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# **How Do the Owners Hide their Real Profits**

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# INTRODUCTION

## 1.1 General Introduction:

Textile business owners today engage in a wide range of illegal activities to hide their original profits for saving taxation. These illegal activities include smuggling, financial frauds, money laundering, and bribery. All these activities are negatively affecting the economic conditions of the Country.

They move sums of money through the international financial system that are so huge they dwarf the combined economies of many nations. These illegal activities made Exploitation of International Trade.

The study confirmed the lower end of the range of guesstimates, valuing illegal trade at about 500 million dollars. Six items (of a total of 17) constitute 84% of the total import value. These are, in order of priority, cloth, pharmaceutical machinery, cosmetics, tires, medicine and livestock. Exports from Pakistan, at 10.37 million dollars, are a fraction of imports. The major part of this illegal trade is in textile sector. A notable aspect is the balance of informal trade overwhelmingly in India's favor. It is probable that informal exports have been underestimated, as we did not have access to information from India. However, even if the correct figure were higher by a factor of five, it would not make much of a dent in the imbalance. This has important trade and industrial policy implications and we address these a little later.

Despite efforts by Pakistan's military government to boost its sagging economy, a recent survey shows that the country continues to be rated as one of the riskiest economies in the world. In its latest quarterly survey The Economist classified Pakistan behind Iraq, Myanmar, Kenya and Indonesia as one of the most unpredictable places in which to invest. The survey assesses the risks of investing in 100 countries. The Economist

Intelligence Unit's criteria includes a country's political structure, economic policies, sovereign data risk

These illegal activities have nothing good to offer. All they have given is pain and misery. Their agenda is nothing but destruction (destruction of economy of country, hopes of mankind) revenue impacts are also likely to be insignificant since most of the informal trade.

## **1.2 TYPES OF ILLEGAL ACTIVITIES BY TEXTILE BUSINESS**

### **OWNERS:**

There are several illegal activities are done by the textile business owners some are listed and explained below.

- Financial Frauds
- Smugglings
- Money laundering
- Frauds in paying Taxes

### **Financial Fraud:**

Financial frauds like (frauds in income statements, frauds in balance sheet, cash flow statements), bankruptcy is affecting the revenue of the several companies by which the revenue of the country is affected. A study shows that there are several other financial frauds related to any company such as: Financial Systems Crimes, including bank fraud; access device fraud; telemarketing; telecommunications fraud (cellular and hard wire); computer fraud; automated payment systems and teller machines; direct deposit;

investigations of forgery, uttering, alteration, false personating, or false claims involving transfer (EFT) including Treasury disbursements and fraud within Treasury payment systems;. Department of Agriculture Food Coupons and Authority to Participate (ATP) cards; Federal Deposit Insurance Corporation investigations; Farm Credit Administration violations; fraud and related activity in connection with identification documents and fraudulent commercial, fictitious instruments, foreign securities., and money laundering.

Manufacturers of textiles and textile products have obtained record credit of Rs. 60.8 billion in the first 11 months of the last financial year. This was disclosed in a report presented to the National Credit Consultative Council (NCCC). Sources of the Central Bank revealed that net credit expansion to the textile sector was Rs16.98 billion in comparison to fiscal 2002-03.

The break-up shows that credit expansion to cotton sector was Rs 14.15 billion to Rs 46.12 billion and the new loans were obtained by mills to finance the import of cotton. The textile mills, which have embarked on a massive Balancing, Modernization and Replacement (BMR) programmed, now prefer imported cotton because of purity and grade.

### **Smuggling:**

The smuggling is major effect by which the economy of country is being dangerously affected. Because the economy is dependent on the taxes, custom duties, sales tax etc. But in the case of smuggling nothing is paid.

The guesstimates of illegal trade between India and Pakistan range widely between 0.5 to 3 billion dollars. It exceeds considerably the value of legal trade between the two countries. Total annual trade over the past seven years has never exceeded 250 million

dollars and stands at less than one percent of their combined total trade with the rest of the world. Further, over this period, the balance of trade has remained consistently in India's favor – in some years five times as high. So, even the lower guesstimate (0.5 billion dollars) illustrates the trade potential and the scope for generating foreign exchange and revenue for the government. Clearly, these aspects have important policy implications and highlight the need for getting an accurate fix on the value of illegal trade.

On 5<sup>th</sup> February 2000, the Government decided to remove 14 textile made-ups from the negative import list to make Pakistan's textile industry more competitive. The items included are woven fabrics, carpets, curtains, apparel and clothing and bed linen.

### **Money Laundering:**

The money laundering can be defined as “to convert the black money into white money”. This type of illegal activity is also done by the textile business owners. As an example:

Macau financial regulatory authorities continue to direct financial institutions to conduct account searches for terrorist funds, and criminal activities using lists of individuals and entities designated by the U.S. under relevant authorities, as well Macau-origin textiles and apparel continued to enter the United States under quotas separate from those of China. Under the terms of a September 2000 bilateral Memorandum of Understanding, our two governments cooperate in enforcing textile quotas and preventing illegal transshipment. The United States continued periodic visits by U.S. Customs Textile Production Verification Teams (TPVT) to ensure compliance with Macau bilateral textile commitments. The most recent TPVT visit took place in July-August 2003, when a team inspected 25 textile and garment factories. The visit uncovered one confirmed case of illegal textile transshipment, involving approximately 5,000 dozens of garments.

## **Frauds in paying Taxes:**

There are different types of taxes to be paid by the textile business owners in which they do the frauds. The different taxes are:

- Sales taxes
- Custom duties & Central excise
- Income taxes
- Other taxes

## **Sales taxes:**

These shall apply to -

- a) Registered manufacturer-cum-exporters and commercial exporters who zero rate all or part of their supplies
- (b) Registered persons Who claim refund of such excess amount of input tax as is not fully adjusted against the tax payable during a period of one year following the tax period in which the credit first arose.
- (c) Investors claiming refund under the second proviso
- (d) Registered persons claiming refund of tax other than input tax

## **Custom duties & Central excise:**

To rationalize the central excise duty structure, the government made certain adjustments. The government abolished central excise duty on 16 items of import on which it is not chargeable on local production. Further, the rate of additional duty on penalties is reduced from compound rate of 2 percent per month to a simple rate of 1.5 percent per month.

The Directorate General (Intelligence and Investigation) Customs and Central Excise, shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

Where any goods are imported into, or attempted to be exported out of, Pakistan in violation of the provisions of section 15 or of a notification under section 16, such goods shall, without prejudice to any other penalty to which the offender may be liable under this Act or the rules made hereunder or any other law, be liable to detention, for seizure or confiscation subject to approval of an officer not below the rank of an Assistant Collector of Customs, and seizure for confiscation through adjudication, if required.”;

Where under a trade agreement between the Government of Pakistan and the Government of a foreign country or territory, duty at a rate lower than that specified in the First Schedule is to be charged on articles which are the produce or manufacture of such foreign country or territory, the Federal Government may, by notification in the official Gazette, make rules for determining if any article is the produce or manufacture of such foreign country or territory and for requiring the owner to make a claim at the time of importation, supported by such evidence as may be prescribed in the said rules, for assessment at the appropriate lower rate under such agreement where any person has committed a duty or tax fraud, the Collector may, with the prior approval of the Board, either before or after the institution of any proceedings for recovery of duty or tax, compound the offence if such person pays the amount of duty or tax due along with penalty as is determined under the provisions of this Act.” While interview to the custom officer it was found that mostly the tax frauds are done by the textile business owners.

