Misuse of Pak-China FTA: Rs 3.4 billion tax evasion unearthed in clearance of fabrics

The Directorate General of Customs Intelligence has unearthed glaring illegalities/irregularities in the clearance of imported fabrics through misuse of Free Trade Agreement (FTA) between Pakistan and China and SRO 1125(1)/2011 involving evasion of duties and taxes worth Rs 3.4 billion. Sources told Business Recorder here on Wednesday that the detection made by Lutfullah Virk Director General Customs Intelligence is an eye opener for the Federal Board of Revenue (FBR) to immediately rectify the systems and procedures.

Lutfullah Virk also gave some viable suggestions including policy changes, directing that the import of fabrics under notification SRO 1125(1)/2011 should be subjected to quantitative restrictions. The proposed amendments to the tax laws and incorporation of suggestions of DG Customs Intelligence might have saved billions spent on the import of fabrics. The analysis of import/export trade statistics between Pakistan and China by the DG Intelligence has also promoted the authorities to take measures for checking misuse of facility.

According to a report of Virk submitted to FBR Chairman Tariq Bajwa that the Directorate General has detected large scale illegalities/irregularities in clearance of different commodities from various ports during the last quarter of the previous financial year. However, the most glaring illegalities/irregularities, involving evasions of revenue to the tune of several hundred million rupees, were detected in clearance of fabrics having various descriptions.

In pursuance of specific information, imports of fabrics made under notification SRO 1125(1)/2011 were closely monitored and, subsequently, a number of consignments lying at Karachi Port and Lahore Dry port were blocked. Special teams were constituted to ascertain whether the importers of the consignments had the requisite manufacturing facility because the exemptions from payment of Additional Sales Tax and Withholding Tax were available to only those importers-cum-manufacturers whose manufacturing premises are equipped with the requisite facilities. However, it was reported by the special teams, after physical verification of the impugned premises, that the manufacturing facilities were not available at the notified premises of the importers who had imported the fabrics under claim for exemption from payment of Additional Sales Tax and Withholding Tax. It was, therefore, apparent that exemptions from payment of Additional Sales Tax and Withholding Tax had been unlawfully granted on the basis of materially incorrect documents. Revenue loss was estimated at Rs 700 million in respect of the imports made by twenty (20) importers. Swift action taken by the Directorate General resulted in recovery of more than Rs 88 million, relating to the consignments that had been detained at the port premises as well those that had been previously cleared, Lutfullah Virk said. It is also pertinent to point out that with the intervention of the Directorate General the benefit claimed under SRO 1125 by dummy manufacturers has declined substantially. Comparative analysis for the months of July-August 2014 to July-August 2013 reveals a 24 percent decline in the quantity on which benefit of SRO was claimed.