

Mr. Mahmood Rangoonala

# **FIVE ZERO RATED SECTOR ASSOCIATIONS**

(Value Added Textile Sector – Sports Goods – Surgical – Leather – Carpet)

## **REMOVAL OF THE 2005 SALES TAX REGIME ON FIVE ZERO RATED SECTORS – A PRESCRIPTION FOR CORRUPTION AND DISASTER TO ECONOMY WITH NO GAIN TO THE NATIONAL ECONOMY**

**It is indeed a great irony that before taking a vital decision of imposition of RGST, the Government failed to consult the stakeholders as such consultations are imperative. It is really an apathy that the Government is bent on repeating the mistake of collecting Sales Tax and then returning which is taking the exporters to the dark ages.**

RGST proposes withdrawal of the 2005 Sales Tax Regime for the five zero rated sectors from 5 Export Oriented Sectors which is against the policy of the Government, wherein any sector with 80% or more of the country's production being exported cannot be subjected to Sales Tax for the simple reason to avoid depositing and refunding without any significant gain to the national exchequer. **ALL OVER THE WORLD EXPORTS ARE ZERO RATED.**

**We propose that FBR generates revenue and get funds from other Sales which are not paid back instead of punishing the manufacturers-cum-exporters because Sales Tax is taken and then given back involving large Government machinery which includes Collectors, Auditors and staff, for which the Government has to incur huge amount of money on such overheads.**

We strongly feel that all the Pakistan Chambers and Exporters' Associations – the major stakeholders should be consulted for increasing taxes and such consensus is imperative to bring down the rising inflation as well as increase in GDP.

Imposition of Sales Tax on exporters was introduced and implemented in 1996. At that time **exporters were told that they are zero rated and therefore Sales Tax would be collected from them and then refunded within one month. They were told that this was required so that all exporters are properly documented. These sectors are not exempted under the Sales Tax Regime. They are only zero rated on export all over the world and therefore documented under all legal frameworks.** Moreover FBR assured the exporters that in case refund payments are delayed for more than one month, they will be paid interest. However, even at that time refund were delayed for months together and none of the genuine exporters were paid any interest by the FBR.

Later on, in 2005, the exporters highlighted to the Government the huge amount of liquidity blocked and also the fact that all the exporters were properly documented. **The exporters explained to the Government that just for collecting Sales Tax and then returning the amount back involved huge Government machinery staff and was an exercise in futility. Moreover this also resulted in huge misdeclarations and flying invoices by unscrupulous elements, forged refunds in connivance with the bureaucracy causing huge losses to the Government while large amount of liquidity of the genuine bona fide exporters were held up.** The then President, Finance Minister and Chairman, FBR understood the whole matter and made all the five export sectors zero rated and this was actual zero rating of exports which was indeed a good work which resulted into peace of mind for the stakeholders and saving of billions of rupees to the national exchequer which were previously paid to the unscrupulous elements and thus curtailed huge corruption.

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Even last year, it is on record that FBR suggested to withdraw zero rating and a presentation was given on the pros and cons of our proposals to the then Finance Minister, Mr. Shaukat Tarin who brought with him the then Governor, SBP; Chairman, FBR; Secretary Finance and host of other officials and at the end of the meeting it was there and then decided that withdrawal of the 2005 Sales Tax Regime for the five zero rated sectors was not in the interest of the country as it would not yield any significant amount for the national exchequer as more than 80% of production is exported. It was also decided, then, that collecting and then refunding gives birth to huge corruption and increases the financial cost of the exporter. It was very well understood that this would not be a revenue measure but it would throw open the doors to corruption and be an instrument to retard export and to put exporters and their time which would otherwise be consumed for capturing new markets, improving the quality and in making logo "Made in Pakistan" a saleable and likeable commodity in the world market.

