



RECOMMENDATIONS FOR FEDERAL BUDGET 2007-2008

BY

M.MUZZAMMIL HUSAIN,
CHAIRMAN

TOWEL MANUFACTURERS ASSOCIATION OF PAKISTAN

77-A Sindhi Muslim Co-operative Housing
Society, Karachi

Phone: 111-360-360 Fax: 4551628

E-Mail: tma@towelassociation.com

URL: www.towelassociation.com

BROAD OBJECTIVES

OUR BROAD OBJECTIVES ARE AS UNDER :

1. MAKING PAKISTAN A FREE TRADE ZONES AND CREATING A SHIPPING & TRANSIT TRADE HUB.
2. ACHIEVING REAL PROGRESS IN SME SECTOR.
3. MAINLY FOCUSING ON DIRECT TAXES INSTEAD OF INDIRECT TAXES, BROADENING THE TAX BASE BY BRINGING NON-TAX PAYING SECTORS INTO NATIONAL TAX REGIME.
4. REDUCING COST OF DOING BUSINESS BY LOWERING COSTS OF UTILITIES, INFRASTRUCTURE AND TAX RATES.

GENERAL POLICY ISSUES

SMES – THE ENGINE OF GROWTH

1. THE PRESENT NARROW TAX BASE OF LESS THAN 1 PERCENT OF TOTAL POPULATION CAN ONLY BE BROADENED THROUGH RAPID EXPANSION OF SME SECTOR.
2. IN ADDITION TO OTHER FACILITIES AND FISCAL MEASURES, TAX INCENTIVES MUST BE GIVEN FOR SETTING UP SMALL INDUSTRIES AND BRINGING THEM INTO TAX REGIME
3. BEST MODEL AVAILABLE BE ADOPTED.

RE-EXPORT AND TRANSIT TRADE – THE KEY TO TRADE CORRIDOR.

1. PAKISTAN HAS VIRTUALLY NO RE-EXPORT TRADE, DUE TO OUR OBSOLETE TRADE POLICIES AND PROCEDURES
2. COUNTRIES LIKE DUBAI AND SINGAPORE HAVE THRIVED ONLY ON RE-EXPORT TRADE FACILITATED BY FREE TRADE ZONES
3. PAKISTAN’S BUSINESS COMMUNITY IS VERY ENTERPRISING AND CAPABLE OF HANDLING SUCH TRADE AND EARN HUGE AMOUNTS OF FOREIGN EXCHANGE
4. WITH THE ADVENT OF GOWADAR PORT, PREAMPTIVE AND PROACTIVE POLICIES BE PLANNED.

FREE TRADE ZONE AT PORT QASIM - KARACHI

A FREE TRADE ZONE BE ESTABLISHED AT PORT QASIM, KARACHI, OR EXISTING EPZ BE CONVERTED TO FREE TRADE ZONE TO FACILITATE TRADING AND WAREHOUSING ON AN INTERNATIONAL SCALE.

BENEFITS : HELP TO BUILD BUFFER STOCKS OF RAW MATERIAL AND COMMODITIES AT LOW PRICES.

1. TREMENDOUS OPPORTUNITIES OF RE-EXPORT TRADE, MAKING PAKISTAN A REGIONAL TRADING HUB.

2. ENHANCE THE IMAGE OF PAKISTAN AS A FAVORED DESTINATION FOR INVESTMENT.
3. PROVIDE CENTRAL ASIAN STATES, AFGHANISTAN, CHINA AND OTHER COUNTRIES IN THE REGION WITH A TRADE CORRIDOR
4. SUBSTANTIAL FOREIGN EXCHANGE EARNINGS, EMPLOYMENT AND PORT REVENUES.

TAX FACTOR IN HIGHER COST OF IMPORTED RAW MATERIAL

ISSUE: CUSTOMS DUTY, 15% SALES TAX AND WITHHOLDING TAX ON IMPORT OF INDUSTRIAL RAW MATERIAL SUBSTANTIALLY INCREASES THE COST OF FINISHED PRODUCTS.

OUTCOME: HIGHER PRICES OF CONSUMER GOODS RESULT IN LACK OF DOMESTIC DEMAND.

1. HIGHER PRICE OF PAKISTANI PRODUCTS FOR EXPORT MARKETS COMPARED WITH CHINA, INDIA AND OTHER COUNTRIES.
2. CONTINUING CYCLE OF LOW DEMAND / LOW SUPPLY HAVING NEGATIVE IMPACT ON GDP GROWTH.

PROPOSAL: IN PRINCIPLE ALL RAW MATERIAL IMPORTED FOR INDUSTRIAL CONSUMPTION MUST HAVE ZERO RATE OF DUTY AND LOWER RATE OF SALES TAX TO REDUCE COST OF PRODUCTION AND EXPAND INDUSTRIAL OUTPUT

COST OF DOING BUSINESS

1. HIGH PRICES OF LAND
2. HIGH COST OF UTILITIES
3. NUMBER AND RATES OF TAXES
4. HIGHER PORT CHARGES AND COST OF TRANSPORT & COMMUNICATIONS COMPARED TO OTHER REGIONAL PORTS
5. HIGH COST OF RAW MATERIALS DUE TO LACK OF BASIC INDUSTRIES AND DEPENDENCE ON IMPORTS
6. RESTRICTIVE BUSINESS ENVIRONMENT DUE TO OVER REGULATION.

PROPOSAL: TAXES OTHER THAN GST AND INCOME TAX BE PHASED OUT TO REDUCE NUMBER OF TAXES AND COST OF COLLECTION

1. PAKISTAN'S PORTS ARE MOST EXPENSIVE IN THE ENTIRE REGION. PORT CHARGES NEED TO BE SUBSTANTIALLY REDUCED TO REDUCE COST OF RAW MATERIALS
2. TAX INCENTIVES TO ESTABLISH BASIC INDUSTRIES SUCH AS CHEMICALS, PHARMACEUTICAL RAW MATERIALS, PETROCHEMICALS, HEAVY MACHINERY AND MACHINE TOOLS TO ENHANCE COMPETITIVENESS

BROADENING THE TAX BASE

ISSUE: NARROW TAX BASE. OVER-DEPENDENCE ON TAX AT SOURCE.

