

PSMA/X-4798/FBR
22nd June 2019

Chairman FBR
Federal Board Of Revenue
Islamabad

Subject: **Anomalies And Clarifications Pertaining To Steel Melting Industry**

Respected Sir,

Certain anomalies pertaining to this industry deserve your **Immediate** and kind **Attention**. These are :-

1. FED be levied at the port @ 17% on steel scrap and to ensure its levy on all stake holders **ie FATA/PATA, Sugar Mills, Ship Breaking Industry, Steel Melting Industry** and on **Self Generation Units** and on finished goods for import of Billets, Saria etc. This shall **include** all other steel imports also.

It is pertinent to mention that the mechanism of FED collection at port on import of steel scrap from steel melting units producing on WAPDA supplied electricity outside FATA/PATA Region, and steel melting units operating in FATA/PATA region and steel units inside sugar mills and steel units producing from self generation should **ALL** be treated alike. As at present two mechanisms have been created, one for steel melting units producing on WAPDA supplied electricity outside FATA/PATA region and the other for steel melting units operating in FATA/PATA region and steel units inside sugar mills and steel units producing from self generation.

It is humbly submitted that there should be one mechanism that will regulate all melting units alike regardless of their nature as described above.

2. Removal of Custom Duty @ 3% from HS Code 7204.4990 HMS (Iron & Steel) Remeltable Scrap.

It is hereby submitted that Steel Scrap is being Imported by Steel Melting Furnaces vide the following three HS Codes:-

1. 7204.3000 – White Tin Iron & Steel Bundle (CD Waived Off).
2. 7204.4100 – Turning, Shaving, Chip Milling, Shredded Scrap etc. (CD Waived Off).
3. **7204.4990 - Iron & Steel Re-meltable Scrap. (CD NOT WAIVED OFF)**

However, it is submitted that **CD @ 3% on HMS** (Iron & Steel Re-meltable Scrap) vide HS Code 7204.4990 has **Not** been **Waived Off** in **Budget 2019-20**.

It is humbly suggested that it may please be waived off at the earliest on the same principle as to other above categories of scrap have been waived off.

3. Re-rollable Scrap It is **Not** a **Raw** material of the steel melting furnaces. Basically it is a **Substitutive Product** used as raw material for producing long products. It directly **Effects** the steel melting products like **Ingots** etc. It is suggested that Custom Duty at **3%** to be **Continued** on it and **5% RD** also needs to be levied on Re-rollable scrap. Now intermediately these are used as raw material so Ship Breaking product **SHOULD NOT** be allowed 0% Custom Duty.

4. HS Code 7203.1000 – Ferrous products obtained by **Direct Reduction of Iron** ore and HS Code **7203.9000** – **Others**, must be considered as **Scrap** and Tax paid at the port must be applicable and be claimed as final in put FED.

Sales Tax And Federal Excise

5. In case of composite units involved in making billets and long rolled products, there should be a sequence that **No FED** shall be charged in respect of billet manufactured for in house consumption and such production be **Excluded** from definition of minimum production. However, when re-rolled products is completed then tax to be charged. Units on Steel Melting Furnaces be assessed at 800 electricity units, and for Steel Re Rolling Mills be counted as 130 electricity Units. Total for Composite Units be finally counted as **930 electricity units**.

OR

Tax to be charged relating to billet in the period of manufacturing and for long rolled product only differential portion be charged. This is with reference to this clause given below.

Newly added section 5A in the Federal Excise Act, 2005 and the related new Fourth Schedule to the said Act. The said section and schedule is being reproduced hereunder:-

“(5A) In respect of goods, specified in the Fourth Schedule, the minimum production for a month shall be determined on the basis of a single or more inputs as consumed in the production process as per criterion specified in the Fourth Schedule and if minimum production so determined exceeds the actual supplies for the month, such minimum production shall be treated as quantity supplied during the month and the liability to pay duty shall be discharged accordingly.”

