

Mansoor Ahmad

### **How invoicing irregularities are deindustrialising the country**

LAHORE: Under-invoicing is a menace that has throttled industrialisation in the country and the bureaucracy is fully aware of it but the illegal gratification they get on each clearance acts as an incentive to let this practice thrive unabated.

It can be simply defined as stating the price of a good on an invoice as being less than the one actually paid to the supplier. It occurs if the importer and/or exporter wish to save on a tariff/duty or if a buyer and/or seller wish to understate their apparent profits so as to pay less in taxes.

Curbing under-invoicing is possible through prudent use of options that technology offers. The customs fixes import tariff price of under-invoicing-prone items and the duty and other levies are collected on the Import Trade Price (ITP) fixed for each product.

It is worth noting that the ITP is fixed on higher side for items that are not produced in Pakistan. The overall value of these items is also low and rent-seeking in volumes is not possible. By increasing the ITPs against any logic the officials show to the rulers their commitment to curb under-invoicing. But on products that are also produced in Pakistan the ITPs are fixed very low. This practice completely nullifies the protection that the state has provided to the domestic industries. In all cases of under-invoicing the importers end up paying less cumulative government levies than the local producers. The only additional duty levied on importer is the customs duty, while equal sales tax is levied on both imported and domestic products. Under invoicing highly dilutes the custom duty and the sales tax for the importer. Domestic industry cannot compete with under-invoiced imports and in many cases closes down. Under-invoicing and smuggling is the main cause of deindustrialisation in Pakistan.

Since the revenue leakage owing to this menace runs into hundreds of billions it would be prudent to install software that updates the ITPs of every product regularly. It is as simple as that but customs have installed defective software and procedures that check the import price of the products on the parameters provided by the officials.

It has been found that the evaluation department usually enhances the ITP of numerous minor items, where the import volume is very low and keeps the values of bulk items low because they generate personal money for them. Software are available that could determine the actual price of any import with one click. As far as the under-invoicing is concerned it occurs under the nose of the government due to the connivance of government officials. So this is a case of the misuse of government writ for personal gains.

More often than not the customs officials overrule the suspect under-invoiced and mis-declared entries in favour of importer.

The under-invoicing-prone items include truck and bus tyres, crockery, artificial leather, and tiles but these items pass through customs without any hitch at very low prices. In most of the cases the prices at which these products are imported are less than the basic raw material used in their manufacture. The culture in the customs is to ignore the protest of the manufacturers. When the officials are convinced of under-invoicing through documents in the presence of a minister they promise to take action. And in most cases the action is to increase the customs duty instead of increasing the ITP. This increase has little impact as a product is imported at 10 percent of the original price and the impact of duties and sales tax still remains lower than the taxes paid by domestic manufacturers.

The ITP is used as a double-edged sword by the officials as in some cases particularly in modern technologies the original prices are constantly declining but the customs officials act very slowly in adjusting the ITPs to the new realities.

Some of these technologies are vital for education and in facilitation of business. Take for example the multimedia projectors that are now used in classrooms of all famous school chains. Higher ITP increases the cost of duty which impedes smaller schools to embrace this technology. The cut in the cost could be judged by the fact that in 1998 importing a 650 lumen multimedia projector cost \$2000. Today a 3000 lumen projector is being imported at \$250. The customs, however, have fixed the ITP at \$410. The total import of such devices is around \$250,000 only and a fair assessment would have no impact on the government revenues.