PROPOSAL : TO INCREASE THE NUMBER OF REGISTERED TAX PAYERS, NATIONAL TAX NUMBER SHOULD BE ENCOURAGED FOR ALL SECTORS.

THREE YEARS AMNESTY FROM AUDIT FOR NEW TAXPAYERS
BENEFIT : THIS MEASURE WILL RESULT IN BROADENING OF TAX BASE, PROMOTE DOCUMENTATION OF ECONOMY AND INCREASE THE NUMBER OF TAX PAYERS.

SALES TAX & FEDERAL EXCISE

SALES TAX AUDIT

ISSUE : MULTIPLE AUDITS CONDUCTED BY S,T. COLLECTORATE AND DRRA SUCH AS ANNUAL AUDIT, INTERNAL/EXTERNAL AUDIT INVESTIGATIVE AUDIT, PRE-AUDIT.

ABNORMAL PROFILE BASED AUDIT ETC.

OUTCOME :

1. FEAR AMONG TAX PAYERS, DISCOURAGING REGISTRATION OF NEW TAX PAYER
2. PROLONGED AUDITS CAUSING DISRUPTIONS IN BUSINESS.
3. HARRASSMENT AND EXTORTION.
4. PREVENTING EVOLUTION OF A TAX CULTURE

PROPOSAL : MULTIPLE AND PROLONGED SALES TAX AUDITS BE STOPPED. ONLY ONE AUDIT IN A YEAR BE ALLOWED, IF NECESSARY ON SPECIFIC GROUND.

1. AUDIT BE COMPLETED WITHIN A TIME LIMIT
2. NO AUTHORITY TO REOPEN THE AUDIT WITHOUT VALID GROUND AND IN CONSULTATION WITH RELEVANT TRADE BODY / CHAMBER
3. AUDIT CONDUCTED BY ONE DEPARTMENT OF CBR BE ACCEPTED BY ALL OTHER DEPARTMENTS
4. SECTION 25 BE AMENDED TO RESTRICT RE-OPENING OF AUDITS ON THE PRETEX OF INVESTIGATIVE AUDIT ETC.
5. AUDIT BE CONDUCTED AS PER ALREADY DECIDED PARAMETERS.
6. A 3 YEARS AMNESTY FROM AUDIT FOR NEW REGISTERED PERSONS.

FREQUENT CHANGES IN PROCEDURES/POLICY

ISSUE : CONFLICTING POLICY STATEMENTS ON SALES TAX AND FREQUENT CHANGES IN PROCEDURES. FREQUENT ISSUANCE OF SRO'S COMPLICATING MOST IMPORTANT TAX OF THE FUTURE

OUTCOME : CONFUSION, LACK OF CLARITY AND FEAR AMONG THE BUSINESS COMMUNITY, CREATING A NEGATIVE BUSINESS ENVIRONMENT.

SALES TAX HAS YET TO EMERGE AS A PROBLEM FREE SCHEME.

PROPOSAL:

1. FREQUENT CHANGES AND POLICY ANNOUNCEMENTS BE STOPPED TO AVOID CONFUSION.
2. CLEAR POLICY AND PROCEDURES BE DEFINED COVERING EACH SECTOR IN A SINGLE MANUAL.
3. UNIFORMITY BE OBSERVED THROUGHOUT THE COUNTRY IN RESPECT OF POLICY AND PROCEDURES.
4. CHANGES IN LAW AND PROCEDURE BE CONSULTED WITH STAKEHOLDERS BEFORE IMPLEMENTATION.

BENEFIT :

1. ESTABLISH GST AS THE MAIN REVENUE GENERATING TAX REGIME PROMOTING HEALTHY TAX CULTURE.
2. PROMOTE TRUST BETWEEN TAX COLLECTOR AND TAX PAYER.
3. BETTER BUSINESS ENVIROMENT

IMPORTS AND SUPPLY UNDER ZERO RATED S.T. REGIME

ISSUE: IMPORTS AND SUPPLIES MADE UNDER ZERO RATED S.T. REGIME ARE REQUIRED TO MAINTAIN RECORD.

OUTCOME: THEY ARE SUBJECT TO AUDIT, ALTHOUGH NO LOSS OF REVENUE IS INVOLVED.

PROPOSAL: ALL IMPORTS & SUPPLIES MADE UNDER ZERO RATED SALES TAX REGIME BE EXEMPTED FROM SALES TAX AND MAINTENANCE OF RECORD.

TIME LIMIT FOR SHOW CAUSE NOTICE

ISSUE : THE PERIOD OF SERVING A SHOW CAUSE NOTICE IS 5 YEARS U/S 36(1)

OUTCOME : THIS CONTRADICTS SECTION 24 WHICH REQUIRES TO RETAIN RECORD FOR 3 YEARS. IT HAS BEEN MADE WITH THE INTENTION TO COVER UP THE INEFFICIENCY ON THE PART OF THE SALES TAX OFFICIALS WHO DO NOT ISSUE AUDIT OBSERVATIONS IN TIME AND SHOW CAUSE NOTICE EVEN AFTER THE ISSUANCE OF AUDIT OBSERVATIONS.

PROPOSAL : THE TIME PERIOD FOR ISSUANCE OF SHOW CAUSE NOTICE BE ISSUED WITHIN THREE YEARS.

REFUNDS UNDER SECTION 66

ISSUE : DELAYS IN SANCTION AND PAYMENT OF REFUND CLAIMS, FILED UNDER SECTION 66.

