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Budget FY20: Textile loses favour

The recently unveiled budget has put in words the worst fear of the textile sector. The zero-rated status given to the sector under SRO 1125 has been taken away. All the SOS appeals in newspapers coupled with the countless meetings of textile associations with the government could not stop this from passing.

So what has all the hue and cry been about? Since 2011, the textile industry along with leather, carpets, sports goods and the surgical instruments sector has enjoyed zero-rated status on both inputs as well as finished products. This has allowed them to forego depositing sales tax under the "no payment, no refund" mantra proposed by the textile industry and adopted as part of the incentive package rolled out by the government.
It is difficult to quantitatively assess the impact of the refund policy on textile exports as no study has been done on the subject. However, one primary objective was to ease the liquidity for exporters who saw refunds stuck for years before payment was processed by the government.

Till date, the textile sector claims that almost Rs200 billion is still to be processed by the government while official figures of the Textile Ministry put it at Rs100 billion. The PTI government has decided to issue promissory notes for settlement of the approved pending claims in light of the fiscal constraints.

However, the process has kicked off only recently and the backlog remains substantial. The textile industry argues that with the removal of the zero rating schemes, this backlog will only increase.
Even though the government has made assurances during the budget speech that refund payment orders (RPOs) will immediately be sent to the State Bank of Pakistan (SBP) for processing, exporters are not hopeful of prompt refunds, which they claim get delayed due to a lack of fiscal space.

The government's main rationale for abolishing the scheme is that it has been used by textile firms to evade payment of sales tax on domestic sales. According to Hammad Azhar, the Revenue Minster for State, tax collection on domestic sales of Rs1.5 trillion was only Rs12 billion, an area which cannot be ignored if the government is to meet its ambitious revenue targets for the year.

Be that as it may, the move does not bode well for exporters given that delayed refund processing will affect liquidity and in turn order processing for export firms. The rupee depreciation and the rise in cost of production are already keeping exports in check and the removal of the zero-rated treatment might likely result in a fall in textile exports in the coming year.

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