

Turnover Tax Calculation

- Turnover tax (Rs. 3,000,000 @ 1.25%) = 37,500
 - Tax liability of the company (higher of the above two amounts) = 37,500
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Adjustment of Excess Tax [113(2)(c)]

Where for any **tax year**, the **tax liability** of a person as computed under **normal procedure (NTR)** is **less** than the **turnover tax**, and the person has to **pay turnover tax**, then the **excess amount** of turnover tax **can be carried forward** to the **next tax year** for **adjustment** against normal tax liability for **future tax years**.

Provisions for Carrying Forward Excess Turnover Tax:

1. **Where No Tax is Paid or Payable for the Year:**
 - The **entire** amount of **turnover tax paid** shall be **carried forward for adjustment**.
2. **Where Turnover Tax Exceeds Normal Tax for the Year:**
 - The **excess amount** of **turnover tax paid** shall be **carried forward for adjustment**.

The **excess amount** of tax may be **carried forward for adjustment** against **normal tax liability** of **succeeding tax years** for a **maximum period of three (3) tax years** immediately succeeding the **tax year for which the amount was paid**.

The **excess amount of tax** to be carried forward shall be determined as below:

- **Minimum tax liability (1.25% of turnover) = XXX**
 - **Less: Tax under NTR (Taxable income × Normal applicable tax rates) = XXX**
 - **Excess tax to be carried forward = XXX**
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Example 25.4

Assume that the **data** given in **example 25.1** pertains to the **tax year 20X1**. For **tax year 20X2**, the following information is provided by the company:

- **Tax under normal tax regime = Rs. 80,000**
- **Tax @ 1.25% of turnover = Rs. 60,000**

Requirement:

Compute **tax liability** of Qasba Limited for tax year 20X2.

Answer:

- **Tax liability for tax year 20X2 = 80,000**
- **Higher of:**
 - **Tax under NTR (Rs. 80,000) OR Minimum tax (Rs. 60,000) → 80,000**
- **Less: Brought forward tax for tax year 20X1**
 - **Tax paid for the year (minimum tax) = 37,500**
 - **Less: Tax under NTR = 29,000 (8,500 carried forward)**
- **Net tax liability for tax year 20X2 = 71,500**

Note: These provisions of **minimum tax** apply **irrespective of whether the taxpayer's turnover** for the **tax year shall be treated as income chargeable to tax under S.113(2)(c) & (d).**

ALTERNATIVE CORPORATE TAX (113C)

Starting from **tax year 2014**, **Alternative Corporate Tax (ACT)** is **payable by a company** in respect of **income** which is **subject to tax under NTR or minimum tax** under **any other provisions** of the **Income Tax Ordinance**. The **higher** of the **Corporate Tax (CT)** or **Alternative Corporate Tax (ACT)** shall be payable.

Before proceeding further, it will be advisable to understand certain terms to be used in this context.

Synopsis of Taxes

Income Tax - Final Tax Regime

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Definition of Corporate Tax & Alternative Corporate Tax (ACT)

- **Corporate Tax** means the **higher of tax payable** by the company under **NTR** (under **Division-II of Part-I of the First Schedule**) and **minimum tax payable** under **any provisions** of the **Income Tax Ordinance, 2001**.
 - **Alternative Corporate Tax (ACT)** means the **tax at the rate of 17% of sum computed** as below:
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Computation of Alternative Corporate Tax (ACT)

Accounting Income

Less:

- Exempt income = XXX
- Income subject to tax other than under NTR & Minimum Tax (e.g., FTR/STR) = XXX
- Income subject to tax credit u/s 65D (new industrial undertaking) = XXX
- Income subject to tax credit u/s 65E (old industrial undertaking) = XXX
- Income subject to tax credit u/s 100C (NGOs, trusts, etc.) = XXX

= Taxable income for Alternative Corporate Tax (ACT) = XXX

Definition of Accounting Income

"Accounting Income" means **the accounting profit before tax** for the **tax year**, as disclosed in the **financial statements** (after certain adjustments for common expenditures, etc.), **but excluding** share from the **associate recognized under the equity method of accounting**.

Note: While determining "accounting income" and "sum for ACT", **expenses** that shall be **proportionately between the amounts to be excluded from accounting income**.

Provisions Relating to Alternative Corporate Tax (ACT)

The key **provisions** relating to **ACT** are summarized below:

1. **ACT shall be higher of the CT or ACT**, which is computed as **17% of the taxable income** determined for **ACT** as discussed above.
2. The **excess of ACT paid over CT payable** for the **year** shall be **carried forward** to the **next tax year** and **adjusted** against **CT for that tax year**. The **unadjusted amount of excess tax paid** may be **carried forward for a maximum period of ten (10) tax years** immediately succeeding the tax year **for which the excess tax was first computed**.
3. The **mechanism for adjustment** of **excess of ACT over CT** shall **not prejudice or affect** the **entitlement of the taxpayer** regarding **carrying forward and adjustment of minimum tax u/s 113 of the Income Tax Ordinance, 2001**.

4. Where **CT or ACT is changed** (i.e., **enhanced or reduced**) as a **result of any amendment or due to any other order** under the **Income Tax Ordinance, 2001**, the **excess amount** to be **carried forward** shall be **changed accordingly**.
 5. **ACT shall not apply** to:
 - **Insurance business**
 - **Banking companies**
 - **Business of exploration and production of petroleum and natural gas**
 6. **Tax credit** under **section 65B** (for **companies for employment generation**) and **section 65D** (for **companies making investment for extension, expansion, BMR**) shall be **allowed** against **Alternative Corporate Tax**.
 7. The **Commissioner** may **make adjustments** and proceed to compute "**accounting income**" as per historical accounting basis. Before making such adjustment, the **CIR** shall provide an opportunity of being heard.
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Final Provision

Taxes paid or payable other than payable under NTR (under **Division-II of Part-I of the First Schedule**) shall remain payable in accordance with the mode or manner prescribed under the respective provisions of the **Income Tax Ordinance, 2001**.

Synopsis of Taxes

Income Tax - Final Tax Regime

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CHAPTER-26

ICT – SALES TAX ON SERVICES

ISLAMABAD CAPITAL TERRITORY (SALES TAX ON SERVICES) ORDINANCE, 2001

The Islamabad Capital Territory (Sales Tax on Services) Ordinance, 2001 (ICT Ordinance) was promulgated on 18th August, 2001 to provide for levy of sales tax on services rendered or provided in the Islamabad Capital Territory and for matters ancillary to those connected therewith. It came into force with immediate effect and is applicable to the whole of Islamabad Capital Territory.

INTERPRETATION [2]

All terms used and not defined in the ICT Ordinance shall have the same meaning as are assigned by the Sales Tax Act, 1990.

SCOPE OF TAX [3]

1. Sales tax on services shall be charged, levied, and paid on taxable services rendered or provided in the Islamabad Capital Territory. These services are taxable as below:

S. #	Table of the Schedule	Rate
1	Table – 1	Generally, @ 15% of the value of the taxable services
2	Table – 2	At different rates and subject to conditions and limitations specified in the Table

2. The export of services shall be charged at the rate of zero percent (0%).
3. The tax shall be charged and levied on the services specified in both Tables of the Schedule in the same manner and at the same time, as if it were a sales tax leviable under sections 3, 3A, or 3AA (as the case may be) of the Sales Tax Act, 1990.
4. The following provisions of the Sales Tax Act, 1990 (STA), shall apply, mutatis mutandis, to the services rendered or provided under ICT Ordinance:

S. #	Section of STA	Provision of the STA
1	3(2)(b)	The FG may notify that in respect of any taxable services, the tax shall be charged, collected, and paid in such manner and at such higher or lower rate or rates as specified in the notification.
2	3(6)	The FG or the FBR may, in lieu of the normal sales tax, levy and collect such amount of tax as it may deem fit on any services or class of services and may also specify the mode, manner, or time of payment of such amount of tax.
3	3(7)	Provision relating to tax withholding.
4	S. No. 2 of Fifth Schedule	Zero-rating of services to diplomats, diplomatic missions, privileged persons, and privileged organizations which are ...

ICT – SALES TAX ON SERVICES (Continuation)**Provisions Relating to Exemptions and Tax Procedures**

S. #	Section of STA	Provision of the STA
5	S. No. 8A of Fifth Schedule	Imports or supplies made by, for, or to a qualified investment as specified at Serial No.1 of the First Schedule to the Foreign Investment (Promotion and Protection) Act, 2022 for a period specified in the Second Schedule to that Act.
6	13(2)	The FG may exempt any services from the whole or any part of the sales tax, subject to the conditions and limitations specified in the notification.
7	13(3)	The exemption may be allowed from any previous date specified in the notification.
8	13(6)	The FBR shall place before the National Assembly all exemption notifications issued during a financial year.
9	13(7)	It relates to the life of the exemption notifications issued.
10	S. No. 48 of Table-1 of Sixth Schedule	Exemption of services rendered under grants-in-aid for which specific consent has been obtained from the FBR.

Additional Provisions

5. The tax levied shall not be applicable to regulatory and licensing services rendered or provided by an organization established by or under a Federal statute.
6. All provisions of the Sales Tax Act, 1990, and rules, notifications, orders, and instructions issued thereunder shall, mutatis mutandis, apply to the collection and payment of sales tax on services under the ICT Ordinance in so far as they relate to:
 - i) Manner, time, and mode of payment;
 - ii) Registration and de-registration;
 - iii) Keeping of records and audit;
 - iv) Enforcement and adjudication;

- v) Penalties and prosecution; and
- vi) All other allied and ancillary matters.

7. THE SCHEDULE

8. [See section 3(2)]

Table – 1

S. No.	Description	Rate of Tax
1	<p>Services provided or rendered by hotels, motels, guest houses, farmhouses, marriage halls, lawns, clubs, and caterers.</p> <p>(ii) Services provided by restaurants including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar places, prepared or ready-to-eat food service outlets, etc.</p>	<p>(i) Fifteen percent</p> <p>(ii) Five percent where payment against services is received through debit or credit cards, mobile wallets, or QR scanning subject to the condition that no input tax adjustment or refund shall be admissible; and</p> <p>(iii) Fifteen percent where payment received in cash.</p>
2	<p>Advertisement on television and radio, excluding advertisements:</p> <p>(a) Sponsored by an agency of the Federal or Provincial Government for health education;</p> <p>(b) Sponsored by the Population Welfare Division relating to educational promotion campaign;</p> <p>(c) Financed out of funds provided by a Government under grant-in-aid agreement; and</p> <p>(d) Conveying public service messages, if telecast on television by the World Wide Fund for Nature (WWF) or United Nations Children's Fund (UNICEF)</p>	Fifteen percent
3	<p>Services provided by persons authorized to transact business on behalf of others:</p> <p>(a) Stevedore;</p> <p>(b) Custom agents; and</p> <p>(c) Ship chandlers.</p>	Fifteen percent
4	<p>Courier services and cargo services by road provided by courier companies.</p>	Fifteen percent
5	<p>Construction services, excluding:</p> <p>(i) Construction projects (industrial and commercial) of the value (excluding actual and documented cost of land) not exceeding Rs. 50 million per annum.</p> <p>(ii) The cases where sales tax is otherwise paid as property developers or promoters.</p>	

S. No.	Description	Rate of Tax
	(iii) Government civil works including Cantonment Boards.	
	(iv) Construction of industrial zones, consular buildings and other organizations with exempt status under laws.	
	(v) Construction work under international tenders against foreign grants-in-aid.	
	(vi) Residential construction projects where the covered area does not exceed 10,000 square feet for houses and 20,000 square feet for apartments.	
Synopsis of Taxes		ICT - Sales Tax on Services [26-432]

THE SCHEDULE

[See section 3(2)]

S. No.	Description	Rate of Tax
6	Services provided by property developers and promoters (including allied services) excluding the actual purchase value or documented cost of land.	Rs. 100 per square yard for land development, and Rs. 50 per square feet for building construction
7	Services provided by persons engaged in contractual execution excluding: (i) annual total value of the contractual works or supplies does not exceed Rs. 50 million; (ii) the contract involving printing or supplies of books.	Fifteen percent
8	Services provided for personal care by beauty parlors, clinics and slimming clinics, body massage centers, pedicure centers, including cosmetic and plastic surgery by such parlors/clinics, but excluding: (i) annual turnover does not exceed Rs. 3.6 million; or (ii) the facility of air-conditioning is not installed or available in the premises.	Fifteen percent
9	Management consultancy services.	Fifteen percent

S. No.	Description	Rate of Tax
10	Services provided by freight forwarding agents, packers, and movers.	Fifteen percent or Rs. 400 per bill of lading, whichever is higher
	IT services and IT-enabled services. <i>Explanation: For the purpose of this entry—</i> (i) IT services include but are not limited to software development, software maintenance, system integration, web design, web development, web hosting, and network design.	
11	(ii) IT-enabled services include but are not limited to inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, human resources (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally television programs and insurance claims processing.	Fifteen percent
12	Services provided by technical, scientific, and engineering consultants.	Fifteen percent
13	Services provided by other consultants including but not limited to human resource and personal development services, market research services, and credit rating services.	Fifteen percent
14	Services provided by tour operators and travel agents including all their allied services or facilities (other than Hajj and Umrah).	Fifteen percent
15	Manpower recruitment agents including labor and manpower supplies.	Fifteen percent
16	Services provided by security agencies.	Fifteen percent
17	Services provided by advertising agents.	Fifteen percent
18	Share transfer or depository agent including services provided through manual or electronic book-entry system used to	

S. No.	Description	Rate of Tax
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record and maintain securities and to register the transfer of shares, securities, and derivatives.

