of Section 2(3)(ii) of the FTO Ordinance.

RECOMMENDATIONS:

10. FBR to direct :

- i) the Member (IT), Member Tax Policy and Member (Ops) to expedite the process of integration / synchronization between the online filing system of FBR and Provincial Revenue Authorities including Azad Jammu & Kashmir & Gilgit-Baltistan Revenue Authority for a single sales tax return and single web portal as per commitment made through Office memorandum for 'Launching of single sales tax return' on 24.12.2021 expeditiously without further delay
- ii) Meanwhile, the field formations be directed to process the pending deferred refund claims on services in terms of FBR's Circular No. 01/ 2020 (IR Operations) dated 04.08.2020 read with FBR's amending order dated 11.05.2023 on merit and in accordance with law.


(Dr. Asif Mahmood Jah)
(Hilal-i-Imtiaz)(Sitara-i-Imtiaz)
Federal Tax Ombudsman

Dated: 27:7: /2023

Approved for reporting


Director
FTO Secretariat
Islamabad