

The Sialkot Chamber of Commerce & Industry

Ref. # JSCCI /

April 4, 2014

ENGR. SUHAIL BIN RASHID

President,
The Faisalabad Chamber of Commerce & Industry,
FCCI Complex, East Canal Road,
Faisalabad.

Subject: **PROPOSALS FOR FEDERAL BUDGET 2014-15**

Dear Sir,

I would like to refer to your letter # P.8/790/14 dated March 25, 2014 on the subject and highlight proposals/recommendations for Federal Budget 2014-15, as follows;

INCOME TAX

- 1- Export is the backbone of the economy and SME sector of exporters had numerous issues with Tax department regarding assessment. The earlier regime of Nawaz Sharif Government in 1991 had accepted the genuine demand of the exporters and fixed the income tax @ 0.50% on export sales realized by the banks which was subsequently raised to 1%. This action not only enhanced the government revenue but also provided relief to the exporters from atrocities of the tax department. Now FBR is trying hard to take away this facility. It is strongly recommended that this fixed tax facility should be continued and if any discontinuation of the regime is under consideration that should be abandoned in the interest of the export business. It is further requested that WHT rate should be reduced to 0.5% and as the tax is deducted at source by the bank on realization of export sale proceed, a general exemption from audit u/s 177/214C may please be allowed to exporters covered under Presumptive Tax Regime.
- 2- The income tax on exporters' income is covered under PTR regime deducted at source hence any withholding tax charged is refundable. The law has Imposed 5% advance income tax on import of raw material and machinery used by manufacturer cum exporter for manufacture of goods to be exported. Huge amount of exporters' precious funds are piled up in refunds. It is strongly recommended that manufacturer cum exporters should be allowed to import raw material and machinery used for manufacture for goods to be exported @ zero %. This will save the exporters from unnecessary blockade of funds which they can use for their export business.
- 3- SRO 326/327 used for import and purchase by Export Oriented Units (EOU). EOUs are exempted from Custom duty and Sales tax but still they have to pay advance income tax on import and purchase of raw material which is refunded after years of waiting. It is suggested that this SRO should be suitably amended to include income tax exemption for Export

Oriented Units (EOU) as well, so that the exporters can be saved from piling up of their refunds.

- 4- According to clause 45 of part IV of Second Schedule, the manufacturer cum exporters are absolved from withholding income tax u/s 153(1) from suppliers of goods and services used for manufacture of exportable goods. It is suggested that this clause 45 should be suitably amended to include "Commercial Exporter" as well. Moreover, the words "Manufacturer cum Exporter" may please be substituted with the word "Exporter".
- 5- The penalty for non-filing of statement and return has been considerably enhanced since last year. We understand that every person earning taxable income should file return and every withholding agent should file monthly statements within time but there are large numbers of persons/exporters who file NIL return. It is suggested that for the persons having NIL activity, a token penalty of Rs.500 may be charged instead of Rs.10,000 and Rs.20,000. This huge quantum of penalty actually discourages filing of statements/returns instead of forcing compliance.
- 6- Since tax to GDP ratio of our country is still in single digit, measures should be adopted for broadening of tax base instead of squeezing the existing tax payers. The FBR can utilize data regarding non-filers to identify persons responsible for payment of tax. Everybody earning taxable income should contribute to the national exchequer for development of the country. There are categories who are earning income but are not fulfilling their responsibility of payment of Income tax to the Government. Agriculture income is one of the classic examples. If our political parties can unite for terrorism or 18th amendment or any national agenda why not for amending the constitution to empower Federal Government to levy tax on agriculture income which constitute 40% of GDP of our country.

SALES TAX

- 1- The Exporters have been declared as Sales Tax Withholding Agent vide SRO 98(I)/2013. This SRO is controversial for exporters particularly for exporters belonging to SME category. This responsibility has befallen on the small exporters who cannot collect tax from unregistered persons as they have to deal with undocumented sector with the result that 1% Sales tax withholding has added to the cost of the exporters. It is suggested that "Exporters" as category may kindly be deleted from SRO 98.
- 2- From experiences of the past especially during the period from 1996 to 2005, the FBR realized that to collect sales tax from exporters and then to refund was a futile exercise. Numerous frauds were reported wherein collection was less than refunds. Ultimately the Federal Government identified FIVE export sectors and prescribed list of items/materials used in these sectors which were charged to sales tax @ zero percent. This measure provided a relief to the genuine exporters. Due to the measure, unscrupulous people in business community and the tax department were never happy as it closed the doors of corruption. After hectic efforts of these people, once again the exporters have been dragged into the vicious circle of payment of sales tax and then claiming refunds. At first stage the tax rate has been fixed @ 2% and 3% through SRO 1125 for exporter but now it is learnt that a proposal is under consideration to abolish SRO 1125 and to drag the exporters into normal sales tax regime. After very rigorous efforts the exporters were saved from the practice of deposit and refund of sales tax. If any such proposal is under consideration, that can severely affect the SME sector as huge refunds would be piled up and liquidity of the exporter will be squeezed. It is