### **Income taxes:**

Income tax includes all taxes that individuals and businesses must pay on various sources of income, such as salaries, investments, and interest. The amount people and businesses must pay in income a tax is determined according to the gross income, or how much money is earned. Certain deductions can be made according to expenses, and then the net income is determined, which is the amount of money earned minus the amount of money

taken by the government for tax purposes. The frauds in the income taxes are very much common. Because the owners of the business are very much experts in doing frauds in income statements, hiding assets, bankruptcy etc. When the frauds are done in the income statements they show less income due to which they hide their real profits and pay less taxes due to which they get benefit but the economy of the country get big loss.

### **Other taxes:**

Other taxes include:

Direct taxes, federal taxes, provincial taxes etc. related to taxation an example is illustrated:

Official sources told Business Recorder that CBR collected Rs 42.9 billion in November 2005 against the monthly target of Rs 48.8 billion, showing a shortfall of Rs 5.9 billion. Tax officials expect that the overall July-November collection would increase in the coming days on compilation of final figures for November 2005.

## **1.3 STATEMENT OF PROBLEM**

The problem statement is “how do the textile business owners hide their real profits to save taxations and similar other payments”, and these activities are negatively affecting the economy of the country. Here two types of variables are described:

**Independent variables:**

The hidden profits of textile business owners, for saving taxation and similar other payments is an independent variables which are affecting the dependent variable.

**Dependent variables:**



The economy of Pakistan is dependent variable that is negatively affected by the independent variables.

## **1.4 SIGNIFICANCE OF STUDY**

The significance of the study is to be aware that how these illegal activities done by the textile business owners are affecting the economy of the country Pakistan.

The main goals of the study are:

- Prevent acts of international illegal trade, between two nations before they occur.
- Use all available laws to prosecute selected criminal acts committed abroad.
- Intensify activities of law enforcement, diplomatic and consular personnel abroad.
- Protect Borders by Attacking Smuggling and Smuggling-Related Crimes
- Enhance our land border inspection, detection and monitoring capabilities through a greater resource commitment, further coordination of federal agency efforts, and increased cooperation with the private sector.
- Counter International Financial Crime
- Combat money laundering by denying criminals access to financial institutions and by strengthening enforcement efforts to reduce inbound and outbound movement of criminal proceeds.
- Counter industrial theft and economic espionage of Pakistan trade secrets through increased prosecution of offenders.

## **1.5 SCOPE AND DELIMITATIONS:**

The study is related to textile sector of the Pakistan, Sindh and particularly Karachi. The scope of study is to identify how different types of financial crimes are done by the owners of the textile sector to hide their real profits to save taxation and similar other payments.

## **2. RESEARCH DESIGN**

The study contains both primary as well as secondary data, basic objective of this report is to find out different types of crimes those are done by the textile business owners to hide their real profits and its impact on the economic sector of the country. So for this purpose we use the “Survey method” because the research is descriptive in nature.

Survey research is the systematic gathering of information from respondents for the purpose of understanding and/or predicting some aspect of behavior of the population of interest. As the term is typically used, it implies that the information has been gathered with some version of a questionnaire.

Although there are various methods of sampling that can be used. In our research we use “Survey method”. Under this method we use “face to face interview” in order to develop pleasant relationship and eye to eye contact. This method is very effective and efficient. Such types of interviews reduced the chance of non- sampling errors.

Survey research must be concerned with sampling, questionnaire design, questionnaire administration and data analysis.

The study was done on the following procedures of primary research

Research Design

Selection of method

Preparation of questionnaire

Pre-testing of questionnaire

    Selection of sample method

    Selection of sample units

    Selection of sample elements

    Collection of data

- a) Types of data
- b) Selection of primary data
- c) How primary is collected
  1. Questionnaire
  2. Face to face interview
- d) Summarizing and analyzing the data
- e) Prepare the report

## **2.1 RESEARCH METHODS:**

### **SECONDARY DATA:**

Secondary data can be gathered quickly and inexpensively, compared to primary data. Secondary data, a data has been collected for some other problem or project and used later for decision-making, if found suitable for the purpose, other than the original one will be applied in this study.

### **PRIMARY DATA:**

Data collected for the project at hand or specific problem under study. Naturally, the quality of such data should be better designed and controlled. The researcher undertakes the designed of the instrument of data collection as well as determines the method of the data collection, keeping in view the problems, its hypotheses and variables, to measure the relationship as accuracy as possible.

- Face to face interview.
- Questionnaire.

We try to use simple language

Avoid ambiguous words.

Avoid implicit assumptions.

Decide question sequence Ask classification information.

Place difficult or sensitive question in the end of the questionnaire.

Use simple opening question.

Don't include those questions, which respondent doesn't want to reply.

Try to reduce the possibility of all kinds of errors.

### **2.1.1 Nature of the study:**

The study is exploratory as well as descriptive in nature because here very little knowledge or information is available on the topic under investigation.

## **2.2 INSTRUMENTS:**

In preparing this report both primary and secondary sources will be used.

### **2.2.1 Primary:**

1. Interviews:
  - Structured interviews
2. questionnaires
3. personal observation
4. E-Mail

### **2.2.2 Secondary:**

- 2.4 internet

- 2.5 newspapers (business recorder, the News)
- 2.6 Magazines
- 2.7 books
- 2.8 TV channel (Sun Biz)

The main purpose of the study is to provide complete information regarding the ways how the textile business owners hide their real profits. So, the main source of gathering of data will be books, newspapers, magazines and interviews of concerned authorities. Another major source of data collection will be websites various authenticated organizations like custom officer, income tax officers.

### **2.3SAMPLE SELECTION:**

The sample size is of 50 including employees of the textile business and business owner, which would be interviewed for the purpose of the particular research study to know the crime rate in the such type of companies.. The different types of financial crimes occurring in the textile industries to hide their real profits would be studied.

### **2.4 TARGET RESPONDENTS:**

The respondents of this study are mostly the employees of the textile business and business owners of textile industries for further details the information are also taken from custom officer for the export/import personally visited the company.

### **2.5 TREATMENT OF DATA:**

The data gathered will be in both forms:

- Quantitative
- Qualitative

Data is collected on the basis of interviews analysis, personal observation, facts and figures and concluded with various solutions which may help to prepare this research report. The data collected has been represented through charts, tables and graphs.

### **3. RELATED LITRATURE:**

The material that was used to conduct this research was questionnaire structured interviews, telephone interviews, unstructured interviews and e-mail. Among secondary sources the internet and different articles from various news papers and magazines were also used for acquiring information.