Synopsis of Taxes

ICT - Sales Tax on Services

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THE SCHEDULE

[See section 3(2)]

S. No.	Description	Rate of Tax
19	Business support services.	Fifteen percent
20	Services provided by fashion designers, whether relating to textile, leather, jewelry, or other product regimes, including allied services, marketing, packing, delivery, and display, etc.	Fifteen percent
21	Services provided by architects, town planners, and interior decorators.	Fifteen percent
22	Services provided in respect of rent-a-car.	Fifteen percent
23	Services provided by specialized workshops or undertakings (auto-workshops; workshops for industrial machinery, construction and earth-moving machinery or other special purpose machinery, etc.; workshops for electric or electronic equipment or appliances etc.; including computer hard ware; car washing or similar service stations and other workshops).	Fifteen percent
24	Services provided for purposes including fumigation services, maintenance, and repair (including building and equipment maintenance and repair including after sale services) or cleaning services, janitorial services, dredging or de-silting services and other similar services etc.	Fifteen percent
25	Services provided by underwriters, indenters, commission agents including brokers (other than stock) and auctioneers.	Fifteen percent

S. No.	Description	Rate of Tax
26	Services provided by laboratories other than services relating to pathological or diagnostic tests for patients.	Fifteen percent
27	Services provided by health clubs, gyms, physical fitness centers, indoor sports and games centers, and body or sauna massage centers.	Fifteen percent
28	Services provided by laundries and dry cleaners.	Fifteen percent
29	Services provided by cable TV operators.	Fifteen percent
30	Technical analysis and testing services.	Fifteen percent
31	Services provided by TV or radio program producers or production houses.	Fifteen percent
32	Transportation through pipeline and conduit services.	Fifteen percent
33	Fund and asset (including investment trust) management services.	Fifteen percent
34	Services provided by inland port operators (including airports and dry ports) and allied services provided at ports and services provided by terminal operators including services in respect of public bonded warehouses, excluding the amounts received by way of fee and charge under any law.	Fifteen percent
35	Technical inspection and certification services and quality control (standards' certification) services.	Fifteen percent
36	Erection, commissioning, and installation services.	Fifteen percent
37	Valuation services; commodity and eligibility testing services excluding education testing services provided or rendered under a bilateral or multilateral agreement signed by the Government of Pakistan.	Fifteen percent

S. No.	Description	Rate of Tax
38	Exhibition or convention services.	Fifteen percent

Synopsis of Taxes

ICT - Sales Tax on Services

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THE SCHEDULE

[See section 3(2)]

S. No.	Description	Rate of Tax
39	Services provided in respect of mining of minerals, oil & gas including related and allied activities	Fifteen percent
40	Services provided by property dealers and realtors.	Fifteen percent
41	Call centres.	Fifteen percent
42	Services provided by car/ automobile dealers.	Fifteen percent
43	Advertisement on hoarding boards, pole signs and signboards, at websites or internet.	Fifteen percent
44	Services provided by landscape designers.	Fifteen percent
45	Sponsorship services.	Fifteen percent
46	Services provided or rendered by legal practitioners and consultants.	Fifteen percent
47	Services provided by accountants and auditors.	Fifteen percent

S. No.	Description	Rate of Tax
48	Service provided or rendered by Stock brokers, future brokers and commodity brokers, money exchange, surveyors, photographers, event photographers, videographers, art painters, auctioneers (excluding value of goods) and registrar to an issue.	Fifteen percent
49	Services provided by race clubs: (i) Entry admission and other services.	Fifteen percent
50	Services provided or rendered by corporate law consultants.	Fifteen percent
51	Visa processing services, including advisory or consultancy services for migration or visa application filing services.	Fifteen percent
52	Debt collection services and recovery services and other debt recovery services.	Fifteen percent
53	Supply chain management or distribution (including delivery) services.	Fifteen percent
54	Services provided or rendered by persons engaged in inter-city transportation or carriage of goods by road or through pipeline or conduit.	Fifteen percent
55	Ready mix concrete services.	Fifteen percent
56	Public relations services.	Fifteen percent
57	Training or coaching services other than education services.	Fifteen percent
58	Cleaning services including janitorial services, collection of waste and processing of domestic waste.	Fifteen percent
59.	[Blank Entry]	[Blank Entry]

S. No.	Description	Rate of Tax
60.	Electric Power Transmission Services.	Fifteen percent

Footnote:

1. S. No. 59 as per Gazette notification, was never inserted in the Table. However, FBR's official version contains this number. Factually, it is the result of afterthought and by wrongly allotting two different numbers for entries in S. No. 29, which is not supported by the Gazette.

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Table - 2

S. No	Description	Rate of Tax
1.	Construction services, excluding	
	(i) Construction projects (industrial and commercial) of the value (excluding actual and documented cost of land) not exceeding Rs. 50 million per annum.	
	(ii) The cases where sales tax is otherwise paid as property developers or promoters.	
	(iii) Government civil works including cantonment boards.	

S. No	Description	Rate of Tax
	(iv) Construction of industrial zones, consular buildings and other organizations exempt from income tax.	
	(v) Residential construction projects where the covered area does not exceed 10,000 square feet for houses and 20,000 square feet for apartments.	Zero percent subject to the condition that no input tax adjustment or refund shall be admissible.
2.	Services provided for personal care by beauty parlours, clinics and slimming clinics, body massage centres, pedicure centres, including cosmetic and plastic surgery by such parlours / clinics, but excluding cases where – (i) annual turnover does not exceed Rs. 3.6 million; or (ii) the facility of air-conditioning is not installed or available in the premises.	Five percent subject to the condition that no input tax adjustment or refund shall be admissible.
3.	Services provided by freight forwarding agents, and packers and movers.	Five percent or Rs. 1000 per bill of lading, whichever is higher, subject to the condition that no input tax adjustment or refund shall be admissible.

S. No	Description	Rate of Tax
4.	Services provided by tour operators and travel agents including all their allied services or facilities (other than Hajj and Umrah).	Five percent subject to the condition that no input tax adjustment or refund shall be admissible.
5.	Services provided by specialized workshops or undertakings (auto-workshops, workshops for industrial machinery, construction and earth-moving machinery or other special purpose machinery etc.; workshops for electric or electronic equipments or appliances etc. including computer hardware); car washing or similar service stations and other workshops.	Five percent subject to the condition that no input tax adjustment or refund shall be admissible.
6.	Services provided by health clubs, gyms, physical fitness centres, indoor sports and games centres and body or sauna massage centres.	Five percent subject to the condition that no input tax adjustment or refund shall be admissible.

Synopsis of Taxes

ICT - Sales Tax on Services

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S. No	Description	Rate of Tax
7.	Services provided by laundries and dry cleaners.	Five per cent subject to the condition that no input tax adjustment or refund shall be admissible.
8.	Services provided by property dealers and realtors.	Zero per cent subject to the condition that no input tax adjustment or refund shall be admissible.

S. No	Description	Rate of Tax
9.	Services provided by car / automobile dealers.	Five per cent subject to the condition that no input tax adjustment or refund shall be admissible.
10.	Services provided or rendered by marriage halls and lawns, by whatever name called, including "pandal" and "shamiana" services and caterers.	Five per cent subject to the condition that no input tax adjustment or refund shall be admissible.
11.	Services provided by software or IT-based system development consultants.	Five Percent
12.	Services provided by property developers and promoters (including allied services) relating to low-cost housing schemes sponsored or approved by Naya Pakistan Housing and Development Authority or under Government's Ehsaas programme.	Zero per cent subject to the condition that no input tax adjustment or refund shall be admissible.

Synopsis of Taxes

Sales Tax – Introduction

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CHAPTER-27

INTRODUCTION

The Sales Tax was imposed as a federal tax in 1948 through the General Sales Tax Act, 1948. Previously it was a provincial tax and the provinces of Punjab and Sindh were charging it. The Sales Tax Act, 1951 introduced a system of licensed manufacturers and wholesalers. Under this act the sales tax was imposed on the sale of locally produced goods and on import of the imported goods. However, the licensed persons were allowed to sell the goods to each other without payment of sales tax.

Under the Sales Tax Act, 1951 sales tax was administered by the Central Excise Department. Till 1961 sales tax was levied on excisable goods. However, in April 1981 it was also extended to non-excisable goods.

The Finance Act, 1990 introduced major changes in the law of sales tax. It substituted the whole of the provisions of the Sales Tax Act, 1951 and renamed the same as the Sales Tax

(Amendment) Act, 1990. Later on the Finance Act, 1991 omitted the word "(Amendment)" from the title and the title of the law became The Sales Tax Act, 1990. The Sales Tax Act, 1990 is effective since 01-11-1990.

The Sales Tax Act, 1990 empowers the Federal Government to levy the sales tax on the sale, importation, exportation, production, manufacture or consumption of goods. Currently the Sales Tax Act consists upon the following Chapters:

Chapter Sections	Chapter Title
I 1 to 2	Preliminary.
II 3 to 13	Scope and Payment of Tax.
III 14 & 21A	Registration.
IV 22 to 25AA	Book Keeping and Invoicing Requirements.
V 26 to 29	Returns.
VI 30 to 32A	Appointment of Officers of Sales Tax and Their Powers.
VII 33 to 40E	Offences and Penalties.
VIII 45A to 47A	Appeals.
XI 48	Recovery of Arrear of Tax.
X 49 to 77	Miscellaneous.

Besides the above-referred chapters, the Sales Tax Act, 1990 originally contained nine (9) schedules. Later on some of these schedules have been omitted or inserted by different Finance Acts. Currently, the following schedules are active and enforceable:

- Third Schedule, which specifies the goods in respect of which the tax is levied on the *retail price* fixed by the manufacturer.

Synopsis of Taxes

Sales Tax – Introduction

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- Fifth Schedule, which specifies the goods which are taxable at the rate of zero percent.
- Sixth Schedule, which contains the list of such goods that are exempt from the Sales Tax.
- Eighth Schedule, which specifies certain goods which are taxable at rates different than the general rate specified in section 3(1).

- Ninth Schedule, which contains a list of cellular mobile phones or satellite phones that are subject to a specified fixed amount.
 - Tenth Schedule, which contains fixed tax to be paid by bricks manufacturers.
 - Eleventh Schedule, which specifies the sales tax withholding agents, applicable rates and the goods and supplies not subject to withholding tax.
 - Twelfth Schedule, which contains the rate, procedure and conditions connected with the *Value Addition Tax*.
 - Thirteenth Schedule, which deals with *Minimum Production* u/s 7A(9AA) of the Sales Tax Act, 1990.
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ENFORCEMENT OF SALES TAX IN NORTHERN AREAS

Originally the Sales Tax Act, 1990 was not enforceable in Northern Areas. The Government *vide* the Sales Tax (Enforcement) Order, 1999 extended the Sales Tax Act and the Rules, notifications and orders issued thereunder to the whole of the Northern Areas. Since 27th December, 1999, the Sales Tax Act, 1990 is in force in the Northern Areas.

EXEMPTION FROM SALES TAX ACT TO ERSTWHILE TRIBAL AREAS

(SRO 1212(1)/2018, dated 05-10-2018)

The Constitution (Twenty-Fifth Amendment) Act, 2018 merged the tribal areas (as mentioned in Article 246 of the Constitution) in the Provinces of Balochistan and KPK. It abolished the amendments made to Article 247 of the Constitution. Consequently, the exemption available to these areas from the applicability of Federal and Provincial laws was no longer in effect after 31st May 2018, the date on which the *Real* received the assent of the President. Thus, the Sales Tax Act, 1990 became enforceable to the erstwhile Tribal Areas. It created hardship to the individuals and businesses of those areas. In order to redress the position prior to the 25th Amendment the above-referred Notification was issued, which specifies that:

- The erstwhile Tribal Areas shall be exempt from the whole of the sales tax, by whatever name called as levied under the Sales Tax Act, 1990 or notifications issued thereunder on supplies made till the 30-06-2023.
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DEFINITIONS [2]

The Sales Tax Act, 1990 has its own terminology. Section 2 of the Act assigns specific meanings to certain terms and phrases. Some paragraphs contain the definitions given under section 2 of the Sales Tax Act.

ACTIVE TAXPAYER [2(1)]

Active taxpayer means a registered person who does not fall in any of the following categories:

1. Who is blacklisted or whose registration is suspended u/s 21 of the Sales Tax Act, 1990.

Synopsis of Taxes

Sales Tax – Introduction

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2. Who fails to file the return within the due date for two (2) consecutive tax periods as required u/s 26 of the Sales Tax Act, 1990;
3. Who fails to file the return of income u/s 114 or statement u/s 115 of the Income Tax Ordinance, 2001, by the due date; and

Currently, no statement is required to be filed u/s 115.

4. Who fails to file two (2) consecutive quarterly or an annual withholding tax statement u/s 165 of the Income Tax Ordinance, 2001.

APPELLATE TRIBUNAL [2(1A)]

Appellate Tribunal means the Appellate Tribunal Inland Revenue established u/s 130 of the Income Tax Ordinance, 2001.

APPROPRIATE OFFICER [2(2)]

Appropriate officer means such an officer of Inland Revenue who has been authorised to perform certain functions under the Sales Tax Act, 1990.

ARREARS [2(2A)]

Arrears means, on any day, the amount of sales tax due and payable by a person under the Sales Tax Act, 1990 before that day but which has not yet been paid.

ASSOCIATES (ASSOCIATED PERSONS) [2(3)]

Associates (associated persons) shall have the same meaning under the Sales Tax Act, 1990 as defined u/s 65 of the Income Tax Ordinance, 2001.

Under the following cases Income Tax Ordinance treats two or more persons as associates:

1. Where the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other.
2. Where the both persons may reasonably be expected to act in accordance with the intentions of a third person.
3. An individual and a *relative* of the individual.
4. Members of an association of persons.
5. A member of an AOP and the AOP, if the member alone or together with his associates controls 50% or more rights to income or capital of AOP.
6. A trust and any person who benefits or may benefit under the trust.
7. A shareholder in a company and the company, if the shareholder alone or together with his associates controls in the company:
 - i) 50% or more of the voting power;
 - ii) 50% or more of the rights to dividend; or
 - iii) 50% or more of the rights to capital.
8. Two companies shall be associates if a person either alone or together with his associates controls.