Procedure and conditions as mentioned in fourth schedule:-

- (i) Both actual and minimum production, and the local supplies shall be declared in the monthly return. In case, the minimum production exceeds actual supplies for the month, the liability to pay duty shall be discharged on the basis of minimum production:

Provided that in case, in a subsequent month, the actual supplies exceed the minimum production, the registered person shall be entitled to get adjustment of excess duty on account of excess of minimum production over actual supplies:

Provided further that in a full year, as per financial year of the company or registered person, or period starting from July to June next year, in other cases, the duty actually paid shall not be less than the liability determined on the basis of minimum production for that year:

What if the minimum production does not exceed actual supplies or is less than actual supplies in the first month i.e. July, or there is no production in first month and all supplies have inventory from June, there will be excess supplies in starting month until the adjustment of b/f inventory, For this mechanism be provided to b/f this inventory or adjustment procedure in first half year.

This will also resolve the issue of adjustment of sales tax already paid in respect of brought forward inventory of raw material and other goods to be used in manufacturing shall be given.

Clause (II) of Fourth schedule is being reproduced hereunder:-

(ii) The board, may notify minimum values for steel products as mentioned in the table above in exercise of powers under sub-section (5) of section 12.

6. The **minimum value** of steel products of billet and bars, etc to be done by FBR. It is proposed that such minimum value shall also account for values in respect of billet / ingots from ingot billet to re-rolled products and for only re-rolling services meaning tolling services.

7. If FED is paid at or above minimum production notional value, company must be exempt from sales tax audit to avoid arm twisting by **LTU/RTO** rather there will be a reconciliation of duty paid on production with adjustment only.

8. **Income Tax** Section 235b needs to be omitted since it has become irrelevant.

9. **Turn Over Tax** It should be decreased from 1.25 to 0.5%. Steel Melting Industry is a high volume, and highly capital intensive low margin industry. Present amount is extremely high and we request that it should be reduced to 0.5%.

Weather the industry is in profit or loss this tax has to be paid to the exchequer in any case.

10. **Wastage Rate Not Less Than 10%** In STGO 119 - **Annexure – ‘A’** wastage was restricted to **5%** of the raw material consumed for ascertaining production of billets. In actual fact the wastage is much more than the percentage already allowed in the said STGO. The same may be suitably enhanced to 10%. It would also help in shedding off deposits which are due to be adjusted under SRO 1486 – Annexure – ‘B’.

11. **Sugar Mills** We understand that presently the accounts of sugar mills are all muddled up. The employment of a **Tamper Proof. Meter** in a locked room is **Not Feasible**. It is however recommended that **Panel Capacity Tax – Transformer** be **levied** on the capacity of the panel of transformers. It needs to be levied from the date of production.

Non- tax sector (sugar mills & mini off-grid furnaces) continue to benefit flying invoices rather their benefit & loss to exchequer has increased for additional 3000-4000/ ton.

12. **Approval Of 800 Units For Manufacture Of One Ton Of Billet** In order to have a level playing field for all the steel melting furnaces minimum of **800 X Units** for the manufacture One Ton of billet is requested. It is keeping in view the **Different Types of Furnaces and Different types of Scraps** so utilized, **Quality & Age** of the steel melting Furnaces also matters. **Seven hundred** units so suggested be **Done Away** with – **Annexure – ‘A’**.

Clarifications

13. Clarification of applicability of RD and ACD on scrap imports. If there is no CD there is no reason to levy ACD and RD.

14. Has **FED** been levied upon **Sales** or **Production** - ? If it is set upon Sales, what would be the status of **Stock** for which we have already **paid Sales Tax** on the same - ?

15. Method of how to sell rebar **stock** already in hand as tax is already submitted in advance on fixed procedure but now we will have to submit **FED on sales?** How to avoid **double taxation** on stocks in hand ?

16. How to adjust sales tax already paid in advance on scrap @ **5600** in FED mode -?

17. Must be able to adjust all sales tax on **inputs** in final **FED liability**.

Thanking You
Yours Sincerely

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