**It is on record that the then Finance Minister, Mr. Shaukat Tarin had stated that as the recent Textile Policy had been announced for the next five years, 2005 Sales Tax Regime for the five zero rated sectors would continue for this period but alas the Government has failed to comply with its promise.**

During those times the scenario was different while today the exporters have been struck and greatly burdened with skyrocketing cost of doing business. Yarn prices have tripled, power rates are rising day by day and if the Government collects Sales Tax from the exporters for returning back afterwards, huge amount of the exporters liquidity will be blocked. In such a situation as today the exporters will be ruined and there will certainly be a huge exodus from this country with flight of capital abroad. It is indeed a dilemma that while the Government is wooing and pampering the foreign investors to come and invest in Pakistan, the ground fact is that the local investor is so much harassed and burdened that existence and continuing to invest and do business in Pakistan has become next to impossible. **It is strongly felt that this planning is being done by the bureaucracy to drive away the exporters from the country.**

Therefore in the current scenario the Government has to decide in a sane manner and desist from making the same mistake of collecting Sales Tax and then returning as this would crush and ruin the export oriented industries which are contributing huge amount of foreign exchange to the nation and generating more than **50% of the employment (90% of the workforce are employed by the Value Added Textile Sector) and adds value by minimum 700% to our cash crop – cotton. The imposition of the RGST aims to kill the five Zero Rated Export Sector with more than 70% of the total country's exports.**

It was encouraging to note at one time, the seriousness of the Government to enhance Textile exports by giving a target of US \$18 billion by year 2015 and US \$25 billion by 2020 by the then Finance Minister. For this purpose, Textile Policy for the first time in the history of Pakistan, was announced and implemented with the package of Rs.42 billion, despite severe financial crisis in the country. Furthermore the Government very ably contested the case of Anti Dumping Duty imposed by the EU on Textile exports from Pakistan, which was not only revoked but 75 items were allowed Duty Free Access by the European Union.

In view of the stated position of the Government to enhance exports of the Zero Rated Sector, the decision to withdraw Zero Rating can only be considered contradictory to its defined position of giving momentum to exports.

We wish to create an awareness of the saner elements in the Assembly and the public at large to warn them that the Government is being misguided, misled and misinformed on the grave consequences of removing of the 2005 Sales Tax Regime for the five zero rated sectors on the five sectors in the name of revenue retention and documentation.

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**WE HAVE TO MAKE THE FOLLOWING CONCLUSIONS:**

- **Is it for documentation?**  
No, 100% documentation exists.
- **Is it for revenue?**  
No, they have never collected revenue. In fact it is negative revenue.
- **Is it to negate the positive impact of the Textile Policy which supports textiles to enhance exports and set a target of US \$25 billion by 2020.**
- **Is it to nullify the positive impact of Government's achievement in getting zero duty market access in EU.**
- **Do they have foolproof system of refunds?**  
No, even today, refunds worth billions are stuck up in Government treasury. **THE ANSWER IS A BIG "NO".**

**We, the five zero rated sectors, are fully documented, fully registered with Sales Tax, Audit Regime Compliant and legally and technically compliant sector.**

**Historically, it is also proven that Government has never retained any revenue. When this is the case that we are documented and Government has never retained any revenue then:**

**ONLY REASON IS – CORRUPTION AND MONEY BUREAUCRATS WOULD MAKE IN THE PROCESS WHICH IS:**

- **FLYING INVOICES**
- **OVER INVOICING**
- **FRAUDULENT COMPANIES**
- **MISDECLARATION**
- **CREATION OF AN ENVIRONMENT WHEREBY THE LABEL MADE IN PAKISTAN WILL NOT BE A LIKEABLE COMMODITY.**