OUTCOME : LARGE NUMBER OF CASES ARE PENDING FOR REFUND.

PROPOSAL : ALL MANUFACTURERS-CUM-EXPORTERS BE ISSUED EXEMPTION CERTIFICATE BY THE S.T. COLLECTORATE FOR NOT CHARGING SALES TAX ON RAW MATERIALS AT IMPORT STAGE.

BENEFITS :

1. CLERANCE OF BACKLOG AND PENDING ISSUES WILL ENABLE BOTH TAX PAYERS AND CBR TO FOCUS ON THEIR MAJOR FUNCTIONS, BUILD TRUST AND ENHANCE EXPORTS.
2. REFUND WILL HELP IN PROMOTING BUSINESS ACTIVITIES AND IN TURN WILL GENERATE REVENUE.

REMOVAL OF 60 DAYS TIME LIMIT FOR CLAIMING REFUND (RULE 28, CHAPTER-V OF SRO 555(I)/2006 – S.T. RULES)

ISSUE: REFUND CLAIMANTS ARE REQUIRED TO FURNISH SUPPORTING DOCUMENTS WITHIN 60 DAYS OF FILING S.T. RETURN.

OUTCOME: TIME LIMIT OF 60 DAYS IS NOT QUITE ENOUGH TO COMPLY WITH THE REQUIREMENT OF REFUND DOCUMENTATION CONSIDERING HEFTY INVOLVEMENT OF PAPER WORK AND AS SUCH A LARGE NUMBER OF BONAFIDE CLAIMS ARE NOT PROCESSED FOR REFUND.

1. THIS CONTRADICTS SECTION 7 & SECTION 66 OF S.T.ACT WHEREIN INPUT TAX & REFUND RESPECTIVELY IS ALLOWED TO BE CLAIMED WITHIN ONE YEAR.
2. ALTHOUGH CBR VIDE ITS LETTER DATED 25-11-2006 HAS ALLOWED ONE TIME EXTENSION TILL 31-12-2006, FOR SUBMISSION OF SUPPORTING DOCUMENTS OF REFUND CLAIMS FILED PRIOR TO 1-7-2006, HOWEVER, CLAIMS FOR THE MONTH OF JUNE 06 FILED UPTO 15TH JULY, 06 AND

SUBSEQUENT CLAIMS FILED AFTER 1ST JULY 06 ARE NOT COVERED IN THIS EXTENSION.

PROPOSAL : TIME LIMIT OF 60 DAYS AFTER FILING OF RETURN FOR CLAIMING GENUINE REFUNDS BE ABOLISHED.

INPUT ADJUSTMENT UNDER SECTION 7/BLACK LISTING

ISSUE : SALES TAX DEPARTMENT HAS CLASSIFIED CERTAIN SALES TAX REGISTERED PERSON AS SUSPICIOUS SUPPLIER AND DISALLOWS INPUT ADJUSTMENT IN CASE PURCHASE IS MADE FROM SUSPICIOUS SUPPLIERS.

OUTCOME : THIS PENALIZES A REGISTERED BUYER WHO CLAIMS INPUT ADJUSTMENT ON LEGITIMATE PURCHASES WITH SALES TAX PAYMENT, BUT BOTH REGISTERED BUYER AND SELLER ARE MADE TO SUFFER FOR FAILURE OF THE SALES TAX DEPARTMENT TO RECORD TAX PAYMENT IN THEIR DATA BASE.

PROPOSAL : INPUT CLAIM SHOULD BE ALLOWED TO ALL REGISTERED PERSONS WHO PURCHASE GOODS ON VALID SALES TAX INVOICES SHOWING TAX PAYMENT EVEN IF DATA BASE DOES NOT SHOW INPUT. THE DEPARTMENT MAY HAVE RECONCILIATION WITH REGISTERED SELLER SUBSEQUENTLY BEFORE BLOCKING THE SELLER'S REGISTRATION NUMBER. CRITERIA OF "SUSPICIOUS" BE DEFINED.

BURDEN OF PROOF UNDER SECTION 2(37)

ISSUE : SECTION 2 (37) OF SALES TAX ACT PROVIDES FOR BURDEN OF PROOF TO REST WITH TAX PAYER IN SPITE OF VARIOUS JUDGEMENTS OF HIGHER COURTS PLACING BURDEN OF PROOF ON ASSESSING AUTHORITY.

OUTCOME : LOSS OF FAITH IN TAXATION SYSTEM.

PROPOSAL : ONUS OF SUBMITTING EVIDENCE SHOULD LIE WITH ASSESSING AUTHORITY.

PENALTY OF RS. 25,000 FOR NON-SUBMISSION U/S 33

ISSUE: A VERY HARSH PENALTY OF RS. 25,000 IS LEVIED ON A REGISTERED PERSON WHO FAILS TO SUBMIT SUMMARY OF SALES AND PURCHASES INVOICES.

PROPOSAL: THE PENALTY BE MADE IN LINE WITH THE DEFAULT IN SUBMISSION OF MONTHLY RETURN VIZ., RS.100 PER DAY FOR 15 DAYS AND THEREAFTER RS.5000.

TAX CREDIT NOT ALLOWED U/S 8(I)(CA)

ISSUE: A REGISTERED PERSON CANNOT RECLAIM OR DEDUCT INPUT TAX ON GOODS IN RESPECT OF WHICH S.T. HAS NOT BEEN DEPOSITED BY THE RESPECTIVE SUPPLIER.

OUTCOME: CREATES HARDSHIPS FOR THE PURCHASER AND BLOCKADE OF FUNDS. IT IS THE RESPONSIBILITY OF THE SUPPLIER TO ENSURE THAT THE AMOUNT IS DEPOSITED ON A TIMELY BASIS AS IT IS PRACTICALLY NOT POSSIBLE FOR THE PURCHASER TO ENSURE THAT THE AMOUNT HAS BEEN DEPOSITED BY THE SUPPLIER.