The secondary data that available is related from both local and foreign literature.

### **3.1 LOCAL LITRATURE:**

#### **3.1.1 ARTICLE # 01:**

(Business Recorder)

News added on 11/6/2003

ISLAMABAD Extending the scope of investigation against over-invoicing of textile products exported to the UAE/Saudi Arabia, the Central Board of Revenue (CBR) has decided to approach banks for obtaining information on the sales tax refunds against the over-valued exports to the UAE, Saudi Arabia and South Africa.

Recently, the tax authorities found that bed-sheets exported to South Africa and the UAE are being over-invoiced as compared to identical goods exported to the European Union (EU) and the United States of America (USA).

The CBR suspects that the sales tax registration numbers were issued to some exporters without due diligence, and the refund was paid to the selected exporters to UAE, Saudi Arabia and South Africa, by raising unnecessary objections on documents of other genuine claimants.

The CBR has recommended to the concerned Karachi-based high-ups to fix responsibility for making flawed sales tax registration without proper verification.



Moreover, the payments to certain selected registered people had been made without following the laid down criteria of "First received first paid" basis

The tax officials allegedly feed frivolous objections in the computer against many genuine claimants, in order to sanction refund claim to certain favored few exporters sending consignments to the UAE, Saudi Arabia and Africa.

The CBR also said that the cheques issued for refund were being deposited in the bank accounts, which were operated by the perpetrator of the fraud, whose whereabouts were available with the banks and could be obtained either directly or through the Income Tax Department, for complete information about the suspected bank accounts.

Similarly, the Sales Tax Refund Rules were provided for issuance of refund cheques, indicating the specific accounts of the exporters. Such bank account numbers were available with the collect orates.<sup>8</sup> There were many people who own companies registered with the Sales Tax Department and had over-invoiced the goods in order to defraud.

The modus operandi employed by these people was to obtain refund on the basis of sales tax invoices, issued by people who were either not presently available at their given addresses, or had shown purchases from wholesalers, distributors and other people, who had actually paid no sales tax on these reported supplies and purchases.

The CBR said that the total value and unit price of export by each sales tax registered person and the total value of exports of bed-sheets to the UAE and Saudi Arabia needed to be cross checked with the data of exports maintained by the PRAL/Export Collect orate.

The CBR has expressed its concern that the list of exporters of bed-sheets to Saudi Arabia has been submitted to the board without proper scrutiny.

The names of the exporters have been repeated many times and in some cases the same

exporter has different sales tax registration numbers, while the national tax number (NTN) and unit price remained the same.

### **Summary:**

The above described case illustrates the clear picture that how the different textile business owners are doing frauds.

In this case there are different illegal activities are defined those are committed by the textile business owners just as in the case of sales tax:

The over-valued exports to UAE, Saudi Arabia and South Africa. So the Central Board of Revenue (CBR) has decided to approach banks for obtaining information on the sales tax refunds against the over-valued exports to the UAE, Saudi Arabia and South Africa.

The CBR suspects that the sales tax registration numbers were issued to some exporters without due diligence. It means that these sales tax numbers issued to the exporters were illegal because they wanted to do money laundering.

### **3.1.2 ARTICLE # 02:**

(DAWN)

The guesstimates of illegal trade between India and Pakistan range widely between 0.5 to 3 billion dollars. It exceeds considerably the value of legal trade between the two countries. Total annual trade over the past seven years has never exceeded 250 million dollars and stands at less than one percent of their combined total trade with the rest of the world. Further, over this period, the balance of trade has remained consistently in India's favor – in some years five times as high. So, even the lower guesstimate (0.5 billion dollars) illustrates the trade potential and the scope for generating foreign

exchange and revenue for the government. Clearly, these aspects have important policy implications and highlight the need for getting an accurate fix on the value of illegal trade.

### **Summary:**

This article clearly depicting the illegal activities done by the business owners of textile industries that they are involved in the crime of smuggling, by illustrating the example of Pakistan and India.

## **3.2 FOREIGN LITRATURE:**

### **3.2.1 ARTICLE # 01:**

**National Review**, Jan 20, 1992 by Douglas Bandow

[http://www.findarticles.com/p/articles/mi\\_m1282/is\\_n1\\_v44/ai\\_11836284#continue](http://www.findarticles.com/p/articles/mi_m1282/is_n1_v44/ai_11836284#continue)

The trade warriors are on the loose. House Majority leader Richard Gephardt demands sanctions against the Japanese; the U.S. International Trade Commission imposes penalties on imported liquid-crystal computer screens; the Customs Service seizes Chinese-made clothing. These are but a few examples of a policy that is, in the words of James Bovard, a prolific antagonist of Washington's many loot-minded interest groups, sacrificing "Americans' freedom and prosperity . . . on an altar of fair trade."

So illogical is current law that few protectionists want to be known as protectionists. They have instead adopted the standard of "fair trade," but, argues Bovard, "[fair trade] is one of the great intellectual frauds of the twentieth century. The louder politicians have demanded fair trade, the more U.S. trade policies have become a travesty of fairness."

Particularly obnoxious is the hypocrisy of American policy-makers. Notwithstanding their rhetoric about "fairness," most American politicians simply want to protect influential constituents. Consequently, Washington works far harder to close U.S. markets than to open those of other nations. Observes Bovard:

Since 1980, the U.S. Government has negotiated over 170 bilateral trade agreements to restrict exports to the United States. If a Third World nation's exports of a clothing item equal 1 per cent or more of U.S. production, the U.S. Government almost automatically restricts that nation's exports. . . . Foreign nations are increasingly denounced as unfair unless they provide "affirmative action" programs to force foreign businesses to buy more American products.

Even if American trade law were not blatantly political, current policy would still not promote "fairness." For there is nothing fairer than freedom, allowing producers to compete on the basis of quality and price. Says Bovard, "The myth of fair trade is that politics and bureaucrats are fairer than markets - that government coercion and restriction can create a fairer result than voluntary agreement."

Tariffs may be the most straightforward form of import limitation. Alas, Bovard writes, we have "the best tariff code that American industry could buy," the "accumulated junk heap of over a hundred years of political pay-offs and kickbacks." Foreign products are now subject to 8,753 different rates, ranging up to 458.3 per cent for tobacco stems.

Perversities naturally abound in a system that "looks like a variable value-added tax that was concocted in a lunatic asylum." For instance, cheaper products tend to be subject to higher duties, and heavy tariffs are imposed irrespective of the importance of the goods, including lithotripters to destroy kidney stones; fish, fruit, and vegetables; special wool-blend fabrics for firefighters' protective garments; and so on. And the arguments over

product definitions - is a van a "truck" or a "car"? - would be funny if the effect of such seemingly minor distinctions were not so serious.