therefore suggested that Zero rating of FIVE export sectors should be continued. Further it is recommended that Zero rating should be extended to Vendors of Exporters as well, for which mechanism can be evolved with the help of relevant trade bodies and associations.

- 3- The process of registration under Sale Tax Act needs to be expedited as it is taking months to complete. It is suggested that clear dead line should be issued to the CRO and LRO for completion of the registration, so that the genuine cases may not suffer. Particularly in the backdrop that exports are now processed only through WeBOC system for which Sales Tax registration is mandatory. Necessary amendment may be introduced in Sales Tax Rules to prescribe deadline of ten days to ensure issuance of STRN. Though system of electronic registration has been introduced but it is not possible for every small exporter to follow this system. It is suggested that LRO and CRO should be held responsible for any delay beyond dead line prescribed under the Rules.
- 4- A serious issue of non-acceptance of input tax on services collected by PRA and SRB due to the fact that PRA and SRB are not integrated with FBR. A number of cases are pending with High Courts on this issue and High Courts are issuing interim orders in individual cases. It is suggested that input of taxable services should invariably be allowed to the exporters and any input not claimed since July 2013 should also be allowed.
- 5- At present there are number of exporters having NIL activity but they have not filed any return for previous years under the impression that as they have NIL activity hence not liable to file return. In Sialkot more than 3000 cases of this category exist, who are also member of this chamber. It is suggested that penalty in such cases, where there is NIL activity, may be condoned as there is no loss of revenue to the exchequer. They should either be allowed to apply for de-registration or regularize their sales tax registration without payment of penalty.
- 6- At present threshold of annual turnover for trader or manufacturer is Rupees 5 million which was fixed in 2006. This threshold has not been increased since 8 years whereas value of rupee has depreciated a lot. Therefore it is suggested that this limit of 5 million should be raised to 10 million. Further the limit of cottage industry for a manufacturer was fixed at Rs.700,000 of annual utilities bills in 2008 and cost of electric bill and gas bills have been doubled. Therefore we suggest that this limit of Rs.700,000 should be raised to Rs.1,400,000.

CUSTOM

- 1- The facility of duty free import has been provided to Export Oriented Units under SRO 327 of 2008. However, the Export Oriented Units are responsible for the export of the raw materials and semi-finished goods after value addition themselves. The benefit of SRO can be extended by providing facility to the Export Oriented Unit to share imported raw materials with any other Exporting Unit not availing the benefits of SRO 327. In this way, the export reported by the exporting unit can be counted towards performance by the Export Oriented Unit and SME sector can greatly benefit through this proposed amendment in the relevant SRO.
- 2- Sharing of imported duty free raw materials between two Custom Bonded premises of the same or different Export Oriented Units is not permissible under the law. If the permission for the same may be granted, an incentive for the export industry may be provided. Moreover, investment within Export Processing Zone may be promoted as Industries having their premises within EPZ may send their goods to their export oriented units outside EPZ. Furthermore, if an export oriented unit need raw materials on urgent basis and the same are available with another Export Oriented Unit in their stock, the facility to allow movement of

raw materials between the two Export Oriented Units would help the exporters to process their export orders quickly.

INCOME SUPPORT LEVY

Government has introduced Income Support Levy Act, 2013 whereby a levy has been imposed on individuals for each tax year commencing from tax year 2013 in respect of value of net moveable assets held by a person on the last day of tax year at the rate of 0.5% of the net moveable wealth exceeding one million rupees.

Individual exporters are already overburdened with taxes while imposition of Income Support Levy has created undue financial burden on sole proprietors and AOPs adding to the existing problems of the SME exporters. It is proposed that Income Support Levy should be immediately withdrawn to provide relief to SMEs, Individuals and AOPs employed in cottage industry dealing in export business.

With Best Regards,

MIAN MUHAMMAD ANWAR
Senior Vice President

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