

Withdrawal of zero-rating facility creates unrest: PHMA

Pakistan Hosiery Manufacturers & Exporters Association (PHMA) has said that the withdrawal of zero-rating facility has created a fear among the value-added textile exporters that their refunds would start getting stuck from the current month, as the government has not put up an efficient system of refund payments in place.

In a press statement issued here on Monday PHMA Chairman Adil Butt said if facility of zero rating is done away with, as revenue is also needed for the country, then FBR must develop a speedy and efficient mechanism for payment of refunds to mitigate the resulting liquidity problems otherwise industry will be forced to shut their operations.

He maintained that FBR cannot manage speedy payment of refunds, which would squeeze working capital and make it difficult for businesses to even pay their salaries and unable to sell their products aggressively in the international market. Moreover, he said that the high input costs, including energy, are making Pakistani products uncompetitive in the international market.

He suggested that the decision of the withdrawal of zero-rating facility should be put in abeyance till a proper and efficient system of refunds is made, tested and implemented.

He also requested the government to immediately pay the refunds up to Rs50,000 as per the instructions of Finance Minister. One mechanism proposed by the exporters is that 70 percent of the refunds should be paid to regular exporters upon issuance of Bill of Lading and the remaining can be paid upon realization of export proceeds, he added. The decision to pay refunds only on the basis of export proceeds is not viable as the remittances often come after a considerable lag, he pointed out.

Adil Butt said that discontinuation of no payment no refund regime will jam up an additional 14 percent of the exporters' liquidity every 4 months (as one shipment takes 4 months for completion) which implies 42 percent liquidity will be stuck up in unpaid refunds in a year.

He said the decision has created chaos and unrest amongst the exporters as it would immensely disturb their financial liquidity and it is absolutely not possible for them to absorb and sustain.

PHMA chairman said that the exporters, who are earning valuable foreign exchange for Pakistan have been, penalized due to sheer inefficiency and incompetence on part of the FBR enforcement staff who actually responsible to broaden the tax base.

Adil Butt said that the imposition of 17 percent sales tax on local sales would reduce domestic demand, given large scale smuggling across our porous borders, and consequently compel industry to reduce its output.

He stated that the impact of withdrawal of zero-rated status would be greater on small and medium enterprises (SME) relative to large scale manufacturing units.

He said that the measures in the budget such as Sales Tax on zero-rated industries, abrupt and continuous devaluation of rupee against dollar, sudden hike in the utilities tariffs are proving to be counterproductive and detrimental to the confidence of the export sector. He said if current irritants are not addressed on war footing then exporters might not be able even to hold on to their current share in the global markets.