Throughout the 1980s non-tariff barriers, particularly quotas, became increasingly popular. Bovard devotes a chapter to one of the worst of these policies, the "Multi fiber Arrangement," or MFA, designed to protect both actual and nonexistent domestic textile industries. As part of MFA the U.S. imposes more than three thousand individual quotas on products from forty different countries. The losers from such a policy are obvious: "the MFA has been a disaster for world commerce and a stab in the back to the poorest of the poor, both in America and in the Third World," writes Bovard. Quotas are also routinely applied to other products, such as autos, ice cream, steel, and sugar, with predictably harmful results.

Bovard is devastating in his scourging of protectionist measures allegedly used to combat "dumping," or below-cost sales. U.S. law presumes that foreign manufacturers regularly sell goods at a loss in order to supplant domestic producers. It is hard to construct even a theoretical case that would justify a firm's generating a tide of red ink in order to gain market share, since competitors would reemerge if it hiked prices. In practice, real dumping rarely, if ever, occurs: the government simply convicts firms based on analyses that would receive an F in an introductory economics course. Yet Americans are paying more for everything from photo albums to roof shingles as a result.

Washington hypocritically criticizes foreign subsidies and retaliates with perverse and arbitrary countervailing duties. The International Trade Commission regularly rules, regardless of the evidence, against consumers and for businesses pleading for protection. Congress behaves like - well, Congress. In one of his more restrained moments, Bovard observes that "it is often difficult to discern whether they are as ill informed or ignorant as they sometimes sound."

The economic benefits of free trade are indisputable, but in Bovard's view the more important issue is "the future of liberty." Thus, he argues, we should ask "not whether foreign governments treat American companies fairly, but whether American citizens

receive fair treatment from the U.S. Government." And he's right. James Bovard has written a book that defies refutation and demands action.

Mr. Bandow is a Senior Fellow at the Cato Institute and the author of *The Politics of Plunder: Misgovernment in Washington*.

### **Summary:**

In this article James Bevoid clearly defines that how big nations are going to impose protectionisms on the productions of the other countries like the productions of the textile industries of the China, means the aggressive competitors of china which are in USA do not want the China to grow in the market so they are going to change the policies for other nations in the textile sector.

### **3.2.2 ARTICLE # 02:**

<http://waysandmeans.house.gov/legacy/trade/106cong/2-3-99/2-3moor.htm>

Statement of Carlos Moore, Executive Vice President  
American Textile Manufacturers Institute

Testimony Before the Subcommittee on Trade  
of the House Committee on Ways and Means

Hearing on U.S. Trade Relations with Sub-Saharan Africa

February 3, 1999

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the textile mill products industry. ATMI's members collectively account for approximately three quarters of the textile fibers processed in the United

States and are engaged in the manufacture and marketing of nearly every kind of textile product.

Our testimony is divided into three segments: 1) a short section regarding the history of Sub-Saharan Africa legislation in the last Congress and the political ramifications of proceeding down the same path as last year; 2) our analysis of the bill's flaws and potential impact on our industry and workers; and 3) a discussion on the merits and feasibility of the Senate Finance Committee bill from the last Congress, which required the use of U.S. yarn and fabric for imported garments assembled in Sub-Saharan Africa to qualify for duty-free, quota-free treatment, and which we believe turns the bill into a win-win situation for both American and African workers.

## BACKGROUND / ATMI POSITION

No one quarrels with the objective of the Sub-Saharan Africa legislation - to help promote economic growth and improve the well-being of the people of Sub-Saharan Africa. However, ATMI understands that the bill to be introduced in the House of Representatives will be virtually identical to the badly flawed version of the African Growth and Opportunity Act that was narrowly approved last year by the House.

This legislation as currently written will not achieve its objective and will imperil the livelihoods of thousands of U.S. textile workers. The textile and apparel provisions of this bill will not promote jobs and economic growth in Africa; they will promote instead massive illegal transshipments of Asian apparel through Sub-Saharan Africa to gain duty-free access to the U.S. market. China will be the winner and Africa and the U.S. will be the losers. For these reasons, ATMI's Board of Directors unanimously agreed to oppose this legislation and ATMI will focus efforts to convince our supporters in the House and Senate to amend it or to prevent its passage.

When the House considered this proposal last year, we pointed out its significant flaws and urged the House to permit an amendment that would have addressed our industry's concerns and created a true economic partnership between the United States textile industry and a newly energized apparel sector in Sub-Saharan Africa. This amended

legislation would have provided a "win-win" situation for workers in the United States and in Africa. Regrettably, a separate vote did not occur.

However, the Senate Finance Committee replaced the House textile and apparel section with new U.S. yarn and fabric provisions. We urge the Subcommittee in its mark-up scheduled for later today to substitute the same provisions into the version that will be considered by the House. If last year's flawed House bill can be changed so that both African and U.S. workers benefit, ultimate passage becomes virtually assured.

#### HOW IS THE BILL FLAWED?

Turning now to the specifics of the legislation, ATMI is opposed to the African Growth and Opportunity Act in the form that the House voted on last year. Our primary concern remains:

- The bill is an open invitation to massive customs fraud that will turn Sub-Saharan Africa into a 48-nation transshipment superhighway. The result will be that billions of dollars of illegal Asian transshipments will enter the U.S. at zero duty, resulting in job losses for thousands of workers, many of whom are African-Americans, in the U.S. textile/apparel/fiber industry complex.
- In addition, the bill will deprive workers in Sub-Saharan Africa of the much-needed investment which a fraud-free bill might otherwise encourage.

The bill has other flaws:

- It is bad trade policy in that it unilaterally opens up the U.S. market without providing any benefits to U.S. workers. Indeed, many Sub-Saharan countries ban the importation of U.S. textile and apparel products and will be able to continue to ban their importation under this bill even though this violates their WTO commitments.



- It relies on an International Trade Commission study [\(U\)](#) that contains three major flaws and which dramatically underestimates the number of U.S. jobs which could be lost as a result of this legislation.
- It will permit Asian manufacturers to legally exploit an ineffective rule of origin to gain the benefits of the bill by doing very little actual manufacturing in Sub-Saharan Africa. As a result, the bill will chiefly benefit Asian manufacturers, not African workers. We also have concerns that highly skilled, low-wage Asian workers may be imported into Sub-Saharan Africa, displacing job opportunities for African workers. We note that this phenomenon is already occurring in Mauritius, the Northern Marianas, Oman, Qatar and Bahrain.
- Asian transshipments through Sub-Saharan Africa will cause additional economic hardship and large-scale job losses in the Caribbean by threatening billions of dollars of textile and apparel trade that has developed on the basis of export sales of apparel to the U.S. market. Thousands of workers in Mexico face a similar threat.
- The bill violates the rules of the World Trade Organization (WTO) and thus will require a waiver from that body. This will almost surely lead to demands for equivalent treatment by other WTO members which could, if granted, amount to billions of dollars of quota giveaways to Asian textile and apparel exporters. Ironically, Asian exporters could thus "win" in two ways: by sending billions of dollars of illegal transshipments through Africa and also by demanding and receiving increases in quota levels or other concessions.
- It contravenes commitments made to the U.S. textile industry and Congress by the Administration during the Uruguay Round to maintain the balance of concessions whereby quota phase outs and tariff reductions will follow the WTO agreement.

