

Government mulls tax relief withdrawal today

The federal government is set to ponder over the possibility of withdrawal of the zero-rating regime from five exporting industries in order to ensure over Rs 50 billion sales tax on domestic sales, said sources. They said the federal finance minister Abdul Hafeez Sheikh would preside over a meeting to take a final decision on the fate of the zero-rating regime today.

It may be noted that the government is of the view that the tax benefits to these sectors have been ensured through Statutory Regulatory Order 1125, which the FBR wants to withdraw from the next fiscal year 2019-20. It has estimated to yield Rs.100 billion potential revenue by withdrawing tax exemptions given under the SRO 1125.

The FBR has estimated the total cost of tax exemptions at Rs.800 billion while another Rs.300 billion are lost due to low tax rates. These fresh estimates are double than the published figures, which suggests that the tax authorities were in past not fully reflecting the actual losses to the exchequer.

It has further been pointed out that the amount collected under the local sales of exporting industry is around Rs. 10 billion, which is far low than the actual potential of Rs. 60 billion. Therefore, the government should withdraw zero-rating regime from the exporting industry and impose 17 percent sales tax on such sales to meet revenue shortfall.

The industrial sources have criticized the approach, saying that the government should improve its collection system and plug the holes to catch those who are selling products locally. According to these circles, withdrawal of zero-rating regime and imposition of 17 percent general sales tax on raw materials and utilities would adversely affect the industry.

They have pointed out that only the composite units would be benefiting from any such arrangement comparing with the non-composite units. Also, they added, fake refund claims would again be rampant due to flying invoices and withdrawal of the zero-rating regime would re-introduce the corrupt practices where both the corrupt elements, both in the industry and bureaucracy, turned into billionaires.

The industrial circles as well as tax experts have criticized the federal finance minister Dr Abdul Hafeez Sheikh for re-introducing the culture of corruption by bringing back the Sales Tax refund system, as withdrawal of the zero-rating regime would result into stuck up of about Rs. 100 billion refund claims.

They said the government would be utilizing industry money without paying any interest on it, and any such situation would lead to increase in cost of doing business and ultimately closing down of exporting industry in Pakistan, particularly in the province of Punjab. They said imposition of a presumptive and punitive tax would burden the industry by and large, therefore, withdrawal of zero-rating regime would prove last nail in the industry's coffin.

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