FBR asked to remove tariff anomalies

Pakistan Business Council (PBC) has proposed to the Federal Board of Revenue (FBR) to remove customs tariff anomalies and abolish full and final tax structure on the commercial importers to make local manufacturers more competitive, as final tax liability of such importers has placed local manufacturing sector at a disadvantage position.

Sources said that the proposal is part of the PBC presentation made by the PBC to the Special Assistant to Prime Minister on Revenue Haroon Akhtar Khan here at the FBR House on Monday. A delegation of Pakistan Business Council led by Council founder Ali Habib and Chairman Ahsan Malik met Special Assistant to Prime Minister on Revenue, FBR Member IR Policy Dr Muhammad Iqbal and other senior FBR officials at the FBR House.

Pakistan Business Council (PBC) has strongly proposed to the Federal Board of Revenue (FBR) to take away the final tax liability on commercial importers, as sales tax and value added tax (VAT) are not supporting manufacturing sector in Pakistan.

The PBC informed Haroon Akhtar that the sales and value added tax structure is not supportive of local manufacturer as all taxes are charged all the expenses a manufacturer incurs: cost of the product, freight costs, distribution costs, marketing expenses, etc, whereas the commercial importer only pays sales tax and VAT on the CNF price of the product. This puts the local manufacturer at a disadvantage as all the expenses incurred are taxable whereas if the importer undervalues his/her products, it would thus be paying a small amount of sales tax on the said price as its Final Tax Liability. The government needs to abolish the full and final tax structure for the commercial importer to make local manufacturers more competitive.

According to the presentation made by PBC to Haroon Akhtar, Pakistan manufacturing sector is declining considerably. "In the last quarter century, our share in the world manufactured exports has sharply declined. Our current trade deficit is at US $32.5 billion, exports at 8 percent and the manufacturing sector's contribution at 13.5 percent of GDP. Pakistan needs to revive and rectify its neglect to the exports sector."

Furthermore, due to premature deindustrialization resulting from (1) poorly negotiated free trade agreements, (2) unfair competition from the informal sector, (3) heavy taxation, (4) shortage of cotton and other agricultural convertibles, (5) energy shortfall and (6) higher input costs than competing sourcing countries, Pakistan's industry has not grown to become a more prominent part of the economy.

This has resulted in fewer jobs being created, critical mass leading to greater competitiveness has not been allowed to develop, exports having suffered and Pakistan rapidly becoming a nation of traders, content on consuming imported items, the PBC maintained.

The government of Pakistan should study India's model on ease of doing business (EODB) as it has moved by 30 points and reached the 100th position. It takes India 17 days to start a new business now. Overall India has shown a 7 percent growth in its manufacturing GVA. Pakistan's growth rate in the manufacturing sector is strikingly low at 4.9 percent while India has 7.99 percent and growth rate of Bangladesh and Vietnam is at an all time high 11.9 percent.

It added that the government has made a 5-10 year Auto Development Policy which has resulted in new investments worth US $241 million (KIA US $130 million & Hyundai US $111mn). Long-term strategic policies/plans to be developed for other industries to ensure consistent rebate/incentive policies are given to support local manufacturers.

The government needs to create new investment opportunities which will (1) grow exports, increase scale of local manufacturing domestically, provide jobs and bring in foreign exchange, the PBC added.

Meanwhile, Special Assistant to Prime Minister on Revenue Haroon Khan has said that it is the endeavour of government to spur growth in the manufacturing sector and is willing to work with the business sector to strengthen the manufacturing sector through a realistic and consensus-based plan of action based on viable proposals advanced by the business community. "The government believes in facilitating the business community by providing them a level-playing field and an investment-friendly environment," he said while talking to a delegation of Pakistan Business Council led by Council founder Ali Habib and Chairman Ahsan Malik. Member IR Policy FBR Dr Muhammad Iqbal and other senior FBR officials were also present.

The delegation briefed the Special Assistant to Prime Minister on Revenue on the issues and concerns of the business community with particular focus on challenges facing the manufacturing sector and presented a set of proposals and recommendations for their solution.

Haroon Khan reiterated that the government is keen to work with the business community and requested the Pakistan Business Council to prepare a comprehensive and realistic plan of action for the resolution of issues facing the manufacturing and other associated sector. "The government has for the past four a half years taken a number of initiatives in the regard and we would welcome any suggestion and input from the relevant stakeholders to further consolidate our efforts to strengthen the manufacturing base," he said.