

Towel Manufacturers' Association of Pakistan

SUMMARIZE BUDGET SPEECH 2016-17 SPECIFIC TO TEXTILE SECTOR

❖ **In order to increase exports the following measures are being made this year – FY2016-17:-**

❖ **NON-TEXTILE SECTOR:-**

- 1) To operationalize the trade policy, a total of Rs.6 billion have been allocated in the budget;
- 2) The existing scheme on Drawback of Local Taxes (DLTL) will continue in the FY2016-17;
- 3) The mark-up rates on Export Refinance Facility, which was 9.5% in June 2013 will be brought down to 3.0% from 1st July 2016;
- 4) To encourage Small and Medium Enterprises (SMEs) to invest in new technologies especially in non-traditional exports, a Technology Up gradation Fund (TUF) is being established;
- 5) Zero-rating of Export Oriented Sectors: The export of manufactured goods in Pakistan comes from five main sectors - textile, leather, sports goods, surgical goods and carpets. For encouragement of these five sectors, from 1st July 2016 they will be made part of zero-rated tax regime;
- 6) The zero-rating facility will be available on purchase of raw materials, intermediate goods and the purchase of energy i.e. electricity, gas, furnace oil and coal. The retail sales of locally manufactured finished goods of these sectors will continue to be subjected to sales tax @5%.
- 7) All the pending sales tax refunds till 30th April whose RPOs have been approved, will be paid by 31st August 2016.

Towel Manufacturers' Association of Pakistan

❖ TEXTILE SECTOR:-

Textile sector is the primary manufacturing sector of Pakistan. In order to further enhance the export competitiveness of this sector the following measures are proposed in Budget FY2016-17:

- 1) The existing scheme on Drawback of Local Taxes (DLTL) will continue in the FY2016-17;
- 2) **Technology Up-gradation Fund:** Technology Up-gradation Fund (TUF) Scheme for the textile sector has been formulated which will be implemented from July 1st, 2016. This scheme will particularly benefit the SMEs to invest in new technologies to make Pakistan's exports globally competitive;
- 3) **Duty Free Import of Machinery:** The benefit of SRO 809, through which textile machinery can be imported duty free, will continue for FY2016-17 and scope would be widened to include more garment specific machinery. This incentive, along with LTFF and TUF, would encourage new investment in textile sector to increase exports;
- 4) **Withdrawal of Customs Duty on Manmade Fibers:** Concessionary customs duty on the man-made fibers that are not manufactured locally will continue.
- 5) **Plant Breeders Right Act:** One of the top priorities of the government is to ensure provision of quality seeds to growers. For this purpose, it is important to honor scientists with intellectual property rights of varieties they develop. The draft law is ready which will be implemented after approval of the Parliament.

❖ INDUSTRIAL DEVELOPMENT :-

- 1) **Enhancing Tax Credit on Employment Generation:** In order to promote industrial growth and employment generation tax credit @ 1% of the tax payable for a period of ten years that is allowed for every 50 employees in an industrial undertaking to be set up by June 2018, is proposed to be increased to 2%. This concession will be made available for 10 years to the industrial undertakings set up by June 2019;

Towel Manufacturers' Association of Pakistan

- 2) **Tax Credit for Making Sales to Registered Persons:** At present a manufacturer registered under sales tax who is making over 90% sales to registered sales tax persons is entitled to a tax credit of 2.5% of tax payable. The tax credit is proposed to be enhanced from 2.5% to 3% of tax payable.
- 3) **Tax Credit for Balancing, Modernization and Replacement (BMR) of Plant and Machinery:** At present, tax credit on BMR is allowable at the rate of 10% of investment against tax payable for two years. In case of investment through 100% new equity, tax credit on BMR is allowable at the rate of 20% of investment against tax payable for five years. The period is proposed to be extended to 30th June 2019;
- 4) **Tax Credit for Establishing New Industry:** Till 30 June 2016, 100% tax credit on tax payable is allowed if 100% fresh equity is raised for establishing new industry through issuance of new shares. This tax credit is allowable for five years from start of commercial production. It is proposed to reduce the condition of 100% fresh equity to at least 70% equity. In addition, period of setting up of new industrial undertaking, which is going to expire on 30th June, 2016 is also proposed to be extended to June, 2019;
- 5) **Reduction in Customs Duty on Raw Materials and Machinery:** To further increase in GDP of industrial sector existing customs duty of 5% will be reduced to 3% on two thousand items of mostly machinery and raw materials, which will benefit industrial sector to the tune of Rs.18 billion;

ENERGY SECTOR

- 1) **Concessions of Customs Duty on Local Manufacturing of LED Lights:** Customs duty on imports of parts of LED lights is being reduced from 20% to 5% .

Towel Manufacturers' Association of Pakistan

- 2) **Incentivizing Import of Items used in Renewable Sources of Energy Technologies:** As per existing laws listed items used in renewable sources of technology are allowed duty free import. **0**More generic descriptions and classifications are proposed to be included in this list which include items like led bulbs/lights, off-grid portable solar home system etc.
- 3) **Extension in Relief on Import of Solar Panels:** Import of solar panels and related components were exempted from customs duty regardless of local manufacturing of their substitutes till 30th June 2016. It is proposed that this relaxation be extended till 30th June, 2017.