PROPOSAL: SECTION 8(1)(CA) BE ABOLISHED.

JOINT AND SEVERAL LIABILITY IN SUPPLY CHAIN U/S 8(A)

ISSUE: IF A REGISTERED PERSON RECEIVING A TAXABLE SUPPLY FROM ANOTHER R.P. IS IN THE KNOWLEDGE THAT TAX PAYABLE IN RESPECT OF ANY SUPPLY WOULD GO UNPAID SUCH R.P. AS WELL AS PERSON MAKING TAXABLE SUPPLY SHALL BE JOINTLY AND SEVERALLY LIABLE FOR PAYMENT OF SUCH UNPAID AMOUNT OF TAX.

OUTCOME: PAYMENT OF DUE SALES TAX IS THE RESPONSIBILITY OF SUPPLIER AND TO ENSURE THIS, TAX OFFICIALS ARE THERE. IT SHOULD NOT BE THE PURCHASERS RESPONSIBILITY TO PLAY THE ROLE OF TAX OFFICIALS AND ENSURE THAT OTHER PERSON (SELLER), ON WHICH HE HAS NO LEGAL CONTROL, PAYS THE TAX.

PROPOSAL: IT IS HARSH PROVISION PARTICULARLY FOR BUYERS AND BE WAIVED.

**REFUND RULES CHAPTER V OF SALES TAX RULES 2006
(SRO 555(I)/2006)**

ISSUE: UNDER CLAUSE 33 OF SAID RULES, REFUND TO THE CLAIMANTS SHALL BE PAID TO THE EXTENT OF THE INPUT TAX PAID ON PURCHASES OR IMPORTS THAT ARE ACTUALLY CONSUMED IN THE MANUFACTURE OF GOODS WHICH HAVE BEEN EXPORTED OR SUPPLIED AT THE RATE OF ZERO PERCENT. UNDER CLAUSE 38, STATEMENT OF THE TAX PAID INPUTS IS REQUIRED IN THE PRESCRIBED FORMAT.

OUTCOME: THIS CONDITION WILL RESULT IN FURTHER BLOCKING OF FUNDS. IT WILL BE VERY CUMBERSOME TO RECORD AND PROOF THE EXTENT OF INPUT GOODS CONSUMED IN THE MANUFACTURING OF GOODS EXPORTED OR SUPPLIED AT ZERO RATE.

KEEPING RECORD, ON THE PRESCRIBED FORMAT, OF ALL INPUT GOODS CONSUMED IN MANUFACTURING, PARTICULARLY IN ENGINEERING INDUSTRY IS TOO CUMBERSOME.

PROPOSAL: REQUIREMENTS UNDER CLAUSES 33 AND 38 BE DONE AWAY WITH, PARTICULARLY FOR ENGINEERING INDUSTRY.

S.T ON PAPER BOBBIN (HS: 4822.1000)

ISSUE: ALTHOUGH PAPER BOBBIN IS CONSUMED BY TEXTILES SECTOR BUT S.T. IS NOT ZERO PERCENT. INPUTS HAVING NON-TEXTILE ORIGIN LIKE DYES AND CHEMICALS HAVE BEEN ZERO RATED FOR TEXTILES APPLICATION.

PROPOSAL: PAPER BOBBIN USED FOR TEXTILES BE ALSO INCLUDED IN ZERO RATED S.T.REGIME.

INCOME TAX

TAX CREDIT INSTEAD OF TAX EXEMPTION

ISSUE: EXEMPTION FROM TAXES AND DUTIES CREATES DISTORTION AND DISCRIMINATION.

PROPOSAL: CONCEPT OF TAX CREDIT, IN PLACE OF EXEMPTION, BE INTRODUCED IN TAX POLICY.

DEDUCTION OF W.H.T. ON CASH WITHDRAWALS OVER RS. 25,000/DAY U/S 231A(1)

ISSUE: DEDUCTION OF TAX @ 0.2%, ON CASH WITHDRAWALS EXCEEDING RS. 25,000 PER DAY FROM BANKS.

OUTCOME: THIS TANTAMOUNTS TO DOUBLE TAXATION FOR THOSE WHO ARE ALREADY DISCHARGING THEIR TAXLIABILITY AS FULL & FINAL, BY PAYING ADVANCE TAX AT CUSTOMS STAGE LIKE COMMERCIAL IMPORTERS.

PROPOSAL: NTN HOLDERS BE EXEMPTED FROM DEDUCTION OF WITHHOLDING TAX ON CASH WITHDRAWAL.

PERSONAL INCOME

ISSUE : PHENOMENAL INCREASE IN PRICES OF CONSUMER GOODS, TRANSPORTATION, ENERGY, HOUSING AND EDUCATION, HAS BURDENED THE MIDDLE AND LOWER INCOME GROUPS BEYOND THEIR CAPACITY.

PROPOSAL :

1. EXEMPTION LIMIT FOR MAN BE RAISED. FROM RS. 150,000 TO RS. 200,000 AND FOR WOMEN FROM RS.200,000 TO RS.250,000.
2. CERTAIN PERCENTAGE OF EDUCATIONAL EXPENSES BE DEDUCTIBLE ON STRAIGHT LINE AGAINST TOTAL INCOME
3. UNDER THE CURRENT FLAT RATES WHEN AN ASSESSEE'S TAXABLE INCOME INCREASES EVEN BY RE 1 TO FALL IN AN UPPER SLAB, THE ASSESSEE ENDS UP PAYING TAX AT A HIGHER RATE ON THE WHOLE OF HIS INCOME. THEREFORE, PROGRESSIVE RATES SHOULD BE RE-INTRODUCED OR THE MARGINAL TAX SHOULD BE LEVIED ON THE MARGINAL INCOME. THE BENEFIT OF HOUSE RENT ALLOWANCE (I.E. EXEMPT UPTO 45% OF

BASIC SALARY) & UTILITIES (I.E. EXEMPT UPTO 10% OF BASIC SALARY) WITHDRAWN BY THE FINANCE ACT, 2006 BE RESTORED TO BENEFIT THE SALARIED CLASS.

