

Trade bodies oppose withdrawal of zero-rated facility for export sector

KARACHI/LAHORE: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) have expressed concerns over the reports of possible withdrawal of zero-rated facility for the five key exports sectors in the forthcoming budget.

In a joint statement, business leaders said withdrawal of sales tax zero rating for key five sectors, ie, value-added textiles, leather, carpet, surgical instruments and sports goods would adversely impact the country's exports, which already were facing many challenges, it added.

These five sectors contribute 70 percent in exports of Pakistan and contribute significantly in earning foreign exchange and providing employment to skilled and unskilled labour force.

Refund claims of exporters amounting to Rs300 billion were already stuck up, creating liquidity crunch for the industry, while uncertain economic environment has slowed down the investment to almost zero. Moreover, the rupee devaluation by more than 30 percent has failed to increase exports.

The FPCCI leaders said withdrawal of this facility would increase the cost of doing business due to 17 percent sales tax and high utility cost, as Pakistan's exports were already facing a tough competition in the international market due to enormous facilities given by the regional countries to their exporters.

They also said the government should find new avenues for enhancement of its revenue instead of damaging the exports sector, which was already on a decline.

They also suggested the government to facilitate the industrialisation in Pakistan, particularly the agro-based and value-added industries for the enhancement of exports.

Meanwhile, All Pakistan Textile Mills Association (APTMA) Chairman Syed Ali Ahsan has apprehended that the proposal to withdraw zero-rating regime would have an adverse impact on exports, production and investments, and chances of industry closure are too high.

The industry is seriously concerned on the move, as the end exporter would be the worst hit due to stuck up refunds.

The regime of zero rating was introduced after due diligence by the Federal Board of Revenue (FBR) after meetings with the stakeholders and verifications by the leading auditor A F Ferguson, as the government was collecting less sales tax and disbursing more refunds under the earlier regimes when wrong registration of taxpayers and flying invoices was a common practice.

It also plagued the system with corrupt practices and ultimately a colossal loss to the exchequer, he said, adding that the government had; therefore, introduced zero rating regime in 2009, which is in practice since then.

Only minor inputs with common use in other industries was excluded from the zero-rated regime and; thus, resulted into piling up of refunds. Even under the zero rating regime, a sizeable amount of industry's refund is pending with the FBR.

The proposed scheme to raise revenue from the textile value chain by introducing 17 percent sales tax and subsequent refund of the same under an already tested, tried and eventually failed system would choke down the entire value chain of the industry and exports due to the liquidity constraints.

Earlier addressing a press conference on Tuesday, value-added export sector associations have warned that exports would decline around 30 percent in a year, if zero-rated status is discontinued.

Value Added Export Sector Associations chairmen in a joint press conference held at the PHMA House Karachi said that discontinuation of zero-rated status would result in flight of capital, mass unemployment and huge foreign exchange losses.

They said it would lead to corruption in connivance with the dubious FBR officials under the mode of flying invoices, over-invoicing, frauds in refunds, etc.

Due to significant volumes of liquidity being stuck in the form of sales tax refunds, export growth will be severely affected and exports might decline, they added.

More than Rs200 billion are stuck up in refunds, they said, and expressed concern on the proposed abolition of final tax regime (FTR) for exporters.

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