Synopsis of Taxes

Sales Tax – Introduction

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- i) 50% or more of the voting power in both companies;
- ii) 50% or more of the rights to dividends in both companies; or
- iii) 50% or more of the rights to capital of both companies.

Notes:

1. The control may be direct or through one or more interposed persons.
2. *Relative* in relation to an individual, means –
 - i) An ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or a spouse of the individual; or
 - ii) A spouse of the individual or of any person specified above.
3. Two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both are employees of a third person.

4. The persons specified under serial No. 3 and 4 above shall not be associates where the Commissioner is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.

ASSOCIATION OF PERSONS [2(3A)]

Association of Persons includes the following:

1. A firm;
2. A Hindu undivided family (HUF);
3. Any artificial judicial person; and
4. Any body of persons formed under a foreign law.

However, this term does not include a company.

BANKING COMPANY [2(3AA)]

Banking company means a banking company as defined in the Banking Companies Ordinance, 1962. It also includes any body corporate which transacts the business of banking in Pakistan.

BOARD [2(4)]

Board shall have the same meaning as defined u/s 2(8) of the Income Tax Ordinance, 2001.

Under the ITD *Board* means the Federal Board of Revenue (FBR) established u/s 3 of the Federal Board of Revenue Act, 2007. It includes a Member of the FBR to whom its powers have been delegated u/s 8 of the Federal Board of Revenue Act, 2007.

CHIEF COMMISSIONER [2(4A)]

Chief Commissioner means the Commissioner Inland Revenue appointed by the FBR under section 30 of the Sales Tax Act, 1990.

COMMISSIONER (APPEALS) [2(4AA)]

Commissioner (Appeals) means the Commissioner Inland Revenue (Appeals) appointed by the FBR under section 30 of the Sales Tax Act, 1990.

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COMMISSIONER [2(5)]

Commissioner means the Commissioner Inland Revenue appointed by the FBR under section 30 of the Sales Tax Act, 1990.

COMMON TAXPAYER IDENTIFICATION NUMBER [2(5A)]

CTIN means the registration number or any other number allocated to a registered person.

COMPANY [2(5AA)]

Company means an organization which falls under any of the following categories:

1. A company as defined in the Companies Act, 2017;
2. A body corporate formed by or under any law in force in Pakistan;
3. A modaraba;
4. A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies in that country;
5. A Trust;
6. A registered co-operative society, a finance society or any other society; or
7. A foreign association, whether incorporated or not, which the FBR has declared as a company for Income Tax Ordinance, 2001.

COMPUTERIZED SYSTEM [2(5AAA)]

Computerized System means any comprehensive information technology system to be used by the FBR or any other office notified by FBR, for carrying out the purposes of the Sales Tax Act, 1990.

COTTAGE INDUSTRY [2(5AAB)]

Cottage industry means a manufacturing concern, which fulfills each of the following conditions:

1. It does not have an industrial gas or electricity connection;
2. It is located in a residential area;
3. Its total labor force is up to ten (10) workers; and
4. Its annual turnover from all supplies is up to Rs. 8,000,000.

CREST [2(5AC)]

CREST means the computerized program for analyzing and cross-matching of sales tax returns. It is also referred to as *Computerized Risk-Based Evaluation of Sales Tax*.

CUSTOMS ACT [2(6)]

Customs Act means the Customs Act, 1969, and where appropriate all rules and notifications made under the Customs Act, 1969.

DEFAULTER [2(6A)]

Defaulter means a person who fails to pay the arrears. The defaulter may be any of the following persons:

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Defaulter [2(6A)]

A defaulter may be:

1. The proprietor of a sole proprietorship;
2. The director or a partner of a firm;
3. The director of a company;
4. The guarantors; and
5. The successors.

Default Surcharge [2(6B)]

Default surcharge means the default surcharge levied under section 34 of the Sales Tax Act, 1990. A person may be liable to pay default surcharge for:

1. Non-payment of tax due or part thereof.
2. Claiming a tax credit, adjustment, or refund not admissible to him; or
3. Incorrect application of rate of zero percent to supplies made by him.

Distributor [2(7)]

Distributor means a person appointed by the manufacturer, importer, or any other person for a specified area to purchase goods from him for further supply. Such a person shall be treated as a distributor even if he is also engaged in the supply of goods as a wholesaler or a retailer.

Document [2(8)]

The term *document* may be defined as a medium for the storage of data and includes any:

1. Electronic data
2. Computer programmes
3. Computer tapes
4. Computer disks
5. Microfilms
6. Any other medium for the storage of such data

Due Date [2(9)]

In relation to the furnishing of a sales tax return (u/s 26), *due date* means the 15th day of the month next following the end of the *tax period*. The FBR may specify any other date as the due date. Further, different dates may be specified for furnishing of different parts or annexures of the return.

Tax period is a period of one month. The FBR, with approval of the Federal Minister-in-charge, may notify some other period as tax period. [2(43)]

E-Intermediary [2(9A)]

It means a person registered under section 52A of the Sales Tax Act for filing of electronic returns or other documents prescribed by FBR. These documents are filed on behalf of a registered person.

Establishment [2(10)]

Establishment means an undertaking, firm, or company (whether incorporated or not), an association of persons, or an individual.

Exempt Supply [2(11)]

Exempt supply means a supply, which is exempted from the levy of Sales Tax by the Federal Government by giving a notification in the Official Gazette. Section 13 of the Sales Tax Act, 1990 authorizes the Federal Government to do so.

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FBR Refund Settlement Company Limited [2(11A)]

"FBR Refund Settlement Company Limited" means the company incorporated under the Companies Act, 2017, for the purpose of settlement of sales tax and income tax refund claims including payment by way of issuing refund bonds u/s 67A of the Sales Tax Act, 1990.

Firm [2(11B)]

Firm means the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Goods [2(12)]

Goods includes every kind of movable property excluding the following:

1. Actionable claims;
2. Money;
3. Stocks;
4. Shares; and
5. Securities.

Greenfield Industry [12A]

Greenfield industry means a new industrial undertaking approved by CIR and which is:

1. Setup on land which has not previously been utilized for any commercial, industrial, or manufacturing activity and is free from constraints imposed by any prior work;
2. Built without demolishing, repurposing, renovating, upgrading, remodeling, or modifying any existing structure, facility, or plant;
3. Not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant, or building from an undertaking established in

Pakistan - prior to commencement of the new business and is not part of an expansion project;

4. Using any process or technology that has not earlier been used in Pakistan and is so approved by the Engineering Development Board.

Application for approval should be made in the prescribed form and manner and be accompanied by the prescribed documents and such other documents as required by CIR.

Importer [2(13)]

Any person who imports any goods into Pakistan is termed as *importer*.

Input Tax [2(14)]

In relation to a registered person, the *input tax* means:

1. The tax levied under the Sales Tax Act, 1990 on the supply of goods to the person;
2. The tax levied under the Sales Tax Act, 1990 on the import of goods by the person;
3. In relation to goods or services acquired by the person, excise duty levied under the Federal Excise Act, 2005 is also taken note on the manufacture or production of goods, or rendering or providing of services;
4. The provincial sales tax levied on services rendered or provided to the person; and
5. Provincial sales tax on services notified by FBR are excluded from *input tax*
Subject to the notified conditions, restrictions, and limitations.
6. The tax levied under the Sales Tax Act, 1990 of Pakistan as adapted in the State of Azad Jammu and Kashmir on the supply of goods received by that person.

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KIBOR [1(4A)]

KIBOR means Karachi Inter-Bank Offered Rate prevalent on the first day of each quarter of the financial year.

Local Inland Revenue Office [2(15)]

Local Inland Revenue Office means the office of Superintendent of Inland Revenue or such other office as the FBR may specify in the official Gazette.

Licensed Integrator [2(15A)]

Licensed Integrator means any person licensed by the Board to provide electronic invoicing system for integration of registered persons in the prescribed manner.

Manufacture or Produce [2(16)]

It means and includes the following processes:

1. Any process in which an article is either converted into another article or product or is so changed or reshaped that it becomes capable of being put to use differently or distinctly.
2. Any process of printing, publishing, lithography, and engraving.
3. Any process of assembling, mixing, cutting, diluting, bottling, packaging, repackaging, or preparation of goods in any other manner.

Manufacturer or Producer [2(17)]

Manufacturer or producer means a person who is engaged in the process of manufacture or production of goods. The ownership of the raw material is irrelevant in this regard. This term includes the following persons:

1. A person who by any process or operation assembles, mixes, cuts, dilutes, bottles, packages, repackages, or prepares goods by any other manner.
2. An assignee or trustee in bankruptcy, liquidator, executor, curator of any manufacturer or producer and any person who disposes of his assets in any fiduciary capacity.
3. Any person, firm, or company which owns, holds, claims, or uses any patent, proprietary, or other right to goods being manufactured, whether in his or in his name or on his or its behalf, as the case may be, who or that not such person, firm, or company sells, distributes, consigns, or otherwise disposes of the goods.

Note: For the purpose of refund, only such person shall be treated as manufacturer-cum-exporter who has his own manufacturing facility to manufacture or produce the goods exported or to be exported.

Officer of Inland Revenue [2(18)]

Officer of Inland Revenue means an officer appointed by the FBR under section 30 of the Sales Tax Act, 1990.

Online Market Place [2(18A)]

Online market place includes an electronic interface such as a market place, e-commerce platform, portal, or similar means which facilitate the sale of goods, including third party sale, in any of the following manners:

1. By controlling the terms and conditions of the sale;

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2. Authorizing the charge to the customers in respect of the payment for the supply; or
3. Ordering or delivering the goods.

Open Market Price [2(19)]

Open market price means the consideration in money, which that supply or a ‘*similar supply*’ would generally fetch in an open market.

Similar supply [2(31)] means any other supply of goods, which closely resembles in characteristics, quantity, components, and materials of the aforementioned goods.

Output Tax [2(20)]

In relation to a registered person, *output tax* means the following taxes and duties payable by that person:

1. Tax levied under the Sales Tax Act, 1990 on supply of goods made by that person;
2. Excise duty levied under the Federal Excise Act, 2005 in sales tax mode on manufacture or production of goods or the rendering or providing of the services by the persons; and
3. The sales tax levied on services rendered or provided by the person under the Capital Territory (Tax on Services) Ordinance, 2001.

Person [2(21)]

Person means:

1. An individual,
2. A company,
3. An association of persons incorporated, formed, organized, or established in Pakistan or elsewhere,
4. The Federal Government,
5. A Provincial Government,
6. A Local Government in Pakistan,
7. A foreign government,
8. A political sub-division of a foreign government, or

9. A public international organization.

Prescribed [2(22)]

Prescribed means any provision or procedure as has been prescribed by the rules made under the Sales Tax Act, 1990.

Provincial Sales Tax [2(22A)]

Provincial sales tax means the tax levied under the provincial laws or laws relating to Islamabad Capital Territory, which are declared by the Federal Government (by a notification) to be provincial sales tax for the purpose of input tax.

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The Federal Government (vide SRO 814(1)/2016, dated 02-09-2016) declared that the tax levied under the following laws shall be *provincial sales tax* for the purpose of input tax under the Sales Tax Act, 1990 effective from 01-07-2016:

1. The Islamabad Capital Territory (Tax on Services) Ordinance, 2001;
2. The Khyber Pakhtunkhwa Finance Act, 2013;
3. The Balochistan Sales Tax on Services Act, 2015;
4. The Sindh Sales Tax on Services Act, 2011; and
5. The Punjab Sales Tax on Services Act, 2012.

Registered Office [2(23)]

Registered office means the office or other place of business specified by the registered person in the *application made* by him for registration under the Sales Tax Act, 1990 or through any subsequent application to the Commissioner.

Registration Number [2(24)]

Registration number means the number allocated to the registered person for the purpose of the Sales Tax Act, 1990.

Registered Person [2(25)]

Registered person means a person who is registered or is liable to be registered under the Sales Tax Act, 1990.

It is to be noted that a person who is liable to be registered but has not been registered shall not be entitled to any benefit available to a registered person under the law (e.g., credit or refund of input tax).

Retail Price [2(27)]

Retail price means a price fixed by the manufacturer or importer (in case of imported goods), inclusive of all duties, charges, and taxes (other than sales tax) at which any particular brand or variety of any article should be sold to the general consumer.

Where more than one such price is fixed for the same brand or variety, the highest of such prices shall be taken as *retail price*.

The law requires that the *retail price* and the amount of sales tax shall be printed on each article, packet, container, or package of the goods. In case of locally manufactured goods, the manufacturer and in case of imported goods, the importer shall ensure printing of the retail price.

Clearance of imported goods after 01-08-2019 shall be possible only if the retail price is printed or stickers are affixed on each article, packet, etc. [STGO 102/2019, dated 15-07-2019]

Notes:

- The above definition of *retail price* shall be applicable to the items appearing in the Third Schedule.
- The FBR may through a general order specify zones or areas for the purpose of determination of highest retail price for any brand or variety of goods.

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Retailer [2(28)]

Retailer means a person supplying goods to the general public for the purpose of consumption. Any person who combines the business of import, manufacturing, or production with retail shall have to observe the following conditions:

1. He shall notify and advertise wholesale prices and retail prices separately; and
2. He shall declare the addresses of his retail outlets.

Return [2(29)]

Return means any return required to be furnished under Chapter-V of the Sales Tax Act. Under the above-referred chapter, the sales tax department may require the filing of the following different types of returns:

1. Monthly sales tax return (u/s 26);
2. Quarterly return (u/s 26);
3. Annual return (u/s 26);
4. Special return (u/s 27); and
5. Final return (u/s 28).

Sales Tax [2(29A)]

Sales Tax means:

1. The tax, additional tax, or default surcharge levied under the Sales Tax Act, 1990;
2. A fine, penalty, or fee imposed or charged under the Sales Tax Act, 1990; and
3. Any other sum payable under the provisions of the Sales Tax Act, 1990 or the rules made under that Act.