4. KEEPING IN VIEW THE VISION AND DIRECTION OF THE PRESIDENT OF I.R. PAKISTAN, THE POORER MAY BE GIVEN MORE INCENTIVE IN ORDER TO INCREASE THEIR STANDARD OF LIVING. THEREFORE, IT IS SUGGESTED THAT REDUCTION IN TAX LIABILITY ALLOWED UNDER SECOND SCHEDULE PART III OF THE INCOME TAX ORDINANCE, 2001 WITHDRAWN BY THE FINANCE ACT, 2005 BE RESTORED TO BENEFIT LOWER AND MEDICAL CLASS.

INCENTIVE ON DEFENCE & SPECIAL SAVING CERTIFICATES

ISSUE: DEDUCTION OF 10% TAX ON RETURN OF DSC & SSC.

OUTCOME: AN IRRITANT TO SAVING.

PROPOSAL: DSC & SSC PURCHASED BY 30TH JUNE FOR A MINIMUM PERIOD OF 3 YEARS BE EXEMPTED FROM INCOME TAX, AS ALLOWED PREVIOUSLY.

BENEFIT: ENCOURAGE SAVING AND REDUCE THE GAP BETWEEN INVESTMENT AND SAVING RATES.

THRESHOLD OF TAX DEDUCTION

ISSUE : THE PRESENT THRESHOLD OF TAX DEDUCTION FROM SUPPLIES AND SERVICES ONE PARTY DURING ONE TAX YEAR IS RS. 25,000 AND RS. 10,000 RESPECTIVELY WHICH IS TOO LOW

PROPOSAL : MINIMUM LIMIT FOR DEDUCTION OF WHT FROM ONE PARTY IN ONE FINANCIAL YEAR BE RAISED FROM RS.25000 TO RS.100,000 IN CASE OF SUPPLIES & FROM 10,000 TO RS. 50,000 IN CASE OF SERVICES.

WITHHOLDING TAX ON SUPPLIES TO MANUFACTURER CUM EXPORTER CLAUSE 45 OF PART IV OF SECOND SCHEDULE.

ISSUE: THIS CLAUSE ALLOWS NON-DEDUCTION OF WITHHOLDING TAX ON LOCAL SUPPLIES IF MANUFACTURER-CUM-EXPORTER HAVING EXPORT RATIO VERSUS LOCAL SALES WILL BE 95:5 AT YEAR END.

OUTCOME: PROJECTION OF SALES RATIO AT YEAR END IS VERY DIFFICULT FOR MANUFACTURER CUM EXPORTER BECAUSE IT DEPENDS ON INTERNATIONAL ECONOMIC SCENARIO, THEREFORE MANUFACTURER CUM EXPORTER DEDUCT

WITHHOLDING TAX ON ALL LOCAL SUPPLIES. CONSEQUENCE TO WHICH PRICE OF LOCAL SUPPLIES BECOME COSTLY FOR THEM TO THE EXTENT OF WITHHOLDING TAX.

PROPOSAL: THIS CLAUSE NEEDS TO BE SIMPLIFIED AND EXPORTERS BE ALLOWED THIS FACILITY ON THEIR PERFORMANCE IN LAST YEAR/LAST QUARTER BASIS..

CUSTOMS

RATES OF CUSTOM DUTY ON ELECTRIC GENERATING SETS & ROTARY CONVERTERS

ISSUE: THE CURRENT CUSTOM DUTY ON ELECTRIC GENERATING SETS AND ROTARY CONVERTERS HS. CODE 8502.0000 AND PARTS THEREOF HS CODE NO. 8503.0000 ARE 5%,10% AND 20% DEPENDING UPON THEIR CAPACITY AND POWER USED THEREIN.

PROPOSAL: IN VIEW OF HIGH POWER COST AND FREQUENT LOAD SHEDDING AND LOW VOLTAGE, CUSTOM DUTY ON ALL THESE ITEMS SHOULD BE 0%.

AMENDMENTS IN SRO 575 REGARDING INDUSTRIAL CONCERN

ISSUE: IN THE TABLE TO THE SRO 575 (I)/2006 DATED 05TH JUNE 2006 AT SERIAL NO. 21, MACHINERY, EQUIPMENT AND OTHER CAPITAL GOODS IMPORTED BY AN INDUSTRIAL CONCERN ARE CHARGEABLE TO DUTY AT 5% WITH A CONDITION THAT “IMPORTED FOR SETTING UP OF ANY INDUSTRY” . HOWEVER THERE IS NO SUCH CONDITION AT S.NO. 20 FOR IMPORT OF IDENTICAL GOODS FOR THE SAME PURPOSE BY MINERAL OIL AND PETRO CHEMICAL AND HEAVY CHEMICAL SECTORS. SIMILARLY, AT S.NO.22 THERE IS NO SUCH CONDITION FOR “ MACHINERY AND EQUIPMENT IMPORTED BY COMMERCIAL IMPORTERS.

OUTCOME: THIS IS AN ANOMALY AND DISCRIMINATION AGAINST AN INDUSTRIAL CONCERN IN IMPORTING CAPITAL GOODS.

PROPOSAL: CONDITION MENTIONED IN COLUMN 5 AGAINST S.NO. 21 OF THE TABLE TO THE ABOVE SRO MAY BE DELETED.