Each of these points is further elaborated on in Attachment I.

We would state to the committee at the outset that our opposition to the legislation in its present form is not because we oppose trade agreements. On the contrary, we support trade agreements that create meaningful economic partnerships between the United States and its trading partners. Consequently, ATMI supported the U.S.-Canada Free Trade

Agreement and we supported and worked hard for the passage of NAFTA. ATMI also supports the thus far unsuccessful attempt to bring Chile into NAFTA and we work for the passage of Caribbean Basin parity legislation. Our industry is not opposed to trade liberalization that is balanced, reciprocal, enforceable and beneficial to the parties concerned. The African Growth and Opportunity Act, however, is none of that; it is bad trade policy and ill-conceived legislation.

The simple truth is the textile and apparel provisions of this legislation, as currently written, will fail to assist Sub-Saharan Africa and will hurt U.S. workers and productions by creating new incentives for massive illegal transshipments of textiles and apparel products from Asia through Africa. Instead of creating an economic partnership between the United States and Sub-Saharan Africa, it will create an economic partnership between Africa and Asia to the detriment of African and U.S. workers.

#### HOW THE BILL CREATES A TRANSSHIPMENT SUPERHIGHWAY?

As U.S. Customs has testified on many occasions, illegal transshipment of textile and apparel products is already a major problem. This bill, however, does not merely make that problem worse - - it creates a whole new and immensely lucrative reason to cheat. Today, the sole reason that countries illegally transship through third countries is to avoid quotas imposed on their own exports. The countries that most often fill their quotas - China and Pakistan - are the biggest Tran shippers and they do so in a big, big way. In 1993 Acting Deputy Commissioner of Customs Sam Banks, testifying before a House committee, said, "you could take a pretty conservative estimate that the problem is a \$2 billion problem".

#### **Summary:**

In this article the different illegal activities done by the textile business owners such as smuggling, transshipping, illegal trade etc are defined by the custom department of the

USA. As U.S. Customs has testified on many occasions, illegal transshipment of textile and apparel products is a major problem in the country.

## **PERSONAL FINDINGS:**

### **Smuggling:**

The economic benefits of trade are indescribable, because mostly the GNP of the country is based on the trade but when we look at the conditions of the illegal activities done by the companies mostly the textile businesses then there is loss in economy take place because the GNP is being effected due to this reason, and the GNP is the one of the indicator of the country' economy. Now looking at the condition of the illegal trade how much profits are earned by the textile business owners when they are involved in illegal trade between Pakistan and India. The guesstimates of illegal trade between India and Pakistan range widely between 0.5 to 3 billion dollars. It exceeds considerably the value of legal trade between the two countries. Total annual trade over the past seven years has never exceeded 250 million dollars and stands at less than one percent of their combined total trade with the rest of the world. Further, over this period, the balance of trade has remained consistently in India's favor – in some years five times as high. So, even the lower guesstimate (0.5 billion dollars) illustrates the trade potential and the scope for generating foreign exchange and revenue for the government. Clearly, these aspects have important policy implications and highlight the need for getting an accurate fix on the value of illegal trade.

### **Financial frauds:**

One of the literate types of fraud in which the textile business owners are going to show their assets value to zero by increasing the depreciation amount in the balance sheet. The effect of doing this fraud they face less amount of the taxes to pay. So in this way they are cheating the government and general public of the country. There are also other frauds such as frauds In the income statements The frauds in the income taxes are very much common. Because the owners of the business are very much experts in doing

frauds in income statements, hiding assets, bankruptcy etc. When the frauds are done in the income statements they show less income due to which they hide their real profits and pay less taxes due to which they get benefit but the economy of the country get big loss. The CBR has recommended to the concerned Karachi-based high-ups to fix responsibility for making flawed sales tax registration without proper verification. Moreover, the payments to certain selected registered people had been made without following the laid down criteria of "First received first paid" basis.

## **Suggestions**

There are some of the suggestions by which there can be the reduction in the illegal activities done by the textile business owners

- The government should arrange meetings with the owners of the firms about the matters like taxation.
- There should be the proper check and balance of CBR on the matters of taxation.
- The custom department should take actions against the guilty persons who are involved in the illegal activities like smuggling
- The textile business owners should themselves apply the ethical principles to reduce these illegal activities.

## **Brief Introduction of the company:**

### **Fakir Spinning Mills Limited**

Bed Sheets Complete Home Textile

This company is located at 43 rose streets, Korangi Area Karachi.

Pakistan's provider of the millions of meters fabric per month. And we carried out this process for the years. While being a local supplier and from last three years as an exporter, our experience combines a global perspective with detailed research supported by our team of dedicated professionals, thriving to accomplish the goals and achievements set by our high standard of performance. Our corporate goal is to provide our customers with the best quality products at a competitive price and to work together with the business partners now and in the years to come. The main products of the company:

Bed sheet sets, duvet/quilt cover sets, fitted sheets, pillow covers, curtains, comforters, kitchen towels, napkins and aprons are the considered the main products of the company.

## **About company:**

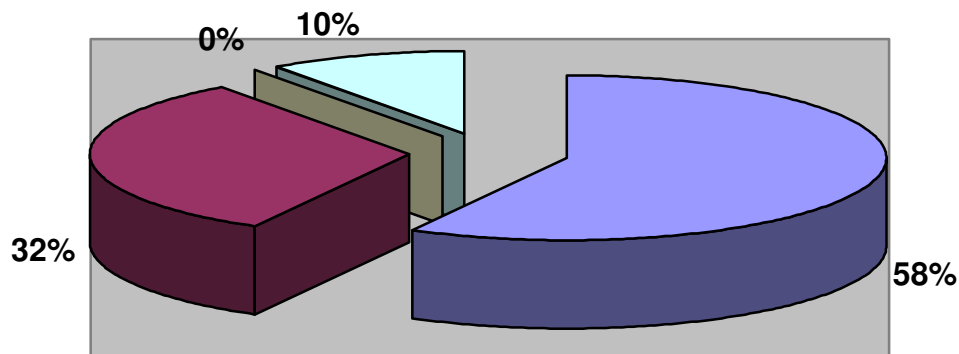
The company FAKIR SPINNING MILLS LIMITED was established with integrated Textile Units having all necessary equipments and machineries such as Spinning, weaving, Dyeing and Printing. Presently we are revamping the plant and presently in process of installing 25,000 spindles spinning unit. Simultaneously We have our own ginning unit in the same vicinity as such the required raw material which is cotton readily

available to spin and produce all counts of cotton yarn Having our own plots of 80 acres of land with all infrastructure available at site which is required to have a quality textile Industry.