INCOME TAX (RELIEF MEASURES):

- 1) **Rationalizing Corporate Tax Rate-** As per government policy and in order to encourage corporatization, corporate tax rates are being reduced by 1% each year starting from 35% in TY 2013 and coming down to 30% in TY 2018. The corporate tax rate will be 31% for TY 2017.
- 2) **Tax Credit for Enlistment** - At present 20% tax credit on tax payable for enlistment in stock exchange is available for 1 year. In order to encourage organized sector tax, credit is proposed to be made available for 2 years instead of 1 year.
- 3) **Enhancing limit of markup on house building loan** - Presently, an individual is allowed a deductible allowance up to Rs. 1 Million on payment of profit on debt for construction of a new house or acquisition of house. In order to promote activity in the housing sector to meet the deficiency of available housing units, it is proposed to increase the maximum amount allowable from Rs. 1 Million to 2 Million.

Towel Manufacturers' Association of Pakistan

- 4) **Relief on Education Expenses** - In order to provide relief on education expenses which are unbearable for low income groups, it is proposed that individuals having taxable income less than Rs. 1 million should be given tax relief equal to 5% of school fee up to Rs. 60,000 per child per annum.
- 5) **Tax Credit for Contribution to approved Pension Fund** - At present a tax credit is available for contribution in an approved Pension Fund with a maximum of 20% taxable income. An additional contribution of 2% for persons above 41 years of age to a maximum of 50% of taxable income is available up to 30-06-2016. It is proposed that the period may be extended up to 30-06-2019 with the condition that the maximum tax credit be restricted to 30% of taxable income of the preceding year.
- 6) **Employers' Annual Contribution in Provident Funds** - Contribution by an employer in Provident Fund up to one-tenth of salary of an employee or Rs. 100,000, whichever is lower, is exempt. Any amount exceeding this limit is treated as income of the employee. To provide relief to salaried taxpayers, the limit of Rs. 100,000 on employer's contribution is proposed to be enhanced to Rs. 150,000.
- 7) Large Trading Houses were exempted from payment of minimum tax at the rate of 1% during the first 10 years of commencement of business operations. This exemption shall expire in June 2016. In order to incentivize this organized section of the retail sector and to attract foreign investment, this exemption is proposed to be gradually withdrawn and minimum Tax is proposed to be reduced to 0.5% of the entire turnover up to TY 2019.
- 8) **Taxation of property income as separate block** - In order to facilitate persons deriving income from renting of property including widows and senior citizens taxation of property income in the case of individuals and associations of persons is proposed to be simplified. It is proposed that for such persons the property income

Towel Manufacturers' Association of Pakistan

may not be clubbed with income under other heads and may be taxed as a separate block of income. Income up to Rs. 200,000 shall be exempt and income up to Rs. 2,000,000 shall be taxed in slabs of 5%, 10% and 15%. Income above Rs. 2,000,000 shall be taxed at 20%.

REVENUE MEASURES:

- 1) Rationalizing Tax Rate for securities for non-filers** - The stock markets in Pakistan are booming and the investors are making unprecedented gains. This sector is expected to make its due contribution to the national exchequer. It is proposed that the maximum taxable holding period for capital gain on securities may be extended from 4 to 5 years. In order to encourage compliance with tax laws, it is also proposed that, for non-filers, higher tax rates of 18%, 16% and 11% for holding period of up to 1 year, 2 years and 5 years respectively may be introduced.
- 2) EXEMPTION CERTIFICATE TO MANUFACTURERS ON IMPORT OF RAW MATERIALS**
Commercial importers have a grievance that facility of exemption certificate is sometimes misused by manufacturers when they sell the raw material imported for own consumption by availing the facility of exemption certificates. To address this issue and to provide a level playing field it is proposed that manufacturers availing exemption certificate may be subjected to compulsory audit of consumption, production and sales.
- 3) Extension in super tax** - In the budget for the financial year 2015-16 a tax on the income of the affluent and rich individuals, association of persons and companies earning income above Rs. 500 million in tax year 2015 at a rate of 4% of income for banking companies and 3% of income for all others was levied. Since the circumstances that necessitated this measure are still continuing, it is proposed to extend this measure by one year for Tax Year 2016.

Towel Manufacturers' Association of Pakistan

- 4) **Persons registered with provincial sales tax authorities** - A large number of persons are filing sales tax returns with the provincial revenue authorities but are not filing income tax returns. It is proposed that such non-filers may be required to pay advance income tax monthly, to be collected by provincial revenue authorities along with sales tax returns, at the rate of 3% of turnover.
- 5) **Extending the scope of minimum tax** - The undocumented sectors of the economy, including retailers and small businesses, under-report their income. In many cases declared income is below taxable limit. Consequently, their contribution to revenue is much lower than their share in GDP. Currently minimum tax at the rate of 1% of turnover in case of AOP and Individuals is applicable only where turnover is above Rs. 50 M. It is proposed that this limit may be reduced to Rs. 10 M.
- 6) **Exclusion of second hand and worn clothing from further tax levy** - Sales tax on second hand and worn clothing is currently levied at cumulative rate of sales tax of 10%. In order to provide some relief in the prices of second hand clothing which are used by the common citizens, it is proposed to reduce the tax rate to 8%.

DISCLAIMER: -

The Summarize Budget Speech of Budget 2016-2017 (Specific to Textile Sector) selected from F.B.R websites are disseminated for information only. TMA shall not be held responsible for any mistake/error