However, any fee and service charges imposed and collected u/s 76 of the Sales Tax Act, 1990 are not treated as *sales tax*.

(Section 76 is discussed in Chapter "Scope of Tax").

Sales Tax Account [2(29AA)]

Sales Tax Account means an account representing the double entry recording of sales tax transactions in the books of account.

Schedule [2(30)]

Schedule means a schedule appended to the Sales Tax Act, 1990.

Similar Supply [2(31)]

This term is used in relation to the *open market price* of goods and denotes any other supply of goods which closely or substantially resembles the characteristics, quantity, components, and materials of goods of which the *open market price* is to be determined.

Special Audit [2(31A)]

Special audit means an audit conducted by a Special Audit Panel under section 32A of the Sales Tax Act, 1990.

The Federal Board of Revenue is empowered to appoint a Special Audit Panel to conduct a special audit of the records of a registered person. The auditor so appointed shall have the powers of an officer of sales tax under sections 25, 37, and 38 of the Sales Tax Act, 1990.

Special Judge [2(32)]

Special Judge means a person appointed by the Federal Government as Special Judge under section 37C of the Sales Tax Act and until such appointment is made as applied to it by the Customs Act, 1969. Generally, a person who has been a session judge may be appointed as a Special Judge. However, the Federal Government may also appoint any other officer as a special judge for the purposes of Indirect Taxes.

Supply [2(33)]

Supply means sale or other transfer of the right to dispose of goods as owner. It also includes the following:

1. Sale or transfer under a hire purchase agreement;
2. Putting to private, business, or non-business use of the goods produced or manufactured in the course of taxable activity for purposes other than those of making a taxable supply;
3. Auction or disposal of goods to satisfy a debt owed by a person;
4. Possession of taxable goods held immediately before a person ceases to be a registered person;
5. In case of manufacture of goods belonging to another person, transfer or delivery of such goods to the owner or to his nominated person; and

Note: The FBR, with the approval of the Federal Minister-in-charge, is empowered to specify such other transactions, which shall or shall not constitute a supply. The FBR shall exercise this power by issuing a notification in the Official Gazette.

Transactions Not Constituting Supply [SRO 445(I)/2004 dated 12-06-2004]

Following types of transactions shall not constitute supply:

1. Forward transactions of commodities at the Pakistan Mercantile Exchange; and
2. Goods delivered under a *Murabaha*, *Musawamah*, *Bai Muajjal*, *Bai Salam*, *Istisna*, *Ijarah*, and *Ijara* financing arrangement by a bank or a financial institution approved by SBP or SECP, as the case may be.

Supply Chain [2(33A)]

Supply Chain means the series of transactions between buyers and sellers from the stage of first purchase or import to the stage of final supply.

Tax [2(34)]

Tax means the sales tax, unless the context requires otherwise.

Taxable Activity [2(35)]

Taxable Activity means any economic activity carried on by a person whether for profit or not. It also includes the following activities:

- An activity carried on in the form of a business, trade, or manufacture.

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Taxable Activity [2(35)] (continued)

A *taxable activity* includes:

2. An activity that involves the supply of goods, the rendering or providing of services, or both to another person;
3. A one-off adventure or concern in the nature of a trade; and
4. Anything done or undertaken during the commencement or termination of the economic activity.

However, the taxable activity does not include the following activities:

- a) The activities of an employee providing services in that capacity to an employer;
- b) An activity carried on by an individual as a private recreational pursuit or hobby; and
- c) An activity carried on by a person other than an individual which, if carried on by an individual, would fall under point No. 2 above.

Tax Fraction [2(36)]

Tax fraction means the amount worked out according to the following formula:

$$a \frac{100+a}{100+a}$$

Here a is the rate of Sales Tax as specified in Section 3. Currently, this rate is 18%. Thus, the tax fraction shall be $18/118$.

Tax fraction is applied under the following cases:

1. Computation of output tax (in case of a person who is liable to be registered but has not been registered); and

2. Determination of output tax in respect of such supplies made by a registered person on which sales tax has not been charged and collected.

Tax Fraud [2(37)]

Tax fraud means intentionally understating or underpaying the tax liability or overstating the entitlement to tax credit or tax refund in contravention of duties or obligations imposed under this Act by way of submission of false returns, statements, or false documents or withholding of correct information or documents to cause loss of tax. It includes:

1. Suppression of supplies that are chargeable to tax;
2. False claim of input tax credit;
3. Making taxable supplies of goods without issuing any tax invoice;
4. Issuance of a tax invoice without supply of goods leading to an inadmissible claim of input tax credit or refund;
5. Evasion of tax by availing undue input tax credit or obtaining an inadmissible refund by any other means or methods;
6. Non-deposit of any amount collected as tax beyond three (3) months from the due date of payment of tax;
7. Falsification or causing falsification of invoices or substitution of financial records or production of fake accounts or documents or furnishing of any false information through human, mechanical, or electronic means with an intention to evade tax due or claim inadmissible refund.

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8. Tampering with or destroying any material evidence or documents required to be maintained through human or digital means;
9. Acquisition, possession, transportation, disposal, or in any way removing, depositing, keeping, concealing, supplying, or purchasing or in any other manner dealing with any goods in respect of which there are reasons to believe that these are liable to confiscation;
10. Making of taxable supplies without getting registration; or
11. Intentional doing of any act or causing to do an act or omitting to take any action or causing the omission to take any action to cause loss of tax under the STA.

Any act or omission mentioned in this clause shall be treated as intentional unless the person accused of tax fraud proves that he had no intention, motive, knowledge, or reason to believe that he was committing a tax fraud.

TAXABLE GOODS [2(39)]

"Taxable goods" means all goods other than those, which have been exempted by the Federal Government under section 13 of the Sales Tax Act, 1990.

TAX INVOICE [2(40)]

"Tax invoice" means a document required to be issued under section 23 of the Sales Tax Act, 1990.

TAXABLE SUPPLY [2(41)]

It means the supply of taxable goods other than those, which have been exempted by the Federal Government under section 13 of the Sales Tax Act, 1990. It also includes a supply of goods chargeable to tax at the rate of zero percent under section 4 of the Sales Tax Act, 1990.

A supply may be made by any of the following persons:

1. Importer,
2. Manufacturer,
3. Wholesaler (including dealer),
4. Distributor, or
5. Retailer

TAX PERIOD [2(43)]

It is a period of one month. The FBR, with the approval of the Federal Minister-in-charge, may notify some other period as a tax period.

TIER-1 RETAILERS [2(43A)]

"Tier-1 retailer" means a retailer falling in any one or more of the following categories:

1. A retailer operating as a unit of a national or international chain of stores;
2. A retailer operating in an air-conditioned shopping mall, plaza, or center, excluding kiosks;
3. A retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rs. 1,200,000

4. A wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumers;
5. A retailer who has acquired a point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by State Bank of Pakistan;
6. A retailer whose deductible withholding tax (u/s 236G or 236H of ITO) during the immediately preceding twelve consecutive months has exceeded the threshold as may be specified by the FBR; and

Sections 236G & 236H deal with advance tax on distributors, dealers, wholesalers, and retailers.

7. Any other prescribed person or class of persons.

TIME OF SUPPLY [2(44)]

"Time of supply" is defined separately for the supply of goods and the rendering of services.

Supply of Goods

Time of supply for the supply of goods (other than under a hire purchase agreement) means the earlier of the time when:

1. The goods are delivered or made available to the recipient of the supply; or
2. Any payment is received by the supplier in respect of that supply.

Supply under Hire Purchase Agreement

Where goods are supplied under a hire purchase agreement, the time of supply means the time at which the agreement is entered into.

Rendering of Services

Time of supply, in relation to services, means the time at which the services are rendered or provided.

Receipt of Part Payment

1. Where any part payment is received for a supply in a tax period, it shall be accounted for in the return for that tax period.

2. Where any part payment is received in respect of an exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.

Clarification Regarding Time of Supply

According to the definition, "*time of supply*" is the earlier of the actual delivery of goods or the time when any payment is received by the supplier in respect of that supply. Where the whole amount is received upfront, tax should be paid in full at the time of supply that is determined above.

But where full payment is not received or part of the payment is received as advance or supplies are made in parts over a period of time, then sales tax for such would be charged only on the portion of supply made or received or that portion of the supply which is charged during the tax period. Under these cases, tax should not be charged on the whole of the amount which is to be received or on the whole of the supply which is yet to be made. (*Chapter (A) of Sales Tax General Order No. 3/2004*)

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TRUST [2(44)]

"*Trust*" means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust.

UNIT TRUST [2(44A)]

"*Unit trust*" means any trust under which beneficial interests are divided into units such that the entitlements of the beneficiaries to income or capital are determined by the number of units held.

VALUE OF SUPPLY [2(46)]

"*Value of supply*" means the consideration in money including all Federal and Provincial duties and taxes which a supplier receives from the recipient of the goods against taxable supplies. While determining the value of supply, the amount of sales tax is not included.

Value of Supply Where Trade Discount is Allowed

Where a trade discount is allowed, the value of supply will be the discounted price (prior to the amount of sales tax). In this case, the following conditions shall be fulfilled:

1. The discount allowed is in conformity with the normal business practice; and

2. The tax invoice shows the discounted price and the related tax.

Open Market Price as Value of Supply

Open market price will be taken as value of the supply in the following cases:

1. Where the consideration of supply is in kind or partly in kind and partly in money;
2. Where the supplies are made to an associated person against no consideration or for a consideration, which is lower than the open market price; and
3. Where for any special nature of a transaction it is difficult to ascertain the value of a supply.

Value in Case of Supply on Installment Basis

Where a taxable supply is made to a consumer from a general public on an installment basis and the price includes a mark-up or surcharge, then the value of supply shall be the open market price (excluding the amount of tax on such supply).

Value of Supply for Imported Goods

Where the goods (other than those specified in the Third Schedule) are imported into Pakistan, the determined value under section 25 of the Customs Act, 1969 will be the value of the supply. The amount of customs duties and federal excise duty levied thereon will also be included in the value of supply.

Notes:

1. The Federal Government may levy a Special Customs Duty on imported goods under section 18A of the Customs Act, 1969. For sales tax purposes, the Special Customs Duty shall not constitute a part of the value of supply.
2. Where a concessionary rate of Customs Duty is applicable in respect of imported goods, the value for sales tax shall be the value as determined under section 25 of the Customs Act, plus the customs duty actually paid.

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Value by Valuation Committee

Where there is a sufficient reason to believe that the value declared in the invoice is not correct, the value determined by the Valuation Committee will be the value of the supply.

The Valuation Committee is constituted by the Commissioner & it shall comprise on Representatives of Trade and the Inland Revenue.

Notes:

1. The FBR may fix the value of any imported goods or taxable supplies or class of supplies.
 - For this purpose, it may fix different values for different classes or descriptions of the same type of goods.
2. If the value at which the import or supply is made is higher than the value fixed by FBR, unless otherwise directed by the FBR, the higher amount shall be taken as the value of the supply.

Value of Manufacture of Goods Belonging to Others

In case of manufacture of goods belonging to another person, the actual consideration received by the manufacturer for the value addition carried out in relation to such goods shall be the value of supply.

Supply of Electricity by an Independent Power Producer or WAPDA

Where electricity is supplied by an independent power producer or WAPDA, the amount received on account of energy purchase price only shall be the value of supply.

The amount received on account of capacity purchase price, energy purchase price premium, excess bonus, supplemental charges, etc., shall not be included in the value of supply.

Persons Purchasing Used Vehicle from General Public

Value of supply of a used vehicle *will be* the difference between sale and purchase price of the vehicle on the basis of the valuation method prescribed by the FBR, if:

1. A registered person is engaged in purchasing used vehicles from the general public;
2. Sales tax on such vehicles had already been paid at the time of import or manufacturing;
and
3. The vehicle is, later on, sold in the open market after making certain value additions.

Supply of Electric Power and Gas by a Distribution Company

Where electric power and gas is supplied by a distribution company, the total amount billed including the price of electricity and natural gas, as the case may be, charges, rents, commissions, and all duties and taxes, local, provincial, and federal, shall be the value of supply.

However, the amount as late payment surcharge and the amount of sales tax shall not be included in the value of supply.

Note:

"Value of supply" does not include the amount of subsidy provided by the Federal Government or Provincial Governments to the electricity or natural gas, including re-gasified liquefied natural gas consumers, and has never been chargeable to tax under the Sales Tax Act, 1990

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Fixation of Value by FG or FBR

The FBR may fix the value of any imported goods (including those specified in the Third Schedule) or taxable supplies or classes of supplies. For this purpose, it may fix different values for different classes or descriptions of the same type of goods.

If the value at which the import or supply is made is higher than the value fixed by FBR, unless otherwise directed by the FBR, the higher amount shall be taken as the value of the supply.

Value in Case of Credit Sale

The mark-up on credit sales should not be included in the value of supply for the purpose of assessment of sales tax. *(Chapter (B) of STGO No. 3/2004)*

Minimum Value of Certain Goods

Section 2(46) empowers the Federal Government to fix the value or minimum value of certain goods for the purpose of sales tax.

WHISTLEBLOWER (2(46A) & 72D)

"Whistleblower" means a person who reports concealment or evasion of sales tax and tax fraud leading to detection or collection of taxes, fraud, corruption, or misconduct, to the competent authority having power to take action against the person or a sales tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.

WHOLESALE (2(47))

"Wholesaler" includes a dealer and means any person who carries on the business of buying and selling goods by wholesale. This term also includes the following persons:

- A person who sells as an agent such goods which belong to others; and
- A person supplying goods to a person who deducts income tax at source under the Income Tax Ordinance, 2001.

ZERO RATED SUPPLY (2(48))

"Zero rated supply" means a supply, which is charged to tax at the rate of zero percent under Section 4 of the Sales Tax Act, 1990.

According to Section 4, the following goods shall be charged to tax at the rate of zero percent:

1. Goods exported out of Pakistan;
2. Goods specified in the Fifth Schedule;
3. Supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan;
4. Such other goods as the Federal Government may notify; and
5. Such other goods as may be specified by the FBR through a general order as are supplied to registered persons engaged in manufacture and supply of zero-rated goods.

