

Khalid Mustafa

APTMA demands withdrawal of 4pc withholding tax

ISLAMABAD: The FBR is killing the goose that lays the golden eggs as it has imposed 4 percent withholding tax on the entire textile value chain that will ultimately lead to the closure of the whole industry, says the APTMA letter written to FBR chairman on August 21.

“Yes, we have agitated the issue in the letter written to FBR chairman mentioning that in repeated meetings both in and outside of FBR in the presence of others it has been repeatedly stated that tax on domestic commerce was 1 percent instead of 4 percent as there is no change in the income tax laws, rules and regulations.

However, last night to our utter surprise and disappointment a ‘clarification’ by FBR was issued stating that the withholding tax on the entire textile value chain would be 4 percent,” Shahid Sattar, Advisor to All Pakistan Textile Mills Association (APTMA) told The News.

He said: “With the imposition of 17 percent sales tax, increase in turn over tax to 1.5% and other issues, bulk of the industry was already on the verge of shutdown due to non-profitability and extreme liquidity crunch.

The final blow of 4 percent imposition of withholding tax on entire textile value chain will surely hasten to the closure of these factories resulting in massive de-industrialization loss of revenue to FBR and unemployment of over a million people.”

The letter which is in possession of The News argues: “This measure is example of extreme shortsightedness as 4 percent of the gross value of each invoice as advance income tax cannot be recovered and will necessarily become part of the cost.”

The letter further says quoting an example while looking at the cotton purchase from the ginneries, a 4 percent deduction from the ginneries invoices will lead to pressure on ginneries to reduce the price they pay for cotton procured from the farmer as their own tax liability in reality is only for ginning charges which constitutes 35 percent of the ginned cotton.

The letter further pitched the argument before FBR chairman saying that similarly on spinning units who operate on large volume but with slim margins, the withholding tax deducted on sales would be greater than their entire margin.

And this would lead to huge income tax refunds claims which have little chance if any of being settled within any reasonable time frame. This is more onerous than GST as there is no allowance of setoff of withholding tax deducted on inputs.

And where an industrial unit is exporting and selling locally as well, as is the case in the great majority of textile units, the matter would be even more complicated. The APTMA in its letter also offers to quote similar examples all along the chain and provide audited balance sheets of public listed and other companies for FBR to see that the margins these mills are operating upon are much slimmer than the potential withholding tax collected.

The letter in the end asks FBR to end 4 percent withholding tax on entire tax value chain and instead notify 1 percent tax as was agreed in countless meetings with Industry at all levels of government.