PAAPAM seeks exemption from RD

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LAHORE: Pakistan Association of Auto Parts and Accessories Manufacturers (PAAPAM) has demanded a wide range of concessions in the federal budget for 2017-18 likely to be this week as follows to save the vending industry from collapse

1) Exemption from regulatory duties & anti-dumping duties:

In the light of the new Auto Development Policy (ADP) and the fact that none of the raw materials allowed to be imported by auto parts industry are manufactured locally, PAAPAM demanded that all imports of raw materials by this sector under SRO 655(1)/2006 be exempted from Regulatory Duties under SRO 568, as similar exemptions have also been granted to other sectors, such as imports under SRO 565, SRO 678(1)/2004, Fifth schedule to the Customs Act etc.

PAAPAM clarified that it was not asking for complete withdrawal of RD or ADD on steel sector, but only seeking exemption for those "auto engineering steel" (i.e, materials of auto grade/quality standards required for auto industry) which are not produced by the local steel sector. All such auto raw materials imports are fully controlled & monitored by MoIP/EDB/WEBOC through IORCs issued by MOIP under auto specific SRO 655.

The situation is aggravated by the fact that RD & ADD have been imposed on auto raw materials but there are no such levies on related auto finished goods, it pointed out.

Therefore, the National Tariff Commission may be directed to withdraw anti-dumping duties from import of "auto engineering steel" (i.e, materials of auto grade/quality standards required for auto industry) which are not produced by the local steel industries.

2. Sales Tax Act, 1990:

PAAPAM was of the view that following amendments are crucial for the survival of the Auto Parts Industry:

a) Section 8B – Restriction of input tax adjustment to 90 per cent of the output sales tax in each month's sales tax returns (Based on minimum value addition concept of 10 per cent): be omitted as it is unnecessarily creating hardship, particularly to the genuine registered persons, whose accounts are subject to audit under the Companies Ordinance, 1984, seriously hampering their cash flows.

b) Sales Tax Special Procedure (Withholding) Rules, 2007 (SRO 98(I)/2013 dated 14-02-2013)

This provision of 20 per cent withholding tax should be withdrawn as based on new system of Monthly Sales Tax Return filing – Strive, input tax adjustment is only possible after full verification of invoices and tax payments by the suppliers.

In addition to this system, further 20 per cent withholding sales tax has become additional burden on the registered persons, resulting in piling up of accumulated sales tax refunds, which are adversely impacting cash flows and ultimately the survival of the business, as sales tax refunds are difficult to collect from the tax department.

3. Income Tax Ordinance, 2001:

a) Section 148 read with Clause (72B) of Part-IV of the Second Schedule: be amended and threshold of restricted quota of 110 per cent of consumption of imported raw material in preceding year should be removed for issue of Zero-Rated/Exemption for import of raw materials.

b) Section 148 read with SRO 947(I)/2008 dated 05-09-2008 should also be amended with following in addition to three conditions provided in SRO:

"(d) In the case of an existing industrial undertaking, the taxpayer has paid/discharged full advance-tax for the tax year in which import is being made".

4. Auto Development Plan:

The import of used cars (up to 7,000 units per month) continues through misuse of the facility, thereby creating an adverse impact on local auto parts manufacturers, who provide employment to three million persons, causing them a loss of revenue to the tune of over Rs 20 billion per annum. As stated in the ADP, the Ministry of Commerce should define SOPs under Import Policy Order for used cars, to prevent misuse of the facility. The Federal Board of Revenue should issue yearly schedule of import duties of all types of vehicles, in US dollar terms, on 30th June of each year.

5) Exclusion of auto industry from free trade agreements (FTAs):

The PAAPAM expressed serious concerns on the government's proposals to include the auto sector in the Free Trade Agreements (FTAs) with Turkey, Thailand & other countries and requested the government to completely exclude the auto industry from the ongoing negotiations.

PAAPAM warned that inclusion of auto industry in FTAs would discredit the Government and scare away massive investments in the pipeline.

In addition, following negative consequences would occur on auto sector:

Firstly, for localized parts, offering concessionary customs duties in the FTAs is incomprehensible, as it would shut down the entire Auto Parts Industry.

Secondly, for non-localized CKD parts, FTA duties would deprive the exchequer of huge sums of tax revenues and also eliminate the potential of future localization of CKD parts.

PAAPAM found no merit for inclusion of the automobile sector in the FTA negotiations and strongly requested the government to completely exclude the auto industry from the ongoing negotiations with foreign countries.

Besides, PAAPAM asked that no decision on the above FTAs should be taken at any cost, without granting auto industry a hearing to present their rationale & justifications, in the best national interests of our country.