The following goods shall not be treated as zero-rated supply:

1. The goods that are brought back but were intended to be re-imported in Pakistan.
2. The goods that have been entered for export but are not exported.
3. The goods, which have been exported to a country, specified by the Federal Government.

Synopsis of Taxes

Sales Tax: Introduction

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4. Difference Between ‘Exempt Supply’ And ‘Zero-Rated Supply’
5. Apparently, an exempt supply and a zero-rated supply look alike. Under both cases, a person is not required to pay tax under the Sales Tax Act. However, these two types of supplies differ from each other on many points. The table below contains several points at which these supplies do not coincide with each other.

S. No.	Point of Distinction	Exempt Supply	Zero-Rated Supply
1.	Taxability	Not taxable	Taxable
2.	Registration under Sales Tax Act	Not required	Required
3.	Credit of Input Tax	Not allowed	Allowed
4.	Maintenance of records under the Sales Tax Act	Not required	Compulsory
5.	Filing of return under the Sales Tax Act	Not required	Required

Synopsis of Taxes

Sales Tax: Introduction

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CHAPTER-28: SALES TAX AUTHORITIES

FEDERAL BOARD OF REVENUE (Board or FBR)

'Board' shall have the same meaning as defined u/s 2(8) of the Income Tax Ordinance, 2001.

Under the FTO, 'Board' means the Federal Board of Revenue (FBR) established u/s 3 of the Federal Board of Revenue Act, 2007. It includes a Member of the FBR to whom its powers have been delegated u/s 8 of the Federal Board of Revenue Act, 2007.

FBR formulates the rules and regulations and supervises the overall functioning of the sales tax department [50]. Following are the different sales tax authorities appointed under the Sales Tax Act, 1990:

APPOINTMENT OF AUTHORITIES [30]

For the purposes of the Sales Tax Act, 1990, the FBR may appoint the following authorities:

1. Chief Commissioner Inland Revenue;
2. Commissioner Inland Revenue;
3. Commissioner Inland Revenue (Appeals);
4. Additional Commissioner Inland Revenue;
5. Deputy Commissioner Inland Revenue;
6. District Taxation Officer Inland Revenue;
7. Assistant Commissioner Inland Revenue;
8. Assistant Director Audit Inland Revenue;
9. Inland Revenue Officer;
10. Superintendent Inland Revenue;
11. Inland Revenue Audit Officer;
12. Inspector Inland Revenue; and
13. Officer of Inland Revenue with any other designation.

The FBR shall appoint the authorities by issuing a notification in the official Gazette. It shall also specify the area, case or class of cases in relation to which any of the authorities is appointed. The table appearing on the next page contains the administrative set-up of the Inland Revenue Authorities.

Authorities	Subordinate To
Chief Commissioner	Federal Board of Revenue
Commissioner (Appeals)	Federal Board of Revenue
Commissioner	Chief Commissioner
Additional Commissioner, Deputy Commissioner, District Taxation Officer, Assistant Commissioner, Assistant Director Audit, Superintendent, Inland Revenue Audit Officer, Inland Revenue Officer, Inspector Inland Revenue, and Officer of Inland Revenue with any other designations.	Commissioner
Deputy Commissioner, District Taxation Officer, Assistant Commissioner, Assistant Director Audit, Superintendent, Inland Revenue Audit Officer, Inland Revenue Officer, Inspector Inland Revenue, and Officer of Inland Revenue with any other designations.	Additional Commissioner

JURISDICTION OF CHIEF COMMISSIONERS AND COMMISSIONERS [30(2A) & (2B)]

The Chief Commissioners shall perform their functions in respect of such persons or classes of persons or such areas as the FBR may direct.

The Commissioners shall perform their functions in respect of such persons or classes of persons or such areas as the Chief Commissioner to whom they are subordinate may direct.

DIRECTORATE GENERAL (INTELLIGENCE AND INVESTIGATION) [30A]

A department is established to perform the functions of intelligence and investigation. This department is known as "Directorate General (Intelligence and Investigation) Inland Revenue." It shall consist of the following officers:

1. Director General
2. Directors
3. Additional Directors

4. Deputy Directors
5. Assistant Directors
6. Any other officers

All the above officers shall be appointed by the FBR by notification in the official Gazette.

Synopsis of Taxes

Sales Tax: Introduction

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TAX FRAUD INVESTIGATION WING [30AB]

The "Tax Fraud Investigation Wing-Inland Revenue" shall be established to detect, analyze, investigate, combat, and prevent tax fraud. This wing shall comprise the following units to be notified by FBR in the official Gazette:

1. Fraud Intelligence and Analysis Unit
2. Fraud Investigation Unit
3. Legal Unit
4. Accountants Unit
5. Digital Forensic and Scene of Crime Unit
6. Administrative Unit
7. Any other Unit as may be notified

The Tax Fraud Investigation Wing shall consist of the following officers:

- Chief Investigator
- Senior investigators, investigators, junior investigators, or any other officer of Inland Revenue with any other designation
- A Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts as required
- A Senior Data Analyst and as many Data Analysts and Junior Data Analysts as required

Functions and Jurisdiction

The FBR may specify the functions and jurisdiction of the Tax Fraud Investigation Wing and its Units and its officers. FBR may confer the powers of sales tax authorities (as specified under section 30) upon the Tax Fraud Investigation Wing and its officers.

This section does not prevent the sales tax authorities (appointed under section 30) or any other authority or officer from conducting investigation and prosecution proceedings under the Sales Tax Act.

DIRECTORATE GENERAL INTERNAL AUDIT [30E]

Another department, known as "Directorate General Internal Audit", has been established. Its function is to oversee and inspect the functioning of the sales tax authorities. It also conducts the internal audit. The FBR is empowered to appoint the following officers by issuing a notification in the official Gazette:

1. Director General
2. Directors
3. Additional Directors
4. Deputy Directors
5. Assistant Directors
6. Any other officers

Synopsis of Taxes

Sales Tax: Introduction

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INLAND REVENUE SERVICES ACADEMY [30C]

The Inland Revenue Services Academy works under the supervision and control of the FBR. For its smooth functioning, the FBR may, by a notification in the official Gazette, appoint the following officers:

1. Director General
2. Directors
3. Additional Directors
4. Deputy Directors
5. Assistant Directors
6. Any other officers

DIRECTORATE GENERAL OF DIGITAL INITIATIVES [30CA]

The Directorate General of Digital Invoicing and Analysis shall consist of the following officers appointed by the FBR:

1. Director General
 2. Directors
 3. Additional Directors
 4. Deputy Directors
 5. Assistant Directors
 6. Any other officers
-

DIRECTORATE GENERAL OF VALUATION [30D]

The Directorate General of Valuation shall consist of the following officers appointed by the FBR:

1. Director General
 2. Directors
 3. Additional Directors
 4. Deputy Directors
 5. Assistant Directors
 6. Any other officers
-

DIRECTORATE OF POST CLEARANCE AUDIT [30DD]

The Directorate of Post Clearance Audit shall consist of the following officers appointed by the FBR:

1. Directors
 2. Additional Directors
 3. Deputy Directors
 4. Assistant Directors
 5. Any other officers
-

DIRECTORATE GENERAL OF INPUT OUTPUT CO-EFFICIENT ORGANIZATION [30DDD]

The Directorate General of Input Output Co-efficient Organization (IOCO) – Inland Revenue shall consist of the following officers appointed by the FBR:

1. Director General
 2. Directors
 3. Additional Directors
 4. Deputy Directors
 5. Assistant Directors
 6. Any other officers
-

DIRECTORATE GENERAL OF LAW [30DDA]

The Directorate General of Law shall consist of the following officers appointed by the FBR:

1. Director General
2. Directors
3. Additional Directors
4. Deputy Directors
5. Assistant Directors
6. Any other officers

The FBR may notify the functions, jurisdiction, and powers of the Directorate-General of Law.

Synopsis of Taxes

Sales Tax: Introduction

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POWERS AND FUNCTIONS OF DIRECTORATES [30E]

The FBR is the appointing authority of all the Directorates discussed above. The FBR, by a notification in the official Gazette, shall specify the functions, jurisdiction, and powers of each of the Directorates General and their officers.

POWERS OF THE OFFICERS [31]

An officer of Inland Revenue appointed under the Sales Tax Act, 1990, shall exercise such powers and discharge such duties as are conferred or imposed on them under the Act. The FBR may, by general or special order, impose limitations or conditions on the exercise of such powers and discharge of such duties.

It is to be noted that an officer is also competent to exercise all powers and discharge all duties of an officer subordinate to him.

DELEGATION OF POWERS [32]

The FBR or the Chief Commissioner, with the approval of the FBR, may delegate the powers of an Inland Revenue officer to another. For this purpose, it will issue a notification in the official Gazette.

While delegating the powers, it may impose conditions and limitations on the exercise of the delegated powers. The delegation is to be done according to the following schedule:

Powers of:	May be Delegated to:
Commissioner	Additional Commissioner or Deputy Commissioner
Additional Commissioner	Deputy Commissioner or Assistant Commissioner
Deputy Commissioner	Assistant Commissioner
Assistant Commissioner	Any other officer of Inland Revenue

Further Delegation of Power [32(3)]

An officer, to whom powers have been delegated under the Sales Tax Act, 1990, cannot further delegate such powers to any other officer.

POSTING OF OFFICER TO THE PREMISES OF REGISTERED PERSON [40B]

In order to monitor the production, sale of taxable goods, and stock position an officer of Sales Tax may be posted to the premises of a registered person. The officer may be posted by FBR.

The FBR may post an officer of Sales Tax to the premises of registered persons or class of registered persons for monitoring purposes. While exercising this power, the FBR may impose certain conditions or restrictions.

AUDIT BY SPECIAL AUDIT PANELS [32A]

In order to conduct an audit of registered persons, including refund claims and forensic audit, the Federal Board of Revenue (FBR) may appoint as many special audit panels as necessary. Other provisions in this regard are as follows:

1. The special audit panel shall be comprising two or more members selected from the following persons:

Synopsis of Taxes

Sales Tax: Introduction

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Audit by Special Audit Panels (Continued)

1. The special audit panel may include the following members:
 - An officer or officers of Inland Revenue;
 - A firm of Chartered Accountants;
 - A firm of Cost and Management Accountants;
 - Any other person as directed by the FBR.
2. The scope of such an audit shall be determined by the FBR or the Commissioner on a case-to-case basis. The FBR may, if it considers appropriate, order a joint audit with similar audits being conducted by provincial administrations of sales tax on services.
3. The audit by the special audit panel is an additional and a separate audit from that which is conducted by an officer appointed under section 30. [32A(2)]
4. Every member of a special audit panel shall have the following powers:
 - He shall have access to records and documents of the registered person being audited.
 - He shall have the power to summon persons to give evidence and produce documents in inquiries under the Sales Tax Act, 1990.
 - He shall have access to premises, stocks, accounts, and records.
5. The special audit panel shall be headed by a Chairman, who shall be an officer of Inland Revenue. [32A(4)]
6. If any one member of the special audit panel (other than the Chairman) is absent, the audit may continue, and the proceedings of the audit may remain valid. The audit shall not be invalid on the ground of such absence. [32A(5)]
7. The FBR may prescribe the mode and manner of the constitution, procedure, and working of the special audit panel. [32A(6)]

Sales Tax Special Audit Rules

Rule-40 through Rule-44 of the Sales Tax Rules, 2006, deal with the Special Audit of records that must be maintained under sections 22, 23, and 26 of the Sales Tax Act. A special auditor appointed by FBR under section 32A of the Act shall conduct the audit. These auditors shall be appointed from Chartered Accountants or Cost and Management Accountants. [Rules-40 & 41]

Scope of Special Audit [Rule-42]

The scope of a special audit is the expression of independent professional opinion with respect to the following matters:

1. Maintenance of the proper record by the registered person;
2. Issuance of tax invoices as required by law;
3. Filing of monthly returns; and
4. Confirming that the monthly returns furnished by the registered person correctly reflect the following:
 - Taxable supplies made in the tax period.

Synopsis of Taxes

Sales Tax: Introduction

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Report by Special Auditor [Rule-43]

The scope of the special audit is to express his professional opinion on the matters specified in Rules and the matters laid down in his term of reference.

- The audit report shall be in the form as specified in the term of reference.

Penalty [Rule-44]

Where a special auditor violates any provision of the Special Audit Rules or any clause of his terms of reference, he shall, besides any other action under the law, be liable to the following penalties:

1. The payment of the fee shall be withheld.
 - In a case where payment has already been made (whether full or part), the FBR shall issue a demand notice for its return.

- The auditor shall be bound to repay the amount within one week of issuance of such notice.
- 2. Action under the Institute of Chartered Accountants Ordinance, 1961, or the Institute of Cost and Management Accountants Act, 1966, may be initiated.
- 3. The auditor may be prosecuted under the Sales Tax Act, 1990.

REFERENCE TO TAX AUTHORITIES [72A]

During the last many years, there were substantial changes in the administration of tax authorities, resulting in the use of various designations in different laws, notifications, orders, circulars, and clarifications.

- In order to remove confusion and ambiguity, it is enacted that reference to certain sales tax authorities in any document may be construed as below:

S. No.	Reference To	May be Construed As
1	Collector	Commissioner Inland Revenue
2	Additional Collector	Additional Commissioner Inland Revenue
3	Deputy Collector	Deputy Commissioner Inland Revenue
4	Assistant Collector	Assistant Commissioner Inland Revenue
5	Superintendent	Superintendent Inland Revenue
6	Senior Auditor	Inland Revenue Audit Officer
7	Officer of Sales Tax	Officer of Inland Revenue

Synopsis of Taxes Sales Tax: Introduction [27-463]

Selection for Audit by FBR [72B]

The FBR may select persons or classes of persons for the audit of tax affairs through computer ballot, which may be random or parametric, as deemed fit by the FBR. It shall be deemed that the FBR shall always have the power to select any person for audit.