**THIS IS A PERFECT PRESCRIPTION FOR DISASTER AND TO NULLIFY THE ACHIEVEMENTS OF THE GOVERNMENT.**

**IF THE GOVERNMENT, DESPITE ALL SUCH ODDS GOING AGAINST THE NATION'S ECONOMY, INSISTS ON REMOVING OF THE 2005 SALES TAX REGIME FOR THE FIVE ZERO RATED SECTORS, THE ENTIRE PUBLIC INCLUDING ALL THE CHAMBERS' AND EXPORTERS ASSOCIATIONS' MEMBERS WILL COME IN THE STREETS TO PROTEST AGAINST THIS DRACONIAN MEASURE OF THE GOVERNMENT AIMED TO DESTROY THE NATION'S ECONOMY.**

**CHAIRMEN OF THE FIVE ZERO RATED SECTOR ASSOCIATIONS ALSO DECLARED NOT ONLY TO GO ON STRIKE IN PROTEST AND UTTER RESENTMENT OF THE GOVERNMENT'S CRUEL MOVE TO REMOVING OF THE 2005 SALES TAX REGIME FOR THE FIVE ZERO RATED SECTORS BUT ALSO MOVE THE HONOURABLE COURT AND PROVE THAT HUGE AMOUNT OF BILLIONS OF RUPEES OF THE FIVE ZERO RATED SECTORS ARE HELD BY FBR IN REFUNDS OF SALES TAX SINCE THE ABANDONMENT OF THE 2005 SALES TAX REGIME.**

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M. ZUBAIR MOTIWALA	CHAIRMAN, COUNCIL OF ALL PAKISTAN TEXTILE ASSOCIATIONS
SALEEM PAREKH	CHAIRMAN, PAKISTAN HOSIERY MANUFACTURERS & EXPORTERS ASSN
M. JAWED BILWANI	COORDINATOR, VALUE ADDED TEXTILE FORUM
FAWAD IJAZ KHAN	CHAIRMAN, PAKISTAN LEATHER GARMENTS MANUFACTURERS & EXPORTER ASSN
RAFIQ GODIL	CHAIRMAN, PAKISTAN KNITWEAR & SWEATER EXPORTERS ASSN
SYED USMAN ALI	CHAIRMAN, TOWEL MANUFACTURERS ASSOCIATION OF PAKISTAN
WAQAR AMIN	CHAIRMAN, PAKISTAN SURGICAL INSTRUMENT MANUFACTURERS ASSN
TANVEER MUZAFFAR	CHAIRMAN, PAKISTAN CARPET MANUFACTURERS & EXPORTERS ASSN
JAHANGIR BAJWA	CHAIRMAN, PAKISTAN SURGICAL INSTRUMENT MANUFACTURERS ASSOCIATION
KHAWAJA USMAN	CHAIRMAN, PAKISTAN COTTON FASHION APPAREL MANUFACTURERS & EXPORTERS ASSOCIATION
RANA MUSHTAQ KHAN	CHAIRMAN, VALUE ADDED TEXTILE FORUM
JAWED CHINOY	CHAIRMAN, PAKISTAN READYMADE GARMENTS MANUFACTURERS & EXPORTERS ASSOCIATION
ABID CHINOY	CHAIRMAN, PAKISTAN CLOTH MERCHANTS' ASSOCIATION
EJAZ KHOKHAR,	CHAIRMAN, PAKISTAN READYMADE GARMENTS MANUFACTURERS & EXPORTERS ASSOCIATION
MAQSOOD BUTT	CENTRAL CHAIRMAN, ALL PAKISTAN TEXTILE PROCESSING MILLS ASSOCIATION
SHAHID SOORTY	CHAIRMAN, PAKISTAN DENIM MANUFACTURERS AND EXPORTERS ASSOCIATION
WASIM LATIF	CHAIRMAN, PAKISTAN TEXTILE EXPORTERS ASSOCIATION
SOHAIL YAQOOB MEHR	CHAIRMAN, PAKISTAN SPORTS GOODS MANUFACTURERS AND EXPORTERS ASSOCIATION
KH. M. ANEES	CHAIRMAN, ALL PAKISTAN BEDSHEETS & UPHOLSTERY MANUFACTURERS ASSOCIATION

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