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Exporters show concern over stuck-up liquidity

KARACHI: The value added textile export sector has reached to the verge of disaster due to severest ever liquidity crisis in the history of Pakistan caused due to imposition of 17 percent sales tax in last budget whereby liquidity worth billions of rupees has been stuck-up with the government.

Last year, the government imposed 17 percent sales tax on exports in the Federal Budget with a view to collect sales tax on domestic sales of textiles which created financial burden for the export industry.

The exporters strongly agitated not to penalize exporters for shortcoming of FBR revenue targets and to collect sales tax from local sales. Covid-19 has further added to injuries of export sector amid global slowdown and in the wake of corona pandemic many global brands are facing bankruptcy whose impact will also fall on the export industry of Pakistan.

SME exporters are worst hit due to liquidity crisis and fearing closure as they have no running capital to operate their industries which once closed shall not be revived. The only solution to rescue the export industry, particularly SMEs, and address their liquidity crunch is to revive zero-rated sales-tax regime and reinstate SRO 1125 to provide pragmatic relief to Exporters in this severest ever liquidity crunch of history. This was stated by the Chairman, Pakistan Knitwear & Sweater Exporters Association (PAKSEA), M. Kamran Chandna and Immediate Past Chairman Mr. Rafiq Habib Godil in a joint press statement.

FBR also gave assurances to exporters the new refund system will be user-friendly and refund will be processed without human involvement. In this regard, Government introduced FASTER refund system for five export sectors by which sales tax refunds for exporters was to be paid within 72 hours. In first three months, the FASTER system functioned below par and remain inactive. With the joint intervention and efforts Associations, the Federal Tax Ombudsman and FBR, flaws and drawbacks of FASTER were improved. Even till today, approx. 25 percent to 30 percent exporters have not received the refunds against their claims filed in July, 2019 which puts question mark on the efficiency and transparency of FASTER system.

We believe that the government might have achieved its target to document the local textile sales with the imposition and collection 17 percent sales tax. However, imposition of sales tax on exports has brought disastrous effect and has put a lethal blow on exporters liquidity. Therefore, the Government should honour its commitment made by Advisor Finance to restore the zero rating.

Paying the refunds to exporters against the sales tax collected by the FBR which is liquidity of the exporters is not a realistic relief as Government releases part payments of the exporters while major amount of the sales tax refund are unnecessarily held by Government. Exporters who have promptly filed their claims of sales tax refunds have received up to Feb 2020 have received only 35 percent of their pending sales tax refund with the government. However, 65% of sales tax refund is carried forward and still pending which cumulate approx. 12 percent amount of exporter's running capital. However, the profit margin of exporters is around 5 percent to 8 percent. Moreover, exporter can apply for refund only after export of consignment. Hence, the financial losses to export industries are multiplying every coming day. Hardships of SMEs exporters in terms of liquidity shall multiply in the presence of 17 percent sales tax. Thus, restoration of Zero-Rating of sales tax - No Payment No Refund Regime is mandatory for the survival of export industries.

Addressing the concern of exporters, the Adviser to Prime Minister on Finance, in his post budget conference, promised that the refunds will not get stuck up. Through the automated system, exporters will get a major amount from bank or the State Bank and would not be dependent on the FBR. Adviser Finance also promised that if the new refund system will not work, the govt. will re-assess in 3-6 month period. Since more than 10 months have been passed and the FBR FASTER system has not come up to the expectations.

Textile exporters are highly annoyed and aggrieved as they do business on very low profit margin while their precious liquidity is stuck up with the Government in shape of sales tax refund claims and they are seriously thinking to close the export business and switch over to any other field which would not a healthy sign as our country needs to encourage more businessmen to get into export business to earn foreign exchange. Exporters who want to continue their export business shall face another big challenge due to global business slowdown as they will not be able to operate their export industry on full capacity which means their cost of manufacturing will further increase and ultimately situation will compel for closure.

The government must realize the sensitivity of situation and stop experiment with the export industry otherwise a huge number of export industries will close down in next few months which will also negatively affect 40 allied industries associated with the textile export industry.