

Five zero-rated sectors: FBR set to levy 17pc GST to forestall revenue leakage

ISLAMABAD: The Federal Board of Revenue (FBR) Saturday started the preparations for charging 17 percent sales tax on local supplies of manufacturers-cum-exporters of five zero-rated sectors from July 1, 2019. The board also initiated stocktaking to avert any possibility of showing clearance of all stocks at zero percent (on papers) till June 30, 2019.

The FBR has issued instructions to the Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) on Saturday.

The FBR is apprehending that the zero-rated sectors may try to show on books that all stocks have been cleared at zero-percent sales tax before July 1, 2019 to avoid 17 percent sales tax on available stocks, sources added.

According to the FBR instructions to the field formations, in pursuance of SRO 1125 (1)/2011 dated 31.12.2011, five zero-rated sector were chargeable to sales tax @ zero percent of reduced rate tax; however, in the budget 2019-2020, the federal government has proposed to rescind the aforesaid SRO and consequently, the five zero-rated sectors are proposed to be charged on sales tax at standard rate of sales tax @17 percent on local sales w.e.f. 01.07.2019. In this regard, there is apprehension of revenue leakage in the way that some taxpayers having massive inventories may under-declare their existing stocks.

The Board is therefore according approval under section 38 of the sales tax Act 1990 for conducting stocktaking maintained by all such taxpayers of five zero-rated /reduced rates of tax sectors, so that inventories chargeable to tax @17 percent may be correctly brought forward, FBR added.

When contacted, Arshad Shehzad, a top sales tax expert, explained this is a routine action usually board takes when there is any shift in taxation regime to ensure smooth transition. The circular is more like a message of deterrence than any practical application across the board. He, however, raised his concern over the issuance of textile-specific instructions while there is change of regime for different sectors in this year's finance bill such as retailers, steel, edible oil, and ghee, packed rice, sugar etc. The single trade specific notice, therefore, in his opinion is causing unnecessary panic and raises eyebrows.

In his opinion, there are a capacity constraint at the part of the board and its field formation to carry out any such stocktaking exercise on a large-scale. Therefore issuance of such circular in the existing circumstances is unnecessary and causing harassment which needs to be stopped, said Arshad Shehzad.

A letter of the zero-rated export associations headed by Chairman Pakistan Apparel Forum (PAF) Javed Bilwani has been sent to Prime Minister Imran Khan to withhold rescinding of SRO 1125 and continue zero-rating at 0% sales tax regime - "no payment no refund" system.

Zero Rated Export Associations appealed to the Prime Minister of Pakistan to withhold rescinding of SRO 1125 and continue zero rating at 0% sales tax regime - "No Payment No Refund" System.

Chairmen of Pakistan Hosiery Manufacturers & Exporters Association, Towel Manufacturers Association of Pakistan, All Pakistan Textile Processing Mills Association, Pakistan Readymade Garment Manufacturers & Exporter Association, Pakistan Cotton Fashion Apparels Manufacturers & Exporters Association, Pakistan Weaving Mills Association, All Pakistan Textile Sizing Industry Association, Pakistan Tanners Association (Leather) and Surgical Instrument Manufacturers Association of Pakistan in their letter addressed to the Prime Minister further appealed if any amendments are necessarily required, these should be done in SRO 1125 without rescinding it so that facilities given to exports-oriented industries should continue without hindrances in exports in the national interest and in the light of PTI's manifesto & textile policy. Continuation of zero rating under SRO 1125 - "No Payment No Refund" system is inevitable in view of the severest ever liquidity crisis being faced by the exporters in the history of Pakistan. Previously the export industry was operating on better profit and hence survived when 2% sales tax was imposed. However, currently exporters are operating their business on 3-4% profit margin and cannot afford any percent of sales tax. Collecting sales tax and then refunding is a futile exercise which just creates hassles for exporters. Therefore, the FBR should target on broadening of tax net, they demanded.

They cautioned in their letter that nevertheless, discontinuation of zero rating scheme at 0% sales tax regime will eliminate SMEs - value added exporters. Most of the industries are SMEs which are the backbone of export as they earn high amount of foreign exchange by manufacturing value-added products and provide huge employment. Value added export sectors have 50% share in total industrial employment. Elimination of SMEs means sharp decline in exports, massive layoffs, unrest in the export sectors and complete chaos. God forbid if the SMEs collapsed, it will take decades for their revival and economic crisis will worsen. In such a grave scenario, the foreign buyers will also shift towards other competing countries and hard struggle to maintain export business with them will go in vain. They fervently appealed to the Prime Minister to kindly intervene and give directives to withhold rescinding of SRO 1125 and continue zero rating at 0% sales tax regime in the national interest and for the sake of enhancement of exports to earn valuable foreign exchange for the country.

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