CUSTOMS DUTY ON CHEMICAL RAW MATERIAL

ISSUE: AT PRESENT THE CUSTOMS DUTY ON RAW MATERIALS FALLING H.S. CODE NOS., 3204.1700, 3206.4200 & 3206.2000 IS 15%. THESE RAW MATERIALS ARE USED IN MANY INDUSTRIES.

PROPOSAL: CUSTOMS DUTY ON RAW MATERIAL 3204.1700, 3206.4200 & 3206.2000 BE BROUGHT DOWN TO ZERO PERCENT.

CUSTOMS LICENCING OF CONSOLIDATOR/ FORWARDER

ISSUE : IN LAST BUDGET CARGO CONSOLIDATORS / FORWARDERS WERE REQUIRED TO GET A LICENCE FROM CUSTOMS, CARGO CONSOLIDATORS / FORWARDERS ARE ALSO REQUIRED REGISTRATION WITH D.G. PORT & SHIPPING VIDE S.B.P. CIRCULAR NO. 19 DATED 16-12-2002.

OUTCOME: EXPORTERS FACE SERIOUS PROBLEMS FROM UNLICENCED/UNREGISTERED CARGO CONSOLIDATORS / FORWARDERS AS THEY ARE STILL WORKING AND IN CASE COMPLAINTS, LICENCING AUTHORITY CAN NOT RESOLVE THE PROBLEM TO THE SATISFACTION OF STAKEHOLDERS.

PROPOSAL:

1. LICENCING OF CARGO CONSOLIDATORS /FORWARDERS BY THE COLLECTOR OF CUSTOMS (PREVENTIVE) MUST BE COMPLIED WITH AND RULES BE FURTHER IMPROVED FOR STRICT MONITORING OF CARGO CONSOLIDATORS /FORWARDERS FOR SECURITY OF EXPORTERS' CARGO UNTILL SAFE DELIVERY AT DESTINATION.
2. SIMULTANEOUSLY REGISTRATION AND MONITORING WITH D.G. PORT & SHIPPING FOR FREIGHT CONTRACTS.

ISSUANCE OF ONE CARRIER B/L SIGNED BY MASTER OF VESSEL OR AUTHORISED AGENT OF EACH FCL EXPORT SHIPMENT

ISSUE : IN EXPORT TWO B/Ls ARE BEING ISSUED UNAUTHORIZEDLY OF ONE EXPORT SHIPMENT WHERE SHIPPERS AND CONSIGNEE (OWNERSHIP) FOR FCL SHIPMENTS IS CHANGED IN FAVOUR OF FORWARDER DIFFERING WHAT IS DECLARED ON E-FORM AND GD.

OUTCOME: THIS EXERCISE TRANSFERS EXPORTER TITLE ON GOODS AND FORWARDERS BECOME OWNER OF GOODS AND FORWARDER FOR SAKE OF BUSINESS/VESTED INTEREST DELIVERS GOODS UNAUTHORIZEDLY, ULTIMATELY CAUSING LOSSES TO EXPORTERS IN SHAPE OF DISCOUNT/CLAIMS, DELAYED PAYMENTS OR TOTAL REFUSAL OF PAYMENT.

PROPOSAL: MONITORING BY CUSTOMS THAT ON EXPORT SHIPMENTS ONE CARRIER B/L DULY SIGNED BY MASTER OF

VESSEL OR AUTHORISED AGENT IS ISSUED AND SHIPPER AND CONSIGNEE REMAINS SAME AS DECLARED ON E-FORM AND GOODS DECLARATION IN STRICT COMPLIANCE WITH FOREIGN EXCHANGE ACT CHAPTER XII RULE 11.

TEMPORARY IMPORT OF INPUTS FOR EXPORTABLE GOODS SRO 1065(I)/2005 DATED 20TH OCTOBER 2005

ISSUE: PROCEDURES AND RULES GOVERNING TEMPORARY IMPORT OF INPUTS FOR EXPORTABLE GOODS ARE TOO COMPLEX.

PROPOSAL: FOLLOWING AMENDMENTS BE MADE IN THE SRO 1065:

1. THE CLAUSE NO.1 OF SAID SRO BE AMENDED AS FOLLOWING;

“THIS FACILITY SHALL BE AVAILABLE TO EXPORTERS ALSO REGISTERED AS MANUFACTURERS, AND BONAFIDE MEMBER OF RELEVANT ITEMS’ MANUFACTURERS ASSOCIATION UP TO 20% OF MANUFACTURER’S

2. THE CLAUSE NO. II OF SAID SRO BE AMENDED AS FOLLOWING:

“THE IMPORTER SHALL MAKE AN APPLICATION FOR GRANT OF EXEMPTION TO THE COLLECTOR OF CUSTOMS, SHIPMENT TO SHIPMENT BASIS OR QUARTERLY OR SIX MONTHLY OR YEARLY REQUIREMENT BASIS GIVING FULL PARTICULARS OF THE GOODS AND THE PURPOSE FOR WHICH THEY ARE IMPORTED.”

3. THE CLAUSE NO. III OF SAID SRO BE AMENDED AS FOLLOWING;

“THE IMPORTER SHALL SUBMIT, UNDERTAKING / INDEMNITY BOND DULY APPROVED BY CONCERNED ITEMS’ MANUFACTURERS ASSOCIATION ALONG WITH POST-DATED CHEQUE EQUIVALENT TO THE AMOUNT OF CUSTOM-DUTY-AND SALES-TAX OTHERWISE LEVIABLE THEREON:

4. THE CLAUSE NO.VIII OF SAID SRO BE AMENDED AS FOLLOWS:

“AFTER ASCERTAINING CORRECTNESS OF DESCRIPTION, CLASSIFICATION AND IMPORTABILITY STATUS OF GOODS AT THE TIME OF IMPORT, THE SAME SHALL BE ASSESSED AT DECLARED VALUE”.

