Tea association concerned over enhanced sales tax rate | Forex, Pakistan

Written by Shumaila Ahmed
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<p>KARACHI: In a bid to achieve revenue collection target, the Federal Board of Revenue (FBR) has enhanced the sales tax rate on tea by 220 percent, which will have a significant rise in retail prices of the basic consumer item, sources said. {loadposition content_adsense300}The FBR enhanced the rate of sales tax, also known as consumption tax, on the supply of tea from five percent to 16 percent. The revenue body had brought it down to five percent on June 1, 2012 in order to discourage rampant tea smuggling in the country and facilitate consumers.

�The latest decision of the revenue body is to achieve revenue collection targets,� said Hamid S Khawaja, chairman of Pakistan Tea Association. The immediate impact of revising the sales tax rate has raised tea price by around Rs80 per kilogram at the retail stage, he added.

The FBR is facing serious challenges in achieving revenue collection target of Rs2,126 billion for the current fiscal year, which was already revised downward from Rs2,381 billion. So far, the revenue body�s provisional revenue collection stands at Rs1,337 billion in the first nine months of the current fiscal year and it requires another Rs789 billion in the last quarter.

Annually, 240,000 tons of tea is consumed in Pakistan, of which more than half is smuggled in the country in the guise of Afghan Transit Trade. The tea association attributed the smuggling to a combination of poor physical controls by customs authorities and substantial incentive to evade import duty and sales tax.

In January 2011, the Federal Tax Ombudsman presented a report on ISAF containers scam to the Supreme Court of Pakistan, saying that under the garb of Afghan Transit Trade, huge quantities of items, including black tea, whose consumption is negligible and limited in Afghanistan, were imported there. These items were imported through transit trade in excess of the Afghan requirements. These items were imported in Afghanistan either through misdeclaration or through Iran and other neighbouring countries and smuggled to Pakistan. The FTO suggested that a change in the incidence of duties and taxes in Pakistan immediately indicates shift of such items in the transit regime of Afghanistan.

�Higher taxes and tariffs in Pakistan prompt excessive imports of such items in transit trade to Afghanistan for subsequent smuggling in the Pakistani markets,� the FTO observed.

Complying with the observations of the FTO and the demand from the stakeholders, the FBR in the last budget reduced the sales tax rate from 17 percent to five percent with stronger checks and control. Reduction in the sales tax rate resulted in revenue loss of 29.6 percent to Rs1.171 billion in the first quarter ended September 2012 against Rs1.667 billion in the corresponding quarter last fiscal year. The tea association, however, claimed that an additional Rs500 million customs duty was collected on tea import during the first half of the current fiscal year.

�This indicates the sales tax collection would have increased in the coming years,� Khawaja said.

In less than eight months, the government revoked the decision arbitrarily without consulting the Pakistan Tea Association and major blenders.

�Achieving revenue targets at the cost of smuggling and illegal practice is not understandable,� he said. He suggested the government that reducing the sales tax to five percent is not sufficient to curb smuggling, rather it should consider zero-rating on tea.</p> <p>�</p> <p>Courtesy: The News</p>