

May 15, 2020

Mr Abdul Razak Dawood
Adviser the Prime Minister on
Commerce, Textile and Investment
Islamabad

Dear Razak

COMMERCIAL PROPOSALS RELEVANT TO THE FEDERAL BUDGET

The Pakistan Business Council (PBC) would like your office to take-up the following issues with the FBR for inclusion in the Finance Bill 2020. These measures will help the export sector to compete in export markets in these difficult times:

1. **Restoration of Section 51(e) of the Anti-Dumping Duties Act (XIV of 2015):**

Section 15 of the Finance Act 2019 amended the Anti-dumping Duties Act 2015 (XIV of 2015) and omitted Section 51(e) which read as ***“will not be levied on imports that are to be used as inputs in products destined solely for exports and are covered under any scheme exempting customs duty for exports under the Customs Act, 1969”***. As a result of the omission of this Section, all textile inputs e.g. PFY, HPO and cotton yarn, hitherto imported free of Anti-dumping Duties by export manufacturers, now stand subjected to the levy, rendering exports uncompetitive vs countries where no anti-dumping duties apply to the same inputs.

PBC recommends that the Section 51(e) of the Anti-Dumping Duties Act (XIV of 2015 be restored to reduce the cost for the value-added textile sector.

2. **Aligning EOU / Manufacturing Bond Rules with DTRE:**

At present, *local sales* to a DTRE license holder has been provided the benefit of sales tax zero rating, however, local supplies to EOUs / Manufacturing Bond is chargeable to sales tax @ 17%, which is an apparent anomaly between the DTRE, EOUs and Manufacturing bond rules. This acts as a disincentive for the EOUs / Manufacturing Bonds to buy from local suppliers even when the product is locally available.

PBC recommends to allow zero rating on local purchase of goods by EOUs / Manufacturing Bond in line with the benefit given to DTRE license holder as this will potentially avoid imports.

3. Section 126E, Entity setup in Special Economic Zones (SEZ):

As income of SEZ entity (Zone Enterprise) is exempt from income tax for a period of 10 years, there should not be any withholding of Income tax at source at any stage for Zone Enterprises and under any provisions of ITO till such time exemption is available to the Zone Enterprise. However currently exemption is not granted under Section 148 & 153 from collection of income tax.

PBC recommends that since income of Zone enterprises is exempt from income tax under clause 126E, exemption be granted to Zone enterprises from all withholding and tax collection provisions, including turnover based minimum income tax.

4. Advance Income Tax on Import of Plant & Machinery by Export Industries

Import of raw material by the Export Oriented sector is subject to income tax withholding of 1.0% whereas on the other hand, import of Plant & Machinery by exporters is subject to 5.5% income tax withholding

PBC recommends that Plant and Machinery imported by the Export Industries not be subjected to any income tax withholding at the import stage.

5. Section 8B of the Sales Tax Act – Potential Exports:

As per SRO 1190 dated October 2, 2019, registered persons whose zero-rated supplies [including exports] are more than 50% of the total sales during a month, are excluded from the ambit of section 8B for that specific month and are allowed 100% adjustment of their input sales tax. This leads to cashflow issues for exporters

***PBC recommends that SRO 1190 dated October 2, 2019 be amended as follows:
(11) Persons making zero-rated supplies, including exports, provided that value of such supplies exceeds 30% ~~50%~~ of value of all taxable supplies in a tax period***

6. Cascading Tariffs

The PBC supports the government's resolve to simplify, reduce and introduce cascading tariffs to promote industry. However, at a time of global recession when many overseas producers will be looking to find markets, we urge the government to factor this into its tariff review to protect jobs in Pakistan.

7. Revival of Zero-Rating for the '5' Export-Oriented Sectors:

In the absence of an effective and prompt system of making refunds to exporters, PBC recommends the revival of Zero-Rating for the '5' Export-Oriented Sectors.

8. Automation of Export Rebates

Presently exporters are required to claim rebates which takes a long time to be processed. Pakistan Customs verified information on quantities shipped and value invoiced is readily available and can be utilised by banks to process rebates.

The PBC recommends that banks be allowed to credit the rebate due on realization of export rebates

9. Simplification of the DTRE Scheme and Itemised Standard Duty Drawbacks for SMEs

The DTRE scheme needs to be simplified to allow more SMEs to avail drawbacks. Itemised standard drawback rates be issued to allow smaller exporters to obtain refunds of taxes and duties incurred up to the point of export.

As always, the PBC is available for a discussion on the above.

Yours sincerely,



Ehsan Malik