5. THE CLAUSE NO. XI OF SAID SRO BE AMENDED AS FOLLOWING;

“IMMEDIATE OR QUARTERLY OR SIX MONTHLY OR YEARLY BASIS AFTER THE RE-EXPORTATION OF GOODS, THE APPLICANT SHALL PRODUCE EVIDENCE TO THE COLLECTOR OF CUSTOMS CONCERNED THAT THE GOODS HAVE BEEN RE-EXPORTED WITHIN THE STIPULATED PERIOD. ON PRODUCTION OF SUCH EVIDENCE/DECLARATION, THE INDEMNITY BOND OR UNDERTAKING ALONG WITH POST-DATED CHEQUE/CHEQUES SUBMITTED AT THE TIME OF IMPORT SHALL BE RELEASED BY THE ASSISTANT COLLECTOR OR DEPUTY COLLECTOR IN CHARGE OF EXPORT STATION.

6. THE CLAUSE NO. XII OF SAID SRO BE AMENDED AS FOLLOWING:

a. AN ALLOWANCE OF WASTAGE WILL BE ALLOWED UP TO 10% ON THE IMPORTED ACCESSORIES.

b. RE-EXPORTATION OF SUCH IMPORTED ACCESSORIES GOODS WILL BE ALLOWED IN CASE EXPORTER ORDER IS NOT EXECUTED BY THE EXPORTER DUE TO ANY REASON BEYOND THE CONTROL OF EXPORTERS.

c. ACCESSORIES UNDER THE SRO WILL BE CLEARED ON PRIORITY BASIS WITHIN 8 HOURS AFTER THE ARRIVAL OF GOODS UNDER SECTION 79 OF CUSTOM ACTS.

7. THE CLAUSE NO. XV OF SAID SRO BE AMENDED AS FOLLOWING:

“EXEMPTION UNDER THIS NOTIFICATION SHALL NOT BE ALLOWED IN CASES IN WHICH PHYSICAL INSPECTION OF MANUFACTURING BECOMES NECESSARY FOR THE PURPOSES OF WHICH EXEMPTION; PHYSICAL INSPECTIONS IF NEEDED BE CARRY OUT ALONG WITH REPRESENTATIVE CONCERNED ITEMS MANUFACTURERS ASSOCIATION”.

8. THE CLAUSE NO. XVII OF SAID SRO BE AMENDED AS FOLLOWS:

THE COLLECTOR OF CUSTOMS, OR THE ADDITIONAL COLLECTOR OF CUSTOMS, MAY REFUSE ENTRY OF ANY GOODS WITHOUT PAYMENT OF CUSTOMS DUTY AND SALES TAX IF PRIMA FACIE IT APPEARS TO HIM THAT SUCH ENTRY IS IN VIOLATION OF ANY OF THE CONDITIONS OF THIS NOTIFICATION, PROVIDED CONCERNED MANUFACTURERS ASSOCIATION IS ALSO INTIMATED, WITH A FAIR CHANCE FOR EXPLANATION TO THE MANUFACTURERS CUM EXPORTER.

9. HERE WE ALSO SUGGEST THAT FOLLOWING ITEMS SHOULD ALSO BE INCLUDED IN THE TABLE OF SRO 1065(I)/2005 DATED 18TH MAY, 2005. LIST OF THESE ACCESSORIES IS AS FOLLOWS:

ELASTIC, LACES, TAPES AND ANY OTHER ITEM ON THE RECOMMENDATION OF TRADE BODY OR ASSOCIATION CONCERNED.

MISCELLANEOUS

R&D SUPPORT TO TOWEL INDUSTRY

ISSUE: EXPROT ORIENTED TOWEL INDUSTRY IS UNDERGOING SEVEREST EVER CRISIS IN THE FACE OF STIFF COMPETITION FROM COUNTRIES LIKE CHINA, INDIA, BANGLADESH ETC.

PROPOSAL:

- a. R&D SUPPORT TO TOWEL MANUFACTURING AND EXPORTING UNITS BE INCREASED FROM 3-5% TO 10% TILL 2010 AS BANGLADESH IS ENJOYING LDC STATUS TILL 2014 TO HAVE LEVEL PLAYING FIELD IN COMPARISON TO BANGLADESH.
- b. AS R&D SUPPORT IS GRANTED TO EPZ UNITS, THERE SHOULD BE SIMILAR STATUS (EPU) FOR TOWEL INDUSTRY OUTSIDE EPZ FOR A LEVEL PLAYING FIELD.
- c. WITHHOLDING TAX BE ZERO RATED FOR TOWEL INDUSTRY UPTO 2015.
- d. EXPORT REFINANCE RATE BE REDUCED BY 50% FOR FIVE YEARS.
- e. UTILITY CHARGES BE CAPPED TILL 2010 TO PLAN MARKETING STRATEGY.
- f. EDF BE SUSPENDED TILL 2010.

WORKERS WELFARE FUND

2% W.W.F MAY BE ABOLISHED ALTOGETHER AS THE COMPANIES ARE ALREADY PAYING HIGH CORPORATE TAX OR MINIMUM TAX.

WORKERS PROFIT PARTIPATION FUND (WPPF)

ISSUE: 5% WPPF IS VERY HIGH.

OUTCOME: IT RESULTS IN PAYMENT TO GOVERNMENT TREASURY IN THE FORM OF LEFT OVER AMOUNT.

PROPOSAL: WPPF BE BROUGHT DOWN FROM 5% TO 2.5% AND THE ENTIRE AMOUNT MAY BE DISTRIBUTED AMONG THE EMPLOYEES AS THIS IS THE LEVY IN THE NAME OF WORKERS, THEREFORE, THE EMPLOYEES SHOULD BE BENEFITTED.

