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Five export sectors: 17 percent GST to be levied to mobilize additional Rs 75-80 billion

The government has decided to impose a standard rate of 17 percent sales tax on the five export-oriented sectors - textile leather, carpets, surgical and sports goods to mobilize Rs 75-80 billion additional revenue in the budget for next fiscal year.

Rescinding SRO.1125 thereby abolishing zero rating for the five sectors is in line with the staff level agreement with the International Monetary Fund (IMF) reflected in the 12 May 2019 press release which states that the "the budget will aim for a primary deficit of 0.6 percent of GDP supported by tax policy revenue mobilization measures to eliminate exemptions, curtail special treatments and improve tax administration."

"After withdrawal of zero-rating facility, exporters would face a serious liquidity crunch and the pressure on the government to release refunds would have to be managed through administrative measures," a senior FBR official told Business Recorder. When Business Recorder asked whether this was still a proposal as the final decision rests with the cabinet, informed sources responded that this was discussed in the last cabinet meeting and a green light for this measure was given.

The FBR proposals that are yet to be approved by the cabinet include: (i) eliminating exemptions of around Rs 300-350 billion is on the cards as in the current year exemptions amounted to Rs 680 billion; (ii) increasing sales tax from 17 to 18 percent to generate around Rs 100 billion; (iii) increase in Federal Excise Duty (FED) on existing items and imposition of FED on new items to generate additional revenue; (iv) revise income tax slabs for salaried and non-salaried category of taxpayers targeted to generate between Rs 90 billion to Rs 120 billion additional revenue and (v) 17 percent sales tax on steel sector and sugar; (VI) abolish presumptive tax regime for importers and exporters; "The FBR will eliminate the fixed or presumptive tax regime (FTR) in phase-wise manner, which is not based on net income basis, as it is unjustified," sources said.

The FBR has projected administrative measures to mobilize Rs 250 billion in the next fiscal year whereas nominal growth to the revenue on account of inflation and GDP would contribute around Rs300 to Rs 350 billion.

Sources in the FBR and Finance Ministry further revealed that a maximum increase of one trillion rupees from the revised estimates of the current year is achievable from these measures and the target of around Rs 1.45 trillion is simply not possible. Sources added that Advisor to Prime Minister on Finance Dr Abdul Hafeez Sheikh has already been given a briefing on the tax proposals for next year and has finalized all major taxation proposals for 2019-20.

These efforts will be supplemented by taxpayers' education and facilitation through developing android apps for filing of returns and payment of taxes. Analyzing income of non filers through utilities database as well as data of immovable property ownership will assist FBR in identifying those under reporting or not reporting their incomes as well as actual sales.

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