Notwithstanding anything contained in any law, the FBR shall keep the selection parameters confidential.

The audit of the selected person shall be conducted in accordance with the procedure given in section 25 of the Sales Tax Act, 1990.

Selection and Conduct of Audit [Rule-44A]

The following steps shall be followed while selecting cases for audit through a computer ballot on a random and parametric selection basis for tax periods determined by the FBR:

1. Data for all returns filed shall be utilized as basic data.
2. The FBR shall decide the cases of persons or classes of persons that will be excluded from audit selection.
3. Prior to the process of balloting or selection, the following information shall be publicized each year through FBR's web portal:
 - Cases excluded from audit selection.
 - Predetermined percentage of cases to be selected for audit for each tax period.
 - List of selected cases, immediately after the computer ballot.
4. The data of the cases not excluded shall be utilized for balloting.
5. The whole balloting system for audit selection shall be based only on the NTN/CNICs of the filers.
6. The NTN and CNICs of selected cases shall be communicated to the RTOs and LTUs having jurisdiction.
7. For selection of cases on a parametric basis, risk parameters for persons or classes of persons to be used for balloting shall be determined by considering the following:
 - Risk parameters shall be determined by the FBR.
 - Audit selection parameters may be based upon the following:
 - Financial ratios for the year viz-a-viz the history of the case.
 - Financial ratios viz-a-viz industrial, sectoral, or national ratios.
 - Industrial comparisons or benchmarks.
 - Quantum of losses or refunds beyond certain thresholds.
 - Compliance history.
8. Computerized selection process in both categories shall be held in the presence of representatives from Chambers of Commerce and Industries and Tax Bar Associations.
9. After selection of cases for audit, the Commissioner shall issue intimation letter to the taxpayer about the selection of his case for audit, along with the following details:
 - Section under which selection has been made.

Selection for Audit (Continued)

2. Tax period for which the case has been selected for audit.
3. Mode of selection, random or parametric.
4. Compliance requirements on the part of the taxpayer, e.g.:
 - Provision of prescribed books of accounts.
 - Supporting information and documents.
 - Computerized data, access to computerized data, or provision of attested hard copies of computerized data.

On completion of audit, an audit report containing discrepancies, if found, shall be intimated to the taxpayer for seeking his explanation on these points.

Where explanation by the taxpayer is not acceptable, a notice for assessment under section 11(5) shall be issued to the taxpayer. He shall be provided an adequate opportunity of being heard. The assessment order containing the rationale or basis shall be passed under section 11 of the Sales Tax Act, 1990.

Instructions of FBR for Special Audit

The Federal Board of Revenue (FBR), vide Para 39 of the Sales Tax General Order No. 3/2004 dated 16-06-2004, issued the following instructions for streamlining the audit of registered persons:

1. In routine, the registered persons/units shall be audited only once in a financial year.
 - However, in exceptional circumstances, the Commissioner shall issue a specific instruction for re-audit of a unit within a financial year.
2. In case of jointly paying Federal Excise Duty as well as Sales Tax, a joint audit by the officials of both departments shall be conducted. Where a registered person is selected for audit, the Sales Tax Collectorate shall intimate the respective Excise Collectorate at least ten (10) days before the audit.
3. The staff of the Director General of Intelligence and Investigation and Directorate General of Inspection, Internal Audit, and Training will not undertake any audit of a registered person. However, the FBR may specially authorize in each case.

Power to Call for Information [38A]

During investigation or inquiry in cases of tax fraud, the Commissioner may require any person, including a banking company, to furnish specified information.

- For this purpose, the Commissioner shall issue a notice in writing.
- The notice shall specify the information or statements required for an investigation or inquiry into the tax affairs of any person.

The Commissioner may require any regulatory authority to provide information concerning the licenses and authorizations issued by it.

Searches Under Warrant [40]

Under certain cases, the search of any documents or things has to be conducted by an officer of Inland Revenue.

Any officer of Inland Revenue may enter a place where any documents or things are kept and cause a search to be made at any time.

For this purpose, he will have to satisfy the following conditions:

1. The officer has reasons to believe that the documents or things are kept at that place.

Synopsis of Taxes

Sales Tax: Introduction

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Search – How to be Made [Rule-92]

- All searches under the Sales Tax Act shall be carried out according to the procedure laid down in the Code of Criminal Procedure, 1898.

POSTING OF INLAND REVENUE OFFICER [40B]

- To monitor production, sale of taxable goods, and the stock position, the FBR may post an Officer of Inland Revenue to the premises of registered persons or class of such persons.
- This posting shall be subject to conditions and restrictions as the FBR may deem fit to impose.

MONITORING OR TRACKING BY ELECTRONIC OR OTHER MEANS [40C]

- The FBR may notify that specified registered persons or their class of goods shall be subject to monitoring or tracking of production, sales, clearances, stocks, or any other related activity through electronic or other prescribed means.
- Such monitoring shall be subject to conditions, restrictions, and procedures as notified by the FBR.

Restrictions on Removal of Goods

- Removal or sale of taxable goods shall not be done by the manufacturer or any other person without affixing tax stamps, banderoles, stickers, labels, barcodes, etc., in any such form, style, or manner as may be prescribed by the FBR.
- This provision shall be applicable from such date as may be prescribed by the FBR.

Licensing Requirement

- The registered person shall acquire tax stamps, banderoles, stickers, labels, barcodes, etc., from a licensee appointed by the FBR for this purpose.
- The licensee shall charge a price approved by the FBR.
- The price shall include the cost of equipment installed by the licensee in the premises of the registered person.
- The FBR may, through a notification, require any person or class of persons to integrate their electronic invoicing system with the FBR's Computerized System for real-time reporting of sales in the specified mode and manner from the specified date.

Licensed Integrator

- "Licensed Integrator" means any person licensed by the Board to provide electronic invoicing system of registered persons in the prescribed manner.
[215A]

JUDICIAL AUTHORITIES

1. The Appellate Tribunal; and

2. The Commissioner Inland Revenue (Appeals).

- The judicial authorities are appointed to decide disputes that may arise between the Sales Tax Department and the Taxpayers.
- These authorities hear the appeals filed by the aggrieved and decide the matters in accordance with the provisions of the Sales Tax Act, 1990.

FBR's POWER TO MAKE RULES [50]

- The FBR is empowered to make rules for carrying out the purposes of the Sales Tax Act, 1990.
- The rules may include provisions for charging fees for processing returns, claims, and other documents.

Synopsis of Taxes

Sales Tax: Introduction

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AGREEMENT FOR EXCHANGE OF INFORMATION OR ASSISTANCE IN RECOVERY OF TAXES [56A]

- The Federal Government may enter into bilateral or multilateral agreements with provincial governments or foreign governments for the exchange of information regarding taxes imposed under any law of Pakistan and under the corresponding laws of other governments.
- The Government may notify such provisions as may be necessary for the implementation of such agreements.
- Notwithstanding any provision of the Sales Tax Act, the FBR shall have power to share data or information, including real-time data such as video images received with any other Ministry or Division of the Federal Government or Provincial Government, subject to limitations and conditions as specified by FBR.
- The provisions of section 107 of the Income Tax Ordinance, 2001 shall apply in this case (*mutatis mutandis*).
- The Federal Government may enter into bilateral or multilateral conventions, and inter-governmental agreements or similar agreements for mechanisms to assist in the recovery of taxes.

REAL-TIME ACCESS TO INFORMATION AND DATA-BASES [56AB]

1. Irrespective of any provision in any law in force, arrangements shall be made to provide real-time access to information and databases to the FBR in the prescribed form and manner by the following authorities:

i) National Database and Registration Authority (NADRA), with respect to information related to:

- National Identity Card
- Pakistan Origin Card
- Overseas Identity Card
- Alien Registration Card
- Other particulars contained in the Citizen Database

ii) Federal Investigation Agency (FIA) and the Bureau of Emigration and Overseas Employment with respect to:

- International travel details

iii) Federal Investigation Agency (FIA) and the Bureau of Emigration and Overseas Employment with respect to:

- Details of international entry and exit of all persons
- Visa applications for work permits, employment visas, and immigration records

iv) Islamabad Capital Territory (ICT) and provincial and local land record and development authorities with respect to:

- Record-of-rights
- Registered land transactions
- Mutations
- Record of cadastral mapping

v) Islamabad Capital Territory (ICT) and provincial Excise and Taxation Departments with respect to:

- Motor vehicle registration
- Transfer of ownership details

vi) All electricity suppliers and gas transmission and distribution companies, with respect to:

- Particulars of a consumer
- Units consumed
- Amount of bill charged or paid

Synopsis of Taxes

Sales Tax: Introduction

[27-467]

DISCLOSURE OF INFORMATION BY PUBLIC SERVANT [56B]

- Any information acquired under the Sales Tax Act, 1990 shall be confidential, and no public servant shall disclose any such information.
- Provisions of section 216 of the Income Tax Ordinance, 2001 (ITO) regarding confidentiality and disclosure of information by public servants shall apply in this case.

However, the FBR may:

- Share information received through bilateral/multilateral agreements with foreign governments for tax-related purposes.
- Such information shall remain confidential except under the exceptions provided in section 216 of ITO or the Freedom of Information Ordinance, 2002.

PRIZE SCHEME TO PROMOTE TAX CULTURE [56C]

- The FBR may prescribe prize schemes to encourage general public to make purchases only from registered persons issuing tax invoices.
- The FBR may conduct "mystery shopping" to ensure compliance with tax invoice regulations by Tier-1 retailers integrated with the FBR's online system.

Definition of Mystery Shopping:

"Mystery shopping" is a method used by marketing research companies and organizations that wish to measure quality of sales and services, regulatory compliance, or to gather specific information about a market or competitors, including products and services.

OFFICERS TO FOLLOW FBR's ORDERS [72]

- The law requires that all officers of Inland Revenue and other persons employed in tax execution must:
 - Follow the orders, instructions, and directions of the FBR.
 - The FBR does NOT have the authority to give orders regarding the exercise of discretionary judicial or quasi-judicial functions (e.g., appeals, decisions).
-

REWARD TO OFFICIALS [72C]

- Officers and officials of Inland Revenue shall be entitled to cash rewards for meritorious conduct in cases involving concealment or evasion of taxes.

Synopsis of Taxes

Sales Tax: Introduction

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REWARD TO WHISTLEBLOWERS [72D]

The concept of rewarding 'whistleblowers' was introduced in the Sales Tax Act through the Finance Act, 2015. Accordingly, the Federal Board of Revenue (FBR) may sanction reward to whistleblowers in cases of concealment or evasion of tax, fraud, corruption, or misconduct, providing credible information leading to such detection.

The FBR may notify the procedure for rewarding the whistleblowers, including apportionment of reward among multiple whistleblowers.

Cases in which the claim for reward shall be rejected:

1. The information provided is of no value.
2. The FBR already had the information.
3. The information was publicly available.
4. No tax collection resulted from the information.

Definition of "Whistleblower":

A whistleblower is a person who reports concealment, evasion, fraud, corruption, or misconduct related to sales tax to the competent authority, enabling legal action against the person committing tax fraud.

- The FBR may prescribe rules for the wearing of uniforms by officers and staff of Inland Revenue Services.
- The FBR has notified the Inland Revenue Uniform Rules, 2021 under SRO 1515(I)/2021, dated 26-11-2021.
- These rules will take effect when notified by the FBR. However, notification for enforcement has not yet been made.

Synopsis of Taxes

Sales Tax: Introduction

[27-469]

Key Points:

Sales Tax [3(1)]

- Charged at 18% on the value of taxable supplies made by a registered person and on imported goods.
- Indirect tax, meaning the consumer bears the cost, but businesses collect and remit it.
- Paid at customs clearance for imported goods.
- Paid via sales tax return for local taxable goods.

Example 29.1

A company registered under the Sales Tax Act, 1990 has the following transactions:

- Purchases from registered persons → Rs. 4,500,000
- Purchases from non-registered persons → Rs. 900,000
- Import of raw material → Rs. 900,000
- Sales of goods → Rs. 7,500,000

Sales Tax Calculation:

- Output Tax = $7,500,000 \times 18\% = \text{Rs. } 1,350,000$
- Less: Input Tax
 - Registered Purchases = $4,500,000 \times 18\% = \text{Rs. } 810,000$
 - Import = $900,000 \times 18\% = \text{Rs. } 162,000$
 - Total Input Tax = Rs. 972,000
- Net Tax Payable = Rs. 378,000

Important Notes:

- A non-registered person cannot charge sales tax.
- Non-registered persons cannot claim tax credit/refund, even if they purchase goods with tax included.

Tax on Supplies to Non-Registered Persons [3(1A)]

- FBR may notify goods restricted from being sold to non-registered persons.
- If a registered supplier sells to a non-registered buyer, an extra tax of 4% is charged on the supply.

Synopsis of Taxes

Sales Tax: Introduction

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Further Tax

- **Levied in specific cases under different sections:**
 1. Production capacity or fixed basis → Section 3(1B)
 2. Retail price basis → Section 3(2)
 3. Extra tax → Section 3(5)
 4. Normal sales tax law cases → Section 3(6)
 5. Zero-rated goods → Section 4
- The Federal Government may notify exemptions where further tax is not applicable.

Non-Applicability of Further Tax

As per various SROs (Statutory Regulatory Orders), further tax is not charged on:

1. Electricity for domestic and agricultural consumers.
2. Natural gas for households and CNG stations.
3. Petroleum products (diesel, jet fuel, kerosene, fuel oil, etc.).
4. Retail sales of goods to end consumers.
5. Direct supply of food, fertilizers, and vehicles to end consumers.
6. Items in the Third Schedule of the Sales Tax Act.
7. Second-hand clothing and worn articles (PCT heading 6309.00.00).
8. Fertilizers.
9. Imports of steel materials (re-rollers, ship breakers).
10. Items under the Fifth Schedule of the Sales Tax Act, 1990.
11. Foam/spring mattresses and household foam products.
12. Government and semi-government supplies.
13. White crystalline sugar (PCT headings 1701.9910 & 1701.9920).
14. Supplies to the steel sector.
15. Supplies to the oil sector.