### **Analysis of Questionnaire:**

**Q1.** What are the main products of your textile industry?

- a) Bed sheets sets                      58%
- b) Kitchen clothing                    32%
- c) Garments                              0%
- d) Towels                                 10%

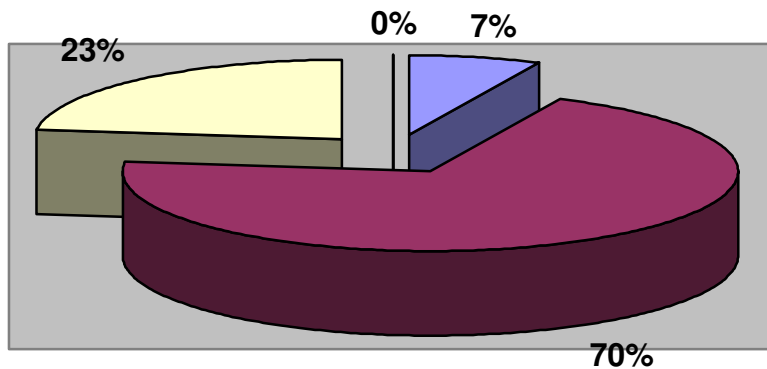


This very initial and general question asked from the respondents during survey to divert their attentions. So, the responses of the question after interpreting the information are The company's main products are Bed sheet sets, duvet/quilt cover sets, fitted sheets, pillow covers, curtains, comforters, kitchen items like(kitchen towels, napkins and

aprons). This question is related to the introduction of the company that was the main target area of the survey; this company is located in Karachi. The main product of the company is bed sheet sets. The company does not deal with the garments.

**Q2. Textile Industry Production level: What is the Volume of your Production?**

- a) Large Scale                      7%
- b) Medium scale                    70%
- c) Low scale                         23%



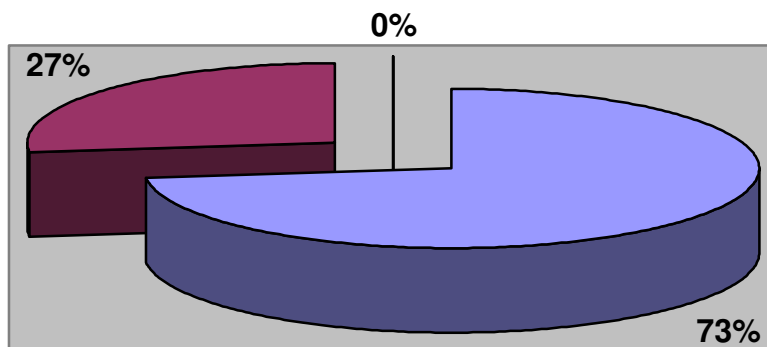
The main reason to ask this question is to check the level of the company whether the company is local or it also deals with the export/imports. So, the mostly responses were regarding the production of the company are that company's production level is medium some of them said low, some said high but the majority of the responses were favoring

the medium, and this company also involved in export and import since two to three last years

**Q3.** Are you satisfied with the current tax rate over your Profits?

a) Yes 73%

b) No 27%



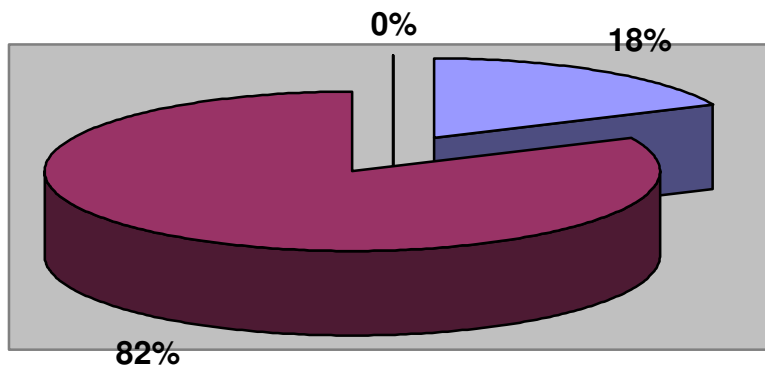
In this question different employees have different opinions but mostly favoring to the current tax policies because in the case of current tax policies the CBR has announced the zero percentage of the sales tax to be paid by the textile businesses due to which they are happy, but the owners (partners) of the company responses were that the government should reduce the burden of the previous taxes also which were due on them to be paid by them.



**Q4.**Which will cause you to pay more tax?

a) Taking Loans      18%

b) Floating Dividends      82%



The responses to this particular were that the floating dividends will cause them to pay the more taxes because dividend is paid on retained earnings and if they show high retained earnings they have to give more dividends to the shareholders, and each share has got some taxes which is to be paid by the company from the retained earnings, so that is the reason due to which the dividends causes more taxes to be paid. But taking loans would not cause too much to be paid because taking loans will cause your increase in equity due to which it will cause you to pay less taxes. That is the reason the most textile businesses take loans.

**Q5.**Do you prefer to get audited by the reliable Auditing Company?

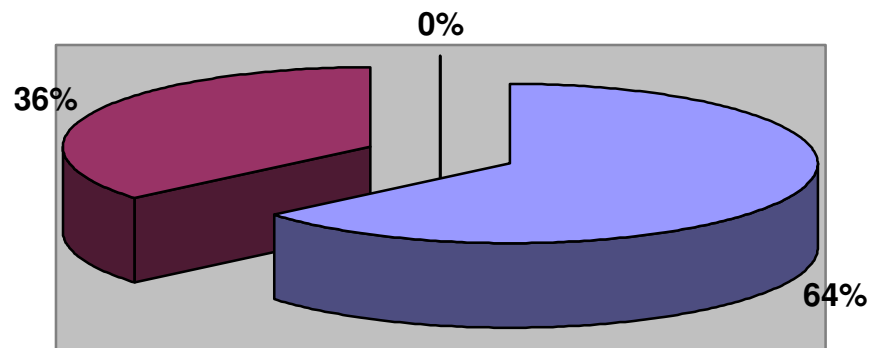
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According to auditing, the opinions of the respondents were that there is lack of the fair and honest auditing companies in the country, these do not deal with the all companies equally, due to that reason most of the companies are given the chance to make financial frauds easily, so the responses of the respondents was favoring the idea of the particular question asked, that they should be audited through their reliable auditing companies that would reduce the chances of financial frauds, inequality in dealing with all companies.

**Q6.**As taxation by the size of the business, are you planning to expand your business operations?

- a) Yes 64%
- b) No 36%



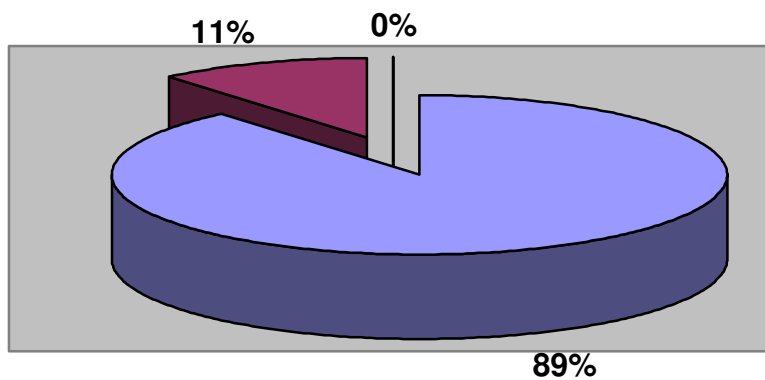
This business is trying to expand itself because before two to three years it was not dealing with exports but nowadays it is dealing with exports. As the respondents giving the example of last year that. During the year 2004 our export turns over was us\$ 40 million & our main markets are USA, Australia, Canada, Turkey, Belgium, and Tunis.

