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Five zero-rated export sectors: Businesspeople meet PM; no decision taken

The representatives of five zero-rated exports-oriented sectors (textile, leather, sport goods, surgical and carpets) on Thursday briefed Prime Minister Imran Khan and his economic team about their issues and pleaded for continuation of sales tax zero-rating regime under SRO No 1125 for these sectors. However, no decision was taken on the proposed withdrawal of zero-rating regime, said exporters who attended the meeting while talking to Business Recorder here on Thursday.

The PM assured to accord consideration to the appeal of the five zero-rated export sectors, they added. The five zero-rated export sectors demanded that zero rating for five export-oriented sectors - "no payment no refund system" - should continue and be converted into an act of the Parliament from existing SRO system.

According to senior officials of the Federal Board of Revenue (FBR), zero-rating facility costs around Rs 80-90 billion annually to the national exchequer. However Member Inland Revenue Dr Hamid Ateeq Sarwar while briefing the Senate Standing Committee on Finance stated that the government is banking on revenue of around Rs 250 billion from withdrawal of zero-rating regime.

Exporters and business community representatives including Aqeel Kareem Dedhi, Mohsin Singani, Ahmed Chennai, Daro Khan, Zubair Tufail, Zubair Motiwala, Ali Habib and SM Munir met with PM Khan where Advisor to Prime Minister on Finance Abdul Hafeez Shaikh, Prime Minister's Adviser on Commerce, Textile, Industries & Production and Investment Abdul Razak Dawood, Minister of State for Revenue Hammad Azhar, Chairman Federal Board of Revenue (FBR) Shabbar Zaidi, Federal Minister for Power Division Umar Ayub Khan and Adviser to Prime Minister on Austerity Dr Ishrat Hussain Ishrat Hussain were also present.

According to official statement issued from the PM Office, Prime Minister Imran Khan said promotion of manufacturing sector and business activities in the country is the foremost priority of the government. Talking to the representatives of business community, he stressed the need for effective collaboration between the government and business community to overcome economic difficulties and stabilise the economy. The representatives of business community said that business community stands by the government in the process of economic reforms and full support will be extended to carry forward this process. On the occasion, the representatives also presented recommendations regarding ongoing economic reforms by the government.

According to the presentation (a copy of which is available with Business Recorder) given to the PM, the export industry is already facing the severest ever liquidity crunch as more than Rs 200 billion of exporters in refunds of sales tax, customs rebate, withholding tax, DLTL & DDT are already held up with the government. Discontinuation of 'no payment no refund regime' will further stuck up 14% of exporters liquidity in every 4 months as one shipment takes 4 months for completion which means 42% exporters' liquidity will be stuck up in a year. No government during the past two decades was able to give refund on time due to bad economic conditions. "Today in this period of most worst economic crisis, how the government can pay refunds," they maintained in the presentation.

They further maintained that since the value chain is not complete and there are missing links, like weaving is out of the link. The wholesale and retail sectors are also not registered. "We are of the same opinion that the government should get tax from goods sold in the local market. We feel that it should be collected by registering wholesale and retail sectors. Disturbing the manufacturing sector for mere 20 percent would not be a wise decision. We appeal the government to continue zero rating system at manufacturing stage," they said. Talking to Business Recorder, Chairman Council of All Pakistan Textile Association Zubair Motiwala and Chairman Pakistan Apparel Forum (PAF) Javed Bilwani said that the meeting took place in the Parliament House where a detailed presentation was given to PM Khan and his economic team. They said that the five zero-rated sectors have apprehension of refund blockage and increased cost of production, which will make them uncompetitive in the regional market if zero-rating facility is withdrawn.

When asked about the reduced rate, exporters said that they asked the PM to continue with zero-rating regime. Export sector's representatives said that they were told that final decision would be taken after in-house consultations and exporters would be informed accordingly.

Representatives of five zero-rated export sectors appealed PM Khan to withhold rescinding of SRO No 1125 and continue zero rating. If any amendments are required, they should be done in SRO No 1125 without rescinding so that facilities given to exports-oriented industries should continue and there is no hiccup in exports in the national interest.

A comprehensive presentation on five zero-rated export sectors was given by Zubair Motiwala to the Prime Minister in the meeting held at Prime Minister's Chamber in the National Assembly.

In the presentation, the Prime Minister was apprised about historical background of zero-rating whereby 'no payment no refund' system was introduced in 2005 to improve liquidity of exporters and is not an incentive or subsidy. Collecting sales tax and then refunding is a futile exercise which creates hassles for exporters and also opens gates of corruption.

During the last 10 years, exports of five zero-rated export sectors increased to 37 percent in terms of value. However, due to depreciation of rupee in last four months, exports increased but in quantity terms only. The textile industry exports more than 80% of their products. To collect sales tax on remaining 20% from textile manufacturing sector is not feasible and saner thing to do. The exporters also feel that exports may get a dip of 20% to 30%. The discontinuation of zero-rating scheme and reduced rate of sales tax will eliminate SMEs value added exporters due to liquidity problem and exports will decline to around 30% in the next fiscal year.

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