Example 29.2

A company, Ms. Aida Limited, has the following transactions:

Transactions	Amount (Rs.)
Purchase against tax invoices	3,000,000
Purchases against commercial invoices	750,000
Import of goods	2,250,000
Sales to registered persons	6,000,000
Sales to non-registered persons	750,000
Stock in trade	2,250,000

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-471]

Answer:

Output tax:

Sales to registered persons $(6,000,000 \times 18\%) \rightarrow 1,080,000$

Sales to non-registered persons [N-1]

- Sales tax $(750,000 \times 18\%) \rightarrow 135,000$
- Further tax $(750,000 \times 4\%) \rightarrow 30,000$

Total: 1,245,000

Less: Input tax allowed [N-2]

Total Input tax $\rightarrow 945,000$

Net Tax liability: 300,000

N-1

In case of supplies to a non-registered person, there will be charged a further tax @ **4%** of the value of supplies besides charging tax at the normal rate of sales tax.

N-2 Total input tax

- Purchases against tax invoice $(3,000,000 \times 18\%) \rightarrow 540,000$
- Purchase against commercial invoice [N-3]

- Import of goods $(2,250,000 \times 18\%) \rightarrow 405,000$

Total Input tax: 945,000

N-3

Tax invoice is issued by a registered person whereas a commercial invoice is issued by a non-registered person who cannot charge the Sales Tax. As the company has not paid sales tax on purchases from non-registered persons, so it cannot claim credit of input tax.

SALES TAX RATES

The Federal Government (besides general rate of **18%**) has specified different rates for different kinds of taxable supplies made or goods imported. The table showing the number of various schedules along with the applicable rates of Sales Tax is given below:

Schedule	Rate of Sales Tax
First Schedule	(Omitted)
Second Schedule	(Omitted)
Third Schedule	18% of Retail Price
Fourth Schedule	(Omitted)
Fifth Schedule	Zero per cent
Sixth Schedule	Exempt from Sales Tax
Seventh Schedule	(Omitted)
Eighth Schedule	Special Tax Rates for Specified Goods
Ninth Schedule	Fixed Tax on Mobile Phones, etc.
Tenth Schedule	Fixed Tax on Manufactures of Bricks
Eleventh Schedule	Sales Tax Withholding Rates
Twelfth Schedule	Value Addition Tax
Thirteenth Schedule	Minimum Production

These schedules are discussed at the appropriate places in the book.

Further, certain **Statutory Regulatory Orders (SROs)** also contain higher or lower tax rates or special rates and mechanism for sales tax for specified goods or persons.

Synopsis of Taxes

Sales Tax – Scope of Tax

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TAX ON IMPORTED GOODS [3(1)(b)]

Sales tax on import of taxable goods is determined and paid at the import stage. Tax rate is applied at the value of goods, which is determined as below:

Value of goods for Customs duty → XXX

Add: Customs duty on goods → XXX

Federal excise duty on goods → XXX

Value of goods for sales tax → XXX

Example: 29.3

Compute the Sales tax liability of a registered manufacturer who has the following transactions during the tax period.

Particulars	Amount (Rs.)
Purchases from registered persons	9,750,000
Imports – With following details	
Invoice value (converted into Pak Rupees)	1,800,000
Customs duty	450,000
Federal excise duty	75,000
Value determined for customs duty	2,250,000
Sales to registered persons	12,000,000
Sales to non-registered persons	2,100,000
Exports	3,000,000

Answer:

Output tax:

Sales to registered persons ($12,000,000 \times 18\%$) → **2,160,000**

Sales to non-registered persons ($2,100,000 \times (18\% + 4\%)$) [N-1] → **462,000**

Exports ($3,000,000 \times 0\%$) [N-2] → **0**

Total output tax: 2,622,000

Less: Input tax allowed [N-3] → 2,254,500

Net tax liability: 367,500

N-1

In case of supplies to a non-registered person, there will be charged a further tax @ **4%** of the value of supplies besides charging tax at the normal rate of sales tax.

N-2

Exports are zero-rated supplies, so these are charged to tax at the rate of **zero percent**.

N-3 Total input tax

- **Purchases from registered persons** ($9,750,000 \times 18\%$) → **1,755,000**
 - **Imports** ($2,775,000 \times 18\%$) [N-4] → **499,500**
- Total input tax: 2,254,500**

N-4 Value of Imported Goods for Sales Tax

Particulars	Amount (Rs.)
Value for Customs duty	2,250,000
Customs duty	450,000
Federal excise duty	75,000
Total	2,775,000

Under this case, the **invoice price of the imported goods shall be ignored** while determining the value of the goods.

TAX ON PRODUCTION CAPACITY & ON FIXED BASIS (3(1B) & Tenth Schedule)

In lieu of levying and collecting tax under normal procedure, the goods specified in the Tenth Schedule, shall be subject to tax specified in that schedule.

Tax under Tenth Schedule shall be levied and collected on:

1. The production capacity of plants, machinery, undertaking, establishments or installation producing or manufacturing such goods; or
2. Fixed basis, from any person who is in a position to collect such tax due to the nature of the business.

Note: Different rates may be prescribed for different regions or areas.

Payment of Tax on Bricks and Cement or Concrete Blocks (Tenth Schedule)

The tax on bricks (falling in PCT heading 6901.1000) shall be paid on fixed basis. Tax shall be paid on monthly return and at the following rates:

S. #	Region or Area	Tax Payable Per Month
1	Lahore, Rawalpindi and Islamabad districts	Rs. 12,500
2	Attock, Chakwal, Jehlum, Mandi Bahauddin, Sargodha, Gujrat, Sialkot, Narowal, Gujranwala, Hafizabad, Sheikhupura, Kasur, Nankana Sahib, Chiniot, Faisalabad, Jhang, Toba Tek Singh, Okara and Sahiwal districts	Rs. 10,000
3	Khushab, Mianwali, Bhakar, Layyah, Muzaffargarh, Dera Ghazi Khan, Rajanpur, Multan, Lodhran, Khanewal, Vehari, Bahawalpur, Bahawalnagar, Rahim Yar Khan districts; and Sindh, Khyber-Pakhtunkhwa and Baluchistan provinces	Rs. 7,500

The tax on cement or concrete blocks (falling in PCT heading 6101.1100) shall be paid on fixed basis. Tax shall be paid on monthly return and at the following rates:

S. #	Region or Area	Tax Payable Per Month
1	Paver	Rs. 2 per sq. ft.
2	Hollow block (volume less than 1 cubic feet)	Rs. 3 per piece
3	Solid block (volume less than 1 cubic feet)	Rs. 5 per piece

S. # Region or Area	Tax Payable Per Month
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4 Kerb stone (volume less than 1 cubic feet)	Rs. 5 per piece
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5 Kerb stone (volume greater than 1 cubic feet)	Rs. 10 per piece
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Note: Input tax adjustment shall not be allowed against the tax paid under Tenth Schedule.

TAX ON GOODS SPECIFIED IN THIRD SCHEDULE (3(2)(a))

Taxable supplies of goods specified in the Third Schedule shall be liable to tax @ 18% of the retail price. Where such supplies import rates are also specified in the Eighth Schedule, the goods shall be taxed at the rates specified in that Schedule instead of the general rate. The law requires that the retail price and the amount of sales tax shall be legibly, prominently and indelibly

Synopsis of Taxes

Sales Tax – Scope of Tax

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printed or embossed by the manufacturer or the importer, in case of imported goods, on each article, packet, container, etc.

The FBR may notify that tax on goods specified in Third Schedule shall be charged at higher or lower rates. The conditions and restrictions, if imposed, may also be notified.

"Retail price" means a price fixed by the manufacturer or importer, inclusive of all charges and taxes (other than sales tax) at which any particular brand or variety of any article should be sold to the general consumer.

Notes:

1. The FBR may, by notification in the official Gazette, exclude any taxable supply or import from or include any taxable supply or import in the Third Schedule.
2. Third Schedule is reproduced in chapter 35 of this book. Readers may refer the same in order to have knowledge of the goods appearing therein.

Items Appearing in Third Schedule

Currently, the following goods are subject to tax at retail price:

1. Fruit juices and vegetable juices
2. Aerated waters or beverages
3. Cigarettes
4. Detergents

5. Toothpaste
6. Perfumery and cosmetics
7. Powder drinks
8. Toilet paper and tissue paper
9. Cement sold in retail packing
10. Motorcycles
11. Biscuits in retail packing with brand name
12. Spices sold in retail packing bearing brand names and trade marks
13. Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube-lights, electric fans, electric irons, washing machines and telephone sets
14. Household gas appliances, including cooking range, ovens, geysers and gas heaters
15. Foam and spring mattresses and other foam products for household use
16. Paints, distempers, enamels, pigments, colours, varnishes, gums, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
17. Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids sold in retail packing
18. Storage batteries excluding those sold to automotive manufacturers or assemblers
19. Tyres and tubes excluding those sold to automotive manufacturers or assemblers
20. Ice Cream
21. Syrups and squashes
22. Toilet and laundry soap
23. Shampoo
24. Shaving cream
25. Tea
26. Milky drinks
27. Shoe polish and shoe cream

28. Mineral / bottled water

29. Auto rickshaws

30. Tiles

Synopsis of Taxes

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31. Auto-parts, in retail packing, excluding those sold to automotive manufacturers or assemblers

32. DAP

Example: 29.4

Dilbahar Beverages Limited is engaged in the manufacture and supply of fruit juices. During a tax period it supplied juices worth Rs. 6,000,000. As per normal business practice, the company sells the goods at a discount of 25% off the retail price.

Compute the amount of output tax of the person under the Sales Tax Act, 1990.

Answer:

Sales price of the goods = Rs. 6,000,000

Discount rate = 25% of retail price

Retail price [i.e., sales price plus discount allowed] = $(6,000,000 \times 100) \div 75 = \text{Rs. } 8,000,000$

Sales tax (Retail price \times Tax Rate) = $8,000,000 \times 18\% = \text{1,440,000}$

Note: Under this case the manufacturer shall pay the tax on the value at which these goods are to be sold to the consumers.

GOODS TAXABLE @ 25% [3(2)(a) & SRO 297(I)/2023, dated 08-03-2023]

Certain goods (excluding goods specified in the Eighth Schedule of STA) are subject to sales tax @ 25% of value of goods or retail price, as the case may be. The goods and their value for tax purposes are as below:

Imported Goods [Table-I of SRO 297(I)/2023]

Import and subsequent supply of notified goods is taxable @ 25% of value of goods or retail price. Apparently, only such goods shall be taxable on retail price which are specified in the Third Schedule, ST Act. Remaining shall be taxable on the value of goods. The below table contains the list of goods so taxable.

Value of Goods

1. Confectionary
2. Vehicles in CBU condition
3. Sanitary and bathroom wares
4. Tyres (excluding those from Afghanistan)
5. Chandeliers including lighting devices or equipment
6. Chocolates
7. Cigars and e-cigarettes
8. Corn flakes and other ready-to-use cereals
9. Crockery, kitchenware and tableware and household articles

Retail Price

1. Aerated water and juices
2. Cigarettes
3. Cosmetics and shaving items
4. Tissue papers
5. Ice cream
6. Fruit and vegetable juices
7. Shampoos

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10. Decorations or ornamental articles
11. Dog and cat food only
12. Doors and window frames
13. Fish
14. Footwear
15. Fruits and dry fruits (excluding those imported through land route or barter mechanism)
16. Furniture
17. Home appliances CBU
18. Jams, jellies, preserved fruits
19. Leather jackets and apparels
20. Mattress and sleeping bags
21. Fresh, chilled, frozen, preserved or processed meat
22. Musical instruments
23. Pasta

24. Arms and ammunition excluding defense stores
25. Sunglasses
26. Tomato ketchup and sauces
27. Traveling bags and suitcases
28. A ship designed or adapted for use for recreation or pleasure or private use
29. An aircraft designed or adapted for use for recreation or pleasure or private use
30. Articles of jewelry (both precious metals and imitation)
31. Wristwatches

Locally Manufactured Goods [Table-II of SRO 297(I)/2023 & 370(I)/2024]

The following Locally manufactured or assembled vehicles are taxable @ 25% of value of goods:

1. Locally manufactured or assembled vehicles having engine capacity of 1400cc and above.
2. Locally manufactured or assembled vehicles if invoice price (excluding sales tax) exceeds Rs. 4 million.
3. Locally manufactured or assembled double cabin (4x4) pick-up vehicles.

SALES TAX ON ELECTRICITY SUPPLY BY DISCOS [SRO 376(I)/2022, dated 21-03-2023 & Clarification of 29-03-2023]

A special procedure shall apply for collection and payment of sales tax on electricity supplied by DISCOs and K-Electric. The applicable rules are notified as the Special Procedure for Collection.

Synopsis of Taxes	Sales Tax – Scope of Tax	[29-477]
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and Payment of Sales Tax (Electric Power Supply by DISCOs) Rules, 2023. Provisions of rules are as below:

1. Every DISCO shall get itself registered under the STA.
2. A DISCO shall collect sales at the rates specified in section 3(1) & (1A) of STA.
3. A DISCO shall declare in sales tax return its amount billed and accrued on supply of electricity during the billing month for tax period. Adjustment for defaulting consumers

shall be made in Annex-G. The complete details of such defaulting consumers and recovery thereof shall be submitted on Annex-G.