So from this statement it concludes that the business is expanding it self in the means of export policies. The company is also expanding in the different product categories such as before it was dealing in the bed linen now in the kitchen clothing, towels, etc so it is also concluded that the business is expanding its networks.

**Q7. Which result more profits? (Continued from Q6)**

a) By paying less tax 89%

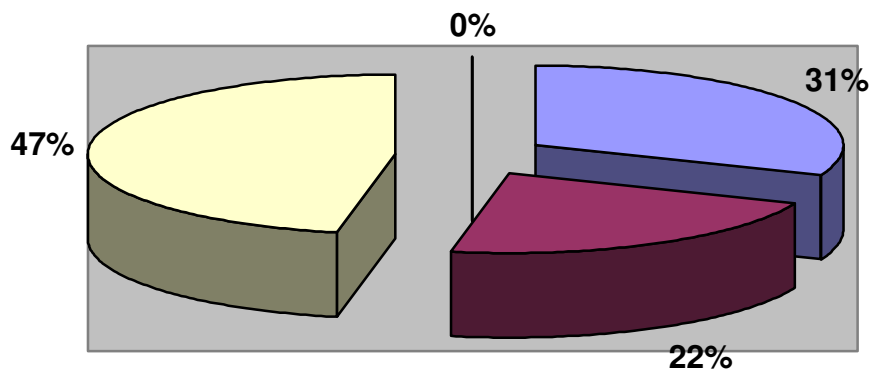
b) By paying more tax 11%



Definitely any business owner will want that if he/she should pay the less tax on the profits, so as the responses of respondents of this survey were same as the any business holder thinks but it would be negatively effect the economy of the country, because the taxes are also the part of the GDP and GNP, so if the taxes of the textile businesses are reduced on the more profits then there can be the less chances in growing the Economy of the country, if the economy of the country is affected then there are several problems occur which are interrelated to the economy such as poverty rate, crime rate, unemployment rate etc can be increased.

**Q8.** Are you interested in taking advice from a Tax & Business Lawyer which helps you to deal with all the matters related with taxation and earning more profits?

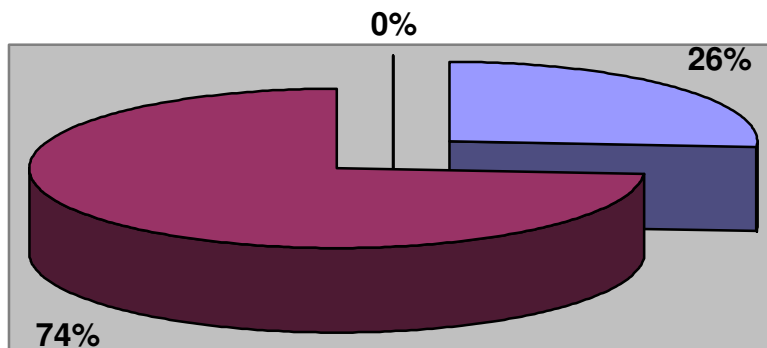
- a) Yes 31%
- b) No 22%
- c) Already do this exercise 47%



There are several textile business owners who set the separate law department for their different cases, so this question indirectly related to know how textile business owners take different advices from the business lawyers that are related to the matters related to the in what cases they are actually guilty, and found defaulters so the owner of that particular company was guilty in the most of the cases of income taxes as well as custom and excise duties.

**Q9.**Do you prefer to hide your Assets to pretend having less equity which will save you from paying tax to the Government?

- a) Yes 26%
- b) No 74%



This is the main question that is focused on that how these textile business owners make the financial frauds, so when this question was asked to the owner of the company first he avoided to answer but later he answered in a way that this is one of the literate type of fraud in which the textile business owners are going to show their assets value to zero by increasing the depreciation amount in the balance sheet. The effect of doing this fraud they face less amount of the taxes to pay. So in this way they are cheating the government and general public of the country.

**Q10.** If the tax should be reduced on exports and imports, then do you think that illegal activities just as :( Smuggling, Money laundering etc) done by the textile businesses be reduced?

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The respondents gave their responses to this question in this way that it is the matter of common sense because the taxes which are paid by the textile business owners are very much high, one of the respondents mentioned that there are at least forty different federal as well as provincial taxes those are imposed on them, when this same question asked from the custom officer then he also replied in the same way that their would not be the illegal activities just as smuggling, money laundering,etc. because a system of the free trade would be introduced due to which reduction of illegal activities will occur. The fact is that if the textile companies have suggested varied tax relief which may reduce the revenues of the government in a situation in which a deficit of four per cent of the GDP is likely, it has also suggested the means to increase the revenues from various large new sources

**Q11.**What measures should Government had to consider about lowering Tax Rate on your profits? So that textile industries can contribute more effort towards the economy.

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The textile business owners have suggested low rates of income tax. The number of tax slabs should be reduced from five to three and the exemption threshold where the income tax levy begins should be made higher. The taxation should make allowance for inflation and be adjusted accordingly or the taxation slabs too should be indexed. Pakistan the taxation rates are high compared to similar countries. The structure of the withholding tax with different rates be applicable to different instruments and institutions in the financial sector. Industrialists in Pakistan are now concerned over the high cost of doing business in the country explicitly and implicitly due to corrupt practices. That makes industrial start-up costly and late. Pakistan, there is multiple taxation and higher rate of corporate and personal taxation along with other complex rules and procedures, which have been enforced. The manufacturing sector pays multiple taxes which raises its effective rate of taxation. Industrialists in Karachi complain that they have been paying around 40 taxes to the federal, provincial and local governments. Apart from the total amount involved, the manufacturers and their managers have to spend a great deal of time to pay such taxes and other official dues and that breeds corruption. The report does not mention corruption out rightly and emphasizes it in the manner it could, but only talks of “speed money” which income tax payers pay to taxation officials. It wants to reduce the interface between the income tax payers and the taxation officials as much as possible.



