

Sales tax zero-rated units

10pc WHT on power bills exempted

RECORDER REPORT

ISLAMABAD: The Federal Board of Revenue (FBR) has decided to exempt 10 percent withholding tax (WHT) on electricity bills received by all sales tax zero-rated units of textile products, carpets; leather and articles thereof including artificial leather footwear; surgical goods and sports goods.

Sources told Business Recorder on Tuesday that the FBR would issue a notification after Eidul Fitr to implement the decision. The notification is in the process of vetting for proper legal backing to facilitate the zero-rated sectors. All units, which were zero-rated from sales tax, belonging to five major export-oriented sectors, would be exempted from 10 percent WHT on power bills.

So far, no notification has been issued for five zero-rated sectors for availing WHT exemption on power bills received by them, sources added.

It is important to mention that

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the board had suspended implementation of its circular No 10 of 2008 through an income tax circular 12 of 2008. According to Circular 12, the Board's Circular No 10 of 2008 of August 27, 2008, on the matter of "definition of manufacturers-cum-exporters" has been held in abeyance till further orders.

Resultantly, the FBR has accepted a major demand of the textile industry to withdraw WHT on electricity bills from all units including commercial exporters. As a consequence of the decision, 10 percent WHT would not be charged on power bills received by exporters-cum-manufacturers of carpets; leather and articles thereof including artificial leather footwear; surgical goods; sports goods and textile items.

However, the proposed notification would exempt all units from 10 percent WHT, which were already zero-rated from sales tax.

Details showed that the 10 percent WHT of the bill amount exceeding Rs 20,000 per month from all commercial and industrial consumers was imposed in last budget. However, no collection of tax on electricity bills would be charged from five zero-rated sectors of exporters-cum-manufacturers of carpets; leather and articles thereof including artificial leather footwear; surgical goods; sports goods and textile.

In this regard, the board has

issued a definition of the manufacturers-cum-exporters, who would be eligible for availing WHT exemption. Through Circular 10 of 2008, exemption from withholding tax was available to the "manufacturer-cum-exporter" from the provisions of section 235 of the Income Tax Ordinance, 2001, where the electricity bill exceeds Rs 20,000 per month. The board had clarified that the term "manufacturer-cum-exporter" means a person whose exports for the preceding tax year constitute 80 percent or more of the goods manufactured by him.

Due to the specific condition of 80 percent mandatory exports for claiming WHT exemption, a number of textile units, who were not manufacturers-cum-exporters, were unable to enjoy the benefit of Circular 12 of 2008. These units were sales tax zero-rated but were not manufacturers-cum-exporters, or their exports did not constitute 80 percent of the total products.

To resolve the issue, textile industry had approached the FBR to give WHT exemption to all units whether manufacturer or not. The WHT exemption on power bills should also be extended to commercial exporters or all those units which were sales tax zero-rated, the industry demanded. The circular has been withdrawn following a series of meetings between the All Pakistan Textile Mills Association (Aptma) and FBR.