INDUSTRIAL POLICY

- 1) INDUSTRIAL POLICY SHOULD BE FORMULATED IN THE LIGHT OF OUR ASPIRATION FOR A SUSTAINABLE AND DYNAMIC ECONOMIC GROWTH AND OUR COMMITMENT UNDER WTO. WE NEED TO DEVELOP STRATEGY TO GET MAXIMUM BENEFIT FROM GLOBALIZATION.
- 2) THE COUNTRY URGENTLY NEEDS TO BUILD AND STRENGTHEN THE LOCAL INDUSTRY TO PROTECT IT FROM SUCH MEASURES AS AN ANTI-DUMPING, COUNTERVAILING DUTIES, AND SUBSIDIES BY FOREIGN GOVERNMENTS CREATING UNFAIR COMPETITION.
- 3) THE STRATEGY SHOULD INCLUDE ADOPTION OF WORLD-CLASS QUALITY AND BENCH MARKING STANDARDS.
- 4) ENHANCE AND IMPROVE PHYSICAL INFRASTRUCTURE ON A FAST TRACK IN AN EFFECTIVE MANNER.
- 5) DESIGN A FOREIGN DIRECT INVESTMENT STRATEGY THAT WOULD ENCOURAGE REGULAR TRANSFER OF NEW TECHNOLOGIES, BEST PRACTICES IN MANAGEMENT METHODS, AND LINKAGES TO MARKETS.
- 6) ESTABLISH A MACRO ECONOMIC AND REGULATORY REGIME THAT SUPPORTS EFFICIENT INDUSTRIAL DEVELOPMENT.
- 7) IMPROVE, ENHANCE, AND DEVELOP HUMAN CAPITAL THROUGH SKILL DEVELOPMENT AND TECHNICAL ORIENTATION.
- 8) CREATE A STRONGER DOMESTIC BASE FOR TECHNOLOGICAL DEVELOPMENT BY MAKING GREATER EFFORTS TO PROMOTE R&D. CAPACITY BUILDING, AND INDUSTRY – ACADEMIA LINKS
- 9) SUPPORT SME, CAPACITY BUILDING THROUGH INNOVATIVE SERVICES IN COOPERATION WITH THE PRIVATE SECTOR AND TECHNICAL ASISTANCE AGENCIES.
- 10) THE UNABATED, UNCHECKED, AND BLATANT INFLOW OF SMUGGLED GOODS HAS HAD A VERY NEGATIVE AND DISASTROUS EFFECT ON DOMESTIC INDUSTRY.
- 11) ESTABLISHMENT OF INDUSTRIAL ESTATES, SECTORAL VILLAGES AND INFORMATION TECHNOLOGY PARKS ESPECIALLY AROUND KARACHI, THE FINANCIAL AND COMMERCIAL HUB OF PAKISTAN.

FINANCING:

1. INTEREST RATES ARE VERY HIGH IN PAKISTAN THEREFORE, NEED TO RATIONALIZE UP TO 2% TO 3%.
2. DUE TO HIGH MARK UP RATE THERE IS DECLINE IN BANKING CREDIT TO PRIVATE SECTOR. THEREFORE, MARK UP RATE BE REDUCED TO 8% AND INFLATION BE CHECKED.

SKILLED MANPOWER FOR OPERATIONS AND MANAGEMENT BE ENSURED.

- 1) IT SHOULD BE NOTED THAT INDIAN GOVERNMENT, IN ITS 2005 BUDGET, HAS OFFERED 10% UNCONDITIONAL EQUITY WITHOUT REPRESENTATION ON THE BOARD OF DIRTECTORS AND WOULD PROVIDE FINANCE FOR A TENURE OF TEN YEARS (WITH THREE YEARS GRACE IN REPAYMENT AND INTEREST REMISSION OF 5%) PLUS UNINTERRUPTED AVAILABILITY OF UTILITIES. THE SAME FACILITY BE PROVIDED TO LOCAL INDUSTRY.
- 2) INSURANCE CREDIT GUARANTY SCHEME RATE IS VERY HIGH IN PAKISTAN AS COMPARED TO INDIA, WHICH APPROXIMATELY 0.35%. SO THE RATE IN PAKISTAN SHOULD BE REDUCED. IT WILL BENEFIT OUR EXPORTERS AND THEY WILL EXPORT ON RISK BASIS.
- 3) SESSI / EOBI / EDUCATION CESS BE ABOLISHED AND IN PLACE GROUP INSURANCE BE INTRODUCED.
- 4) THE OTHER AGENCIES WHICH ARE NOT LINKED TO GOVERNMENT REVENUE BE STOPPED TO VISIT / INSPECT FACTORIES.

OTHER ISSUES

- 1) THE GOVERNMENT SHOULD PREPARE A STRATEGY OF PROMOTING ENTREPRENEURS AND INDUSTRIALISTS TO EXHIBIT THEIR PRODUCTS IN DIFFERENT WORLD EXHIBITIONS BY SUBSIDIZING THEIR PARTICIPATION. THERE SHOULD ALSO VENTURE INTO UNTAPPED MARKETS, THAT HAVE GREAT POTENTIAL FOR EXPANSION.
- 2) A TRAINING STRATEGY FOR HUMAN CAPITAL BE FORMED WITH THE HELP OF TRADE ASSOCIATIONS TO CREATE A

KNOWLEDGE BASE ON SOCIAL AND ENVIRONMENTAL COMPLIANCES AND CERTIFICATES LIKE ISO-9000, SA-8000, ISO-14000, WRAP AND CTPAT.

- 3) STRINGENT MEASURES NEED TO BE TAKEN TO RECTIFY THE DREADFUL CONDITIONS OF THE INDUSTRIAL ESTATES, POWER SHORTAGES AND BREAKDOWNS, WATER SHORTAGE, BROKEN ROADS AND OVERFLOWING SEWERAGE LINES.

-:-