# PROFIT AND LOSS ACCOUNTS OF TEXTILE COMPANIES

## AHMED HASSAN TEXTILE MILLS LIMITED

### PROFIT AND LOSS ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Note	2004 Rupees
Sales - Net	21	1,823,718,770
Cost of sales	22	1,726,374,666
Gross profit		97,344,104
Administrative and selling expenses	23	45,896,006
Operating profit		51,448,098.00
Other Income	24	1,129,412.00
Financial Charges	25	35,980,962.00
Miscellaneous Charges	26	76,725.00
Workers' profit participation fund	10.1	825,991.00
Workers' welfare fund		36,883,678.00
Profit before taxation		15,693,832.00
TAXATION		
Current year - net	11	5,461,827.00
		5,461,827.00
Profit after taxation		10,232,005.00
Unappropriate profit - brought forward		152,636,416.00

Profit available for appropriation		162,868,421.00
<b>APPROPRIATION:</b>		
Proposed dividend		
(2003: Rs. 1.20 per share)	-	
<b>UNAPPROPRIATED PROFIT</b>		
CARRIED TO BALANCE SHEET	16	162,868,421.00
BASIC EARNINGS PER SHARE	27	0.89

## **FAISAL TEXTILE MILLS LIMITED**

### **PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<b>NOTE</b>	<b>2004 RUPEES</b>
<b>Sales-Net</b>	25	2,860,233,723
Cost of Sales	26	2,652,388,058
Gross profit		207,845,665
Administrative expenses	27	22,880,671
<b>Selling and distribution expenses</b>	28	60,906,638
		83,787,309
<b>Operating profit</b>		124,058,356
Other income	29	4,623,317
		128,681,673
<b>Financial and other charges</b>	30	51,526,829
Workers' profit participation fund	12.1	3,902,669
		55,429,498
<b>Profit before taxation</b>		73,252,175
<b>Taxation</b>	31	

- Current year		33,002,755
- Prior year		-
		33,002,755
<b>Profit after taxation</b>		40,249,420
<b>Unappropriated profit brought forward</b>		88,122,787
<b>Profit available for appropriation</b>		128,372.207
<b>Transferred to general reserves</b>		75,900,000
Proposed dividend @ Rs. 0.75 (2003: Rs 1.50) per share	32	-
		75,900,000
<b>Unappropriated profit carried forward</b>		52,472,207
Earnings per share - Basic	33	4.02

# SHAMS TEXTILE MILLS LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 Rupees
Sales	22	1,314,888,000
Cost of goods sold	23	1,209,464,000
Gross profit		105,424,000
Administrative and general expenses	24	18,946,000
Selling and distribution expenses	25	8,330,000
Operating profit		27,276,000
Other income	26	78,148,000
Financial charges		7,547,000
Other charges	27	85,695,000
Profit before taxation		12,634,000
Provision for taxation	28	14,811,000
Profit after taxation		27,445,000
Un-appropriated profit / (loss) brought forward		58,250,000
Profit available for appropriation	29	7,630,000
Appropriations:		50,620,000
Transfer to General Reserve		5,467,000
		35,000,000

## **Analysis:**

After watching the financial statements of these three different textile industries we come to know that how different companies in the textile sector try to save taxation. Looking at the condition of the above companies' one of the company is getting its profit after taxation lowered as compared to other two companies taking the results of the Ahmed Hassan textile mills limited in year 2004 the profit before taxation is 15,693,832, then the taxes are being deducted for the value of 5,461,827, the amount after taxation comes 10,232,005. Another company Faisal textile mills limited shows its values in same year like it's the profit before taxation is 73,252,175 then the taxes are being deducted for the value of 33,002,755, the amount after taxation comes 40,249,420. And the last company Shams textile mills limited shows its values in same year like it's the profit before taxation is 58,250,000 then the taxes are being deducted for the value of 7,630,000, the amount after taxation comes 50,620,000, by interpreting the given information the results shows that the last company pays less tax as compared to its profits, as both the other companies are paying almost fifty percentage of their profits before taxation, but the last company pays almost thirteen percentage of its profits before taxation. Here we can say that there is difference in the payments of taxes other two companies are paying more tax as compared to the last one.

According to the auditors report on the financial statements for the Shams textile mills limited company are stating that provision for tax on income from local sales and other income is based on taxable income at current rates after taking in to account tax. The Company falls in the ambit of presumptive tax regime under section 169 of the Income

Tax Ordinance, 2001 to the extent of its export sales. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessment framed during the year.

Depreciation is charged to income using the reducing balance method to write off the cost/ revaluation over the expected useful life of assets. Leasehold land is amortized over the lease period using straight line method. No depreciation is charged on assets deleted during the year. Maintenance and normal repairs are charged to current year's income. Major renewals and improvements are capitalized. Gain or loss on disposal of operating fixed assets is charged to current year's income

### **5.1 SUMMERY OF GRAPH ANALYSIS:**

In the following I have summarized those main questions that provide help me in find out the conclusion about how do the textile business owners hide their real profits to save taxation and similar other payments . In the following I have shows the opinions of those employees and business owner of the company and how these respondents response to these answers. For this purpose I have selected 5 questions from my questionnaire related to this company.

**Q3.**Are you satisfied with the current tax rate over your Profits?

a) Yes 73%

b) No 27%

**Q5.**Do you prefer to get audited by the reliable Auditing Company?

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**Q6.**As taxation by the size of the business, are you planning to expand your business operations?

a) Yes 64%

b) No 36%

**Q9.**Do you prefer to hide your Assets to pretend having less equity which will save you from paying tax to the Government?

a) Yes 26%

b) No 74%

**Q10.** If the tax should be reduced on exports and imports, then do you think that illegal activities just as :( Smuggling, Money laundering etc) done by the textile businesses be reduced?

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## **GRAPH ANALYSIS:**

### **Question # 03:**

There were 73% respondents who favored current tax rate because of the CBR current policy of the zero percentage tax rate of the sales tax. And 23% said that the Government should give leniency in previous dues of taxes.

### **Question # 05:**

Most of the respondents concluded this point that there should be the fair system of the auditing which would be the neutral not favoring to any of the particular company.



**Question # 06:**

About the expansion of the business these respondents shown the positive responses As according to percentages those who were favoring were 64% and the remaining were satisfied with current status of the business.

**Question # 09:**

This the main question that is focused on that how these textile business owners make the financial frauds, so when this question was asked to the owner of the company first he avoided to answer but later he answered in a way that this is one of the iterate type of fraud in which the textile business owners are going to show their assets value to zero by increasing the depreciation amount in the balance sheet.

**Question # 11:**

The taxes which are paid by the textile business owners are very much high, one of the respondents mentioned that there are at least forty different federal as well as provincial taxes those are imposed on them, when this same question asked from the custom officer then he also replied in the same way that their would not be the illegal activities just as smuggling, money laundering, etc.

## **5.2 FINDINGS**

The economic benefits of trade are indescribable, because mostly the GNP of the country is based on the trade but when we look at the conditions of the illegal activities done by the companies mostly the textile businesses then there is loss in economy take place because the GNP is being effected due to this reason, and the GNP is the one of the indicator of the country' economy.

One of the literate types of fraud in which the textile business owners are going to show their assets value to zero by increasing the depreciation amount in the balance sheet. The effect of doing this fraud they face less amount of the taxes to pay. So in this way they are cheating the government and general public of the country. There are also other frauds such as frauds In the income statements.

### **5.3 RECOMMENDATION**

- The government should arrange meetings with the owners of the firms about the matters like taxation.
- There should be the proper check and balance of CBR on the matters of taxation.
- The custom department should take actions against the guilty persons who are involved in the illegal activities like smuggling
- The textile business owners should themselves apply the ethical principles to reduce these illegal activities.