

Government of Pakistan
Revenue Division
Federal Board of Revenue

C.No.1(10)WHT/2006-Pt.III

Islamabad, August 31, 2010.

To Mr. Qaqar Alam,
Chairman,
Towel Manufacturers' Association of Pakistan,
TMA House, 77-A, S.M.C.H.S,
Karachi-74400

Subject: **RE: ANOMALY IN RULING OF WITHHOLDING TAX**

I am directed to refer to your letters No.10/72/TMA dated 16.08.2010 and 17.08.2010 on the above subject.

2. It is clarified that there is no anomaly in the law while treating the direct or indirect exporters. However it is important that the relevant provisions of the Income Tax Ordinance 2001 as well as Customs Rules 2001 may be understood appropriately, which are discussed as follows for your guidance:

- Sub-chapter 7 of Chapter-XII of the Customs Rules 2001 defines '**Exports**' which also includes supply of goods by an indirect exporter to a direct exporter; and
- Sub-chapter 7 of Chapter-XII of the Customs Rules 2001 defines '**indirect exporter**' as a person who has a firm contract or export purchase order from a direct exporter for the manufacture and supply of goods to such exporter.
- Under section 154 (1) of the Income Tax Ordinance 2001, withholding tax is deductible @ 1% on realization of export proceeds to an exporter on account of export of goods;
- Every Banking company is obliged to deduct withholding tax @ 1% at the time of realization of proceeds on account of sale of goods to an exporter under an inland back-to-back letter of credit or any other prescribed arrangement;
- An exporter or an export house, being a withholding agent, is required under section 154(3B) of the Income Tax Ordinance 2001, to deduct withholding tax @ 1% at the time of making payment for a **firm contract**, to an indirect exporter, as defined under the Duty and Tax Remission for Exports Rules 2001 [*provided in sub-chapter 7 of Chapter-XII of the Customs Rules 2001*];
- An exporter or an export house, being a withholding agent, is required under section 153(1A) of the Income Tax Ordinance 2001, to deduct withholding tax @ 0.5% of the gross amount payable to an indirect exporter at the time of making payment **for rendering of or providing of services** of stitching, dying, printing, embroidery, washing, sizing and weaving. Hence your understanding that the indirect exporter is subject to withholding tax under section 153(1)(b) @ 6% is not correct.

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(MOHAMMED IMTIAZ)
Secretary (Withholding Tax)
Ph:/Fax# 051-9201448

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