

SUMMARY OF BUDGETARY NOTIFICATION ISSUED ON 30TH JUNE 2016

<u>491(i)/2016</u>	<p><u>Budgetary amendment in five export oriented sectors scheme (SRO-1125)</u></p> <p>The Federal Board of Revenue has revamped reduced sales tax rate regime for five export oriented sectors in accordance with the commitment made in Finance Bill by the Finance Minister. The main feature of the scheme is extending zero rate facility to entire supply chain of the export sectors up-till, retail stage to eliminate accrual of sales tax refund at maximum extent. Under the new regime it was attempted to ensure levy of sales tax @ reduced rate of 5% only at retail stage or supplies to end consumers. Attempt is also made to ensure collection of standard rate of sales tax i.e. 17% from persons outside five sectors.</p> <p><i>The significant features of the scheme are as under:-</i></p> <p>Zero rating facility is extended on imports to both manufacturer and commercial importers for import and supplies of industrial raw material (128) listed in table-1.</p> <p>Earlier there was different treatment of tax on these two category which causing problems to genuine commercial importers.</p> <p>Zero rating facility is extended on local supplies of industrial raw material (128) listed in table-1 (excluding finished fabric). The facility is available to both registered and unregistered person operative within five sectors.</p> <p>Zero rating facility on import and supplies of industrial raw material (128) listed in table-1 is also extended to registered manufacturers who manufacture goods listed at table-I or table-II</p> <p>Zero rating facility is also extended on processing of goods owned by other person.</p> <p>Zero rating facility on supplies of finished fabric is restricted to the extent of registered manufacturer only. Supplies to other categories are chargeable to sales tax at 5%.</p> <p>Reduced rate of Sales Tax @ 5% is chargeable on supplies of locally made finished article of textile and leather including finished fabrics to retailers or any other category of persons.</p> <p>Standard rate of sales tax @ 17% is remains intact on import of finished textile and leather article along with value addition sales tax @ 2%. The subsequent supplies of these goods are also chargeable @ 17%.</p> <p>Provision for zero rate purchase and supplies of furnace Oil, diesel and coal to the registered manufacturer is also provided subject to issuance of general order by the board.</p>
<u>Provisions of Refunds</u>	Refund is admissible on sales tax paid on any input under this scheme, excluding packing material of all sorts, subject to provision of post refund audits as per past practice.
<u>Reservation/ anomalies</u>	The scheme besides providing apparent incentives yet contains serious anomalies and interpretational issues which have tried to listed down

hereunder:-

The scheme at one end provides facility on supplies of industrial raw material to registered or unregistered person @ zero rates at the other end supplies to persons outside five sectors attracts sales tax @17%. Here it is important to note in the absence of mandatory requirement to provide CNIC or NTN practically, it's practically not possible to ascertain status of customer whether the same is operative within five sector or not. Furthermore, since in condition prior to this clause provides zero rating facility to entire supply chain whether the customer is **registered or unregistered**. We understand application of sales tax @ 17% to outside five sectors should only be restricted to the extent of registered person operative outside five sectors. The board needs to clarify this issue.

Finished fabric @ zero rates is made applicable only on supplies to registered manufacturer. The other category of customer like wholesaler, trader and commercial exporters are not covered. This is against the spirit of the notification which meant to provide zero rating facility on supply chain of entire five export oriented sector.

Persons whose industrial inputs are not listed in table-1, and who involves in manufacturing of items listed at table-1 or table-II are not covered in this notification. They still remain in disadvantageous position and are liable to pay standard rate of sales tax @ 17% at import stage, in spite of being a person falling in five export oriented sectors. They may be hurt by the restrictive clause for disallowance of packing material as well as zero rating facility provided under the notification to importers of same product they manufactured.