



Press Release

The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

REGRESSIVE TAXATION POLICIES ON TEXTILE SECTOR CAUSING PERMANENT CLOSURE OF FACTORIES AND MASSIVE UNEMPLOYMENT

23rd August 2024, Islamabad – The All Pakistan Textile Mills Association is gravely concerned over the impact of SRO350(I)/2024 and recent withdrawal of the sales tax exemption on local supplies for export manufacturing on the textile sector. These regressive moves are crippling the industry with devastating consequences for employment, external sector stability and the overall economy.

SRO 350(I)/2024

Despite repeated pleas from industrial stakeholders, clear commitments from the Finance Minister that SRO 350(I)/2024 will be amended, and categorical instructions from the Prime Minister to suspend the SRO till it is made workable for all stakeholders involved, the FBR continues to enforce the dysfunctional policy to the detriment of all manufacturers in Pakistan. The textile sector, a vital pillar of Pakistan's economy, is being severely undermined by the current provisions of SRO 350, leading to widespread disruptions across the sector.

The operational challenges posed by SRO 350 have exacerbated the difficulties already faced by the industry. Due to the requirement of linking the entire supply chain to file sales tax returns, several APTMA members and other firms across the country are unable to file their returns within stipulated deadlines since their upstream suppliers have not filed their returns and the FBR has also eliminated the option of delinking of invoices from the return.

Whereby input claims of the buyer are restricted to the payment of tax liability of the seller by the last day of the month in which the due date falls, despite payment of the entire amount of supplies (inclusive of sales tax) to the seller, buyers are unable to claim input tax for the only reason that the seller has not timely paid their due tax. Hence, the buyer is suffering for an act they are not responsible for and are unable to file their return without payment of additional tax which is not otherwise their liability.

The operation of this Rule has cascading effects, i.e., when a buyer is unable to file their return because of the above stated situation, their customers are also unable to claim input of sales tax invoices issued by them, and these customers cannot file their sales tax returns either. This situation leads to undue and hefty tax demands and penalties, despite all involved parties having deposited their due sales taxes.

APTMA urges the government to honour its commitments and immediately amend SRO 350(I)/2024 with input from industrial stakeholders who are most impacted by it. The textile sector cannot sustain further delays in rectifying this situation, which has already caused irreparable damage.

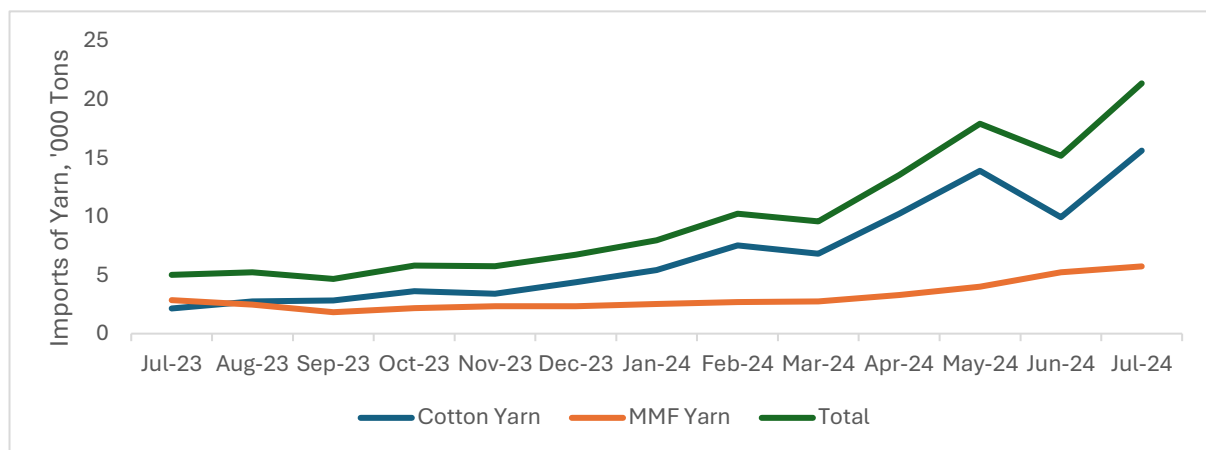
Withdrawal of Sales Tax Exemption on Local Supplies for Export Manufacturing

At the outset, the withdrawal of zero-rating on local supplies for export manufacturing under the Finance Act 2024 is not a revenue-driven measure but rather a response to the FBR's audits, which identified misuse by a small number of firms among the approximately 1,900 beneficiaries. However, rather than implementing stronger checks and balances to curb this misuse, the government has opted for a blanket withdrawal of the entire scheme, which constitutes collective punishment.

The withdrawal of the sales tax exemption under the EFS threatens to undermine the very objectives the scheme was designed to achieve. The EFS was crafted to promote indirect exports by enabling domestic procurement of raw materials and intermediate inputs without the financial burden of paying sales tax upfront. This exemption was critical in lowering the cost of doing business and providing local producers with a level playing field against foreign competitors.

The removal of this exemption has disproportionately impacted small and medium enterprises, removing the incentives for exporters to use domestically manufactured inputs. As a consequence, there has been a significant reduction in domestic value addition in exports during a time when Pakistan desperately needs to improve its trade balance, as evidenced by a 7 to 8 times increase in cotton yarn imports between July 2023 and July 2024 (Figure 1, below). Furthermore, according to our latest survey, 40% of spindles in the textile industry have fallen silent, reflecting the severe impact on production capacity.

Figure 1. Pakistan Imports of Yarn



Source: PARAL

The zero-rating on sales tax under the EFS was implemented after careful consultation with all stakeholders and is essential for reducing business costs and enhancing exports. Its revocation undermines these objectives and will lead to many more closures across the value chain, causing the loss of livelihood for millions of workers and their families, and threatening the social fabric of our society.

APTMA urgently calls on the government to restore the zero-rating on local supplies for export manufacturing under the Export Facilitation Scheme

(EFS). We urge the authorities to implement stronger checks and balances to prevent misuse, rather than resorting to collective punishment that further accelerates the deindustrialization trend that has devastated Pakistan's economy over the past two years.

The survival of Pakistan's textile industry, the livelihoods of millions, and the future of our nation's economic stability hinge on the swift reversal of these utterly regressive measures.

Forwarded for favor of publication in your esteemed newspaper/transmission.

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