

Tier-1 retailers say FBR backtracked from tax concession

ISLAMABAD: The top Tier-1 retailers of the country have held the FBR responsible for backtracking from a signed agreement where the tax machinery committed to slash down minimum tax from 1.5 to 1 percent and withholding tax on all supplies from 4.5 percent to 1 percent in the budget 2020-21.

The Chainstore Association of Pakistan (CAP) has written a letter to Adviser to PM on Commerce Abdul Razak Dawood and reminded him that it is imperative to bring to his attention that, after lengthy discussions, an agreement was executed between the Federal Board of Revenue (FBR) and the Chainstore Association of Pakistan dated January 23 with the purpose to facilitate documentation of organised retailers, also classified as 'Tier-1 Retailers' by the FBR.

It stated that the key points stated in the agreement were to be incorporated in the Finance Act, 2020, in order to encourage voluntary compliance of the undocumented segment of the retail sector in line with the initiative to successfully document the sales through integration of POS (Point of Sale) systems of all Tier-1 Retailers.

These key points are summarised including "FBR shall consider the rationalisation of rates of turnover tax and withholding taxes at the time of finalising proposals for the year 2020-21 in consultation with the Association in order to remove unnecessary burden of taxes which do not reflect tax on income."

The rate of turnover tax/minimum tax is to be fixed at 0.5 percent (instead of 1.5 percent) for all Tier-1 Retailers. It was also decided that withholding tax rate on all supplies will be a maximum of 1 percent (instead of 4.5 percent) and in cases where the minimum tax is lower, the withholding tax will match that rate, e.g. 0.25 percent for distributors of FMCG, etc.

"The FBR agrees that restriction on certain transactions as imposed by section 21(l) of the Income Tax Ordinance, 2001 (herein after referred to as 'the Ordinance') on purchases and simultaneous application of 21(c) and section 161 of the Ordinance are there to check the adverse consequences of non-documentation. The persons integrated in POS may not be subjected to 21(l) on purchases of goods and action under section 21(c) may not be taken where tax is fully recovered under section 161/205 of the ordinance and necessary legal changes shall be made in this regards in the Finance Act, 2020."

The letter said the legitimate sales tax and income tax constraints of Tier-1 Retailers of all segments, including super-stores and international brands, must be urgently addressed in order for them to remain in business and sustain their semi-skilled and skilled workforce.

“Due to the COVID-19 crisis, the ‘great lockdown’ has severely impacted both citizens and businesses alike resulting in a drop in disposable incomes and financial shocks respectively. Tier-1 Retailers, especially those who have already integrated their POS-systems or are in the process of doing so, are in dire situation and require urgent support,” it said.

The letter said it is appreciable that the federal government has granted a 2 percent reduction in the general sales tax (GST) rate for selected Tier-1 Retailers solely involved in the trade of locally manufactured textile, leather and associated products. However, it said, this nominal incentive for a specific segment of Tier-1 Retailers will not serve the purpose of encouraging voluntarily compliance of the entire retail sector.

At this critical juncture, the letter said, a bold decision to bring the GST rate for all integrated Tier-1 Retailers to a single-digit rate will surely boost consumer demand, revive the local economy and allow a level playing-field where the effective sales tax rate for the undocumented sector is currently almost zero. “A low GST rate, along with removal of income tax distortions, will play a key role in widening the tax base and ultimately enhance tax revenue from the retail sector,” it said.

“We, therefore, are compelled to request the urgent assistance and intervention from your good self. For this purpose, we urgently request that a joint meeting be scheduled within the next few days so that the implementation of our agreement with the FBR is ensured,” said the letter.

“As key partners in the cause of documentation of the economy, organised retailers have a crucial stake in ensuring that the important fiscal initiatives taken in the past year are steered away from failure and documented businesses are prevented from permanent closure and millions of direct and indirect jobs saved,” the letter concluded.