- Adjustment is allowed only for such amount as is not paid by defaulting consumers after the due date of payment has passed within the billing/calendar month.
 - An adjustment shall not be made before the last date for payment of the utility bill. The DISCOs are required to pay sales tax on such amounts of bills issued where the last date of payment falls after end of the calendar month/tax period.
4. Where despite of taking all recovery steps (including removal of meter) the defaulted amount could not be recovered, the DISCO shall submit to the concerned CIR details of defaulting consumers for assistance in recovery of sales tax amount in the bill. Details for residential, commercial and industrial consumers shall be submitted separately in the prescribed form.
 5. The detail of permanent defaulters shall be supported with a certificate counter-signed by the Chief Executive Officer of the DISCO stating that all applicable measures for recovery of the defaulted amount were taken in time along-with removal of the electricity meter. The certificate shall also indicate that legal proceedings have also been initiated against the defaulter and that no other electricity meter has been installed at the same premises in any other name and that no electricity power is being supplied to or consumed at the premises where the default occurred (excluding already existing connections in different names of separate portions of the premises).

TAX OF GOODS SPECIFIED IN EIGHTH SCHEDULE [3(2)(aa)]

The Eighth Schedule to the Sales Tax Act, 1990 specifies certain goods which are taxable at rates different than the normal sales tax rate. The conditions and limitations applicable to such goods are also specified in the Schedule. Goods specified in that Schedule shall not be taxed as per normal procedure if they fulfill the conditions levied by the Schedule.

GOVERNMENT'S POWER TO APPLY HIGHER OR LOWER RATES [3(2)(b)]

The Federal Government is empowered to specify that any taxable goods shall be charged to tax at such higher or lower rates as may be specified. While issuing such notification, the Federal Government shall also specify the conditions and restrictions applicable to such cases.

TAX OF GOODS SPECIFIED IN NINTH SCHEDULE [3(3)]

The Ninth Schedule to the Sales Tax Act, 1990 specifies certain goods which are taxable at rates specified for each of them. The conditions and limitations applicable to such goods are also specified in the Schedule. Summary of the description / specification of the goods, applicable rates and other conditions are given below:

Sales Tax on Supply (Payable at the time of supply by CMOs) [Table of Ninth Schedule]

- **Subscriber Identification Module (SIM) Cards:** Rs. 250.

Synopsis of Taxes

Sales Tax – Scope of Tax

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Sales Tax on Cellular Mobile Phones in CKD/CBU Form [Table-II of Ninth Schedule]

S. #	Description / Specification of Goods	Sales Tax on
		CBUs at the time of import or registration (IMEI number by CMOs)
	Cellular mobile phones or satellite phones to be charged on	
1.	the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer.	
	Not exceeding US\$ 500	18% ad valorem
	Exceeding US\$ 500	25% ad valorem

Liability, Procedure and Conditions

1. **Liability to pay tax should be as below:**

S. No.	Goods / Transaction	Person Liable to Pay
1.	Subscriber Identification Module (SIM) Cards	Cellular Mobile Operator (CMO)
2.	Import or registration (International Mobile Equipment Identity (IMEI) number by CMOs)	Importer

S. No.	Goods / Transaction	Person Liable to Pay
3.	Supply of locally manufactured mobile phones in CBU condition	Local manufacturer
2. Time of payment of tax due shall be the same as specified in section 6 of the Sales Tax Act.		

EXTRA TAX [3(5)]

In addition to any other tax leviable under the Sales Tax Act, 1990, the Federal Government may levy and collect tax at such extra rate or amount not exceeding 18% of value of goods and from such persons as may be specified by the rules. While imposing this tax, the Federal Government shall specify the mode, manner and time of its levy and collection. It shall also specify the conditions and limitations applicable in this regard. The extra tax is in addition to the standard rate of 18%. It is not adjustable. [B(7)(1)]

Levy of Extra Tax [SRO 1222(I)/2021]

Extra tax is levied on supplies of electric power and natural gas to persons who:

1. **Has industrial or commercial connections; and**
2. **Has either not obtained sales tax registration number or is not on the Active Taxpayers' List maintained by FBR.**

Value for extra tax = the total billed amount (excluding amount of federal taxes). It is levied at the following rates:

Synopsis of Taxes		Sales Tax – Scope of Tax	[29-479]
S. #	Type of Connection	Monthly Bill Amount	Tax Rate
1.	Industrial	-	17%
2.	Commercial	Up to Rs. 10,000	5%
		Rs. 10,001 to Rs. 20,000	7%
		Rs. 20,001 to Rs. 30,000	10%

S. #	Type of Connection	Monthly Bill Amount	Tax Rate
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		Rs. 30,001 to Rs. 40,000	12%
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		Rs. 40,001 to Rs. 50,000	15%
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		Rs. 50,001 and above	17%
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Mode, Manner, Conditions and Limitations [Rules 158B to 158K of STR]

The mode, manner, conditions and limitations as prescribed in the STR are as below:

1. Every person supplying electric power or natural gas, shall charge and collect extra tax at the notified from every consumer to whom extra tax is applicable;
2. Extra tax shall be shown separately in the bill or invoice for electric power or natural gas issued by the supplier;
3. Extra tax shall be collected and paid in the manner given in section 6 of STA;
4. Amount of extra tax shall not be adjustable by the supplier or the consumer in their returns, and shall be paid in full by the supplier;
5. In order to charge extra tax, the supplier shall require the consumer his sales tax registration number and verify it from FBR's website;
6. Person having multiple places of business shall ensure that all such places are properly declared and entered in his registration profile;
7. After verification of sales tax registration of the consumer, the supplier shall incorporate the same in his billing system, which shall be printed in all subsequent bills. In that case extra tax shall not be charged; and
8. When a consumer is de-registered or ceases to exist in ATL, the supplier shall start charging and collecting extra tax from the month in which he is de-registered, etc.

Example: 29.5

Karsaz Manufacturing Company Limited is engaged in manufacturing of taxable goods. Following are the transactions for the month of December:

- Supplies to registered manufacturers → Rs. 3,000,000

- Supplies to non-registered retailers → Rs. 4,500,000
- Purchases from registered persons → Rs. 2,250,000
- Import of raw material → Rs. 1,500,000
- Misc. manufacturing expenses → Rs. 750,000

Required: Compute the Sales Tax liability of the company for the month of December.

Synopsis of Taxes

Sales Tax – Scope of Tax

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Answer:

Output tax:

- Sales to registered persons → $3,000,000 \times 18\% = 540,000$
- Sales to non-registered person → $4,500,000 \times (18\% + 4\%)$ [N-1] = 990,000
- **Total Output Tax: 1,530,000**

Less Input Tax:

- Purchases from registered persons → $(2,250,000 \times 18\%) = 405,000$
- Import of raw material → $(1,500,000 \times 18\%) = 270,000$
- **Total Input Tax: 675,000**

Tax liability for the tax period: 855,000

N-1: In case of supplies to a non-registered person there will be charged a further tax @ 4% of the value of supplies besides charging tax at the normal rate of sales tax.

Example: 29.6

A manufacturer, who is making taxable supplies, has the following transactions during a tax period:

- Purchases from registered persons → **Rs. 600,000**
- Purchases from non-registered persons → **Rs. 200,000**
- Manufacturing and other costs → **Rs. 200,000**
- Sales to registered persons → **Rs. 1,100,000**
- Sales to non-registered persons → **Rs. 500,000**

- Sales of exempted supplies → **Rs. 400,000**
- Sales tax on electricity bills paid to WAPDA → **Rs. 15,000**

Required: Compute tax liability under the Sales Tax Act.

Answer:

Output tax:

- Sales to registered persons → $1,100,000 \times 18\% = \mathbf{198,000}$
- Sales to non-registered person → $500,000 \times (18\% + 4\%) \text{ [N-1]} = \mathbf{110,000}$
- Sales of exempted goods → $(400,000 \times 0\%) = \mathbf{0}$
- **Total Output Tax: 308,000**

Less Input Tax Allowed [N-2]: 98,400

Net tax payable: 209,600

N-1:

In case of supplies to a non-registered person there will be charged a further tax **@ 4% of the value of supplies** besides charging tax at the normal rate of sales tax.

N-2 Input Tax Allowed:

Total Input Tax:

- Purchases from registered persons → $(600,000 \times 18\%) = \mathbf{108,000}$
- Purchases from non-registered persons **[N-3] = 0**
- Input tax paid to WAPDA **[N-4] = 15,000**
- **Total Input Tax Allowed: 123,000**

Final Calculation:

$(\text{Total Input Tax} \times \text{Taxable Supplies}) + \text{Total Supplies} \left(\frac{\text{Total Input Tax}}{\text{Total Input Tax} + \text{Taxable Supplies}} \right) + \text{Total Supplies}$

$$(123,000 \times 1,600,000) + 2,000,000 = 98,400$$

$$\{98,400\} \{123,000 \times 1,600,000\} + 2,000,000 = 98,400$$

Synopsis of Taxes

Sales Tax – Scope of Tax

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Note: When a registered person is making both taxable as well as exempt supplies, then credit of input tax is allowed in respect of taxable supplies only. Amount is computed proportionately.

N-3: As a non-registered person cannot charge the sales tax on supplies made by him, so his customer cannot claim credit of input tax.

N-4: Input tax paid to WAPDA is available as credit against the output tax liability of a registered person if the electricity is being consumed for manufacturing such goods which are subject to the sales tax.

TAX IN LIEU OF SALES TAX [3(6)]

The Federal Government or the FBR may levy, instead of the sales tax u/s 3(1), such amount of tax on any supplies or goods as it may deem fit. The notification for such tax shall contain the provisions regarding mode, manner or time of payment of such amount of tax.

SALES TAX WITHHOLDING [3(7) & Eleventh Schedule]

The tax shall be withheld and deposited by any purchaser of goods or services (except services taxable under a provincial sales tax law). Sales tax withholding is regulated through the following provisions:

1. Tax shall be withheld by any person or class of persons prescribed as withholding agent in the Eleventh Schedule;
2. Tax shall be withheld at the rate specified in the Eleventh Schedule; and
3. Tax shall be withheld and deposited in such manner and subject to such conditions or restrictions as the FBR may prescribe through a notification in the official Gazette.

In case of the "online market place" facilitating the sale of taxable supplies of third party, the liability to withhold tax on such goods shall be on the operator of such market place. Tax shall be withheld **@ 1% of gross value of supplies.**

Sales Tax Withholding Rates

The withholding agent shall deduct or withhold the tax as per the following table:

S. #	Withholding agent	Supplier category	Rate or extent of deduction
1	Federal and provincial government departments, (a) autonomous bodies and public sector organizations	Active Taxpayer	1/5th of Sales Tax as shown on invoice
(b)	Companies as defined in the Income Tax Ordinance, 2001	-	-
2	Federal and provincial government departments, (a) autonomous bodies, and public sector organizations	Active Taxpayer	1/10th of Sales Tax as shown on invoice
(b)	Wholesaler, dealer, or distributor	-	-

Synopsis of Taxes

Sales Tax – Scope of Tax

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S. #	Withholding agent	Supplier category	Rate or extent of deduction
3.	Federal and provincial government departments; autonomous bodies; and public sector organizations	Persons other than Active Taxpayer	Whole of the tax invoiced or as applicable to supplies on the basis of gross value of supplies
4.	Companies as defined in the Income Tax Ordinance, 2001 excluding companies exporting surgical instruments.	Persons other than Active Taxpayer	5% of gross value of supplies
5.	Registered persons as recipient of advertisement services.	Person providing advertisement services	Whole of sales tax applicable
6.	Registered persons purchasing cane molasses.	Persons other than Active Taxpayer	Whole of sales tax applicable
7.	Registered persons manufacturing lead batteries	Persons supplying any kind of lead under chapter 78	80% of the sales tax applicable
8.	Online market place	Persons other than active taxpayers	1% of gross value of supplies: Provided that the provisions of this entry shall be effective

S. #	Withholding agent	Supplier category	Rate or extent of deduction
			from the date as notified by the FBR.
9.	Registered persons manufacturing cement	Persons supplying any kind of gypsum or limestone flux under chapter 25	80% of the sales tax applicable
10.	Registered persons	Persons supplying any kind of coal under chapter 27	80% of the sales tax applicable
11.	Registered persons	Persons supplying any kind of waste of paper and paperboard	80% of the sales tax applicable
12.	Registered persons	Persons supplying any kind of plastic waste	80% of the sales tax applicable
13.	Registered persons	Persons supplying crush stone and silica	80% of the sales tax applicable

Non-Applicability of Sales Tax Withholding [Eleventh Schedule]

Withholding of sales tax does not apply to the following goods and supplies:

1. Electrical energy;
2. Natural gas;
3. Petroleum products as supplied by petroleum production and exploration companies, oil refineries, oil marketing companies and dealers of motor spirit and high-speed diesel;

Synopsis of Taxes

Sales Tax – Scope of Tax

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4. Telecommunication services;
5. Goods specified in the Third Schedule to the Sales Tax Act, 1990;

6. Supplies made by importers who paid value addition tax on such goods at the time of import;
7. Supplies made by an Active Taxpayer (as defined in STA) to another registered person with the exception of supplies referred to in S. Nos. 5, 7, 9, 10, 11, 12, and 13 of the Table.

Provisions of tax withholding do apply to the following persons (No. are as in the above Table):

8. **5.** Registered persons as recipient of advertisement services
9. **7.** Registered persons manufacturing lead batteries receiving supplies of lead or scrap batteries
10. **9.** Registered persons manufacturing cement receiving supplies of gypsum or limestone flux
11. **10.** Registered persons receiving supplies of coal
12. **11.** Registered persons receiving supplies of waste of paper and paper board
13. **12.** Registered persons receiving supplies of plastic waste
14. **13.** Registered persons receiving supplies of crush stone and silica
15. *It implies that an Active Taxpayer shall not withhold sales tax from supplies received from another registered person (including wholesaler, dealer, or distributor) as discussed under S. No. 1 & 2 of the above Table.*
16. Supply of sand, stone, gravel/crush, and clay to low-cost housing schemes sponsored or approved by Naya Pakistan Housing and Development Authority.
17. Plant, machinery, and equipment falling in Chapters 84 and 85 of the First Schedule to the Customs Act, 1969, as are imported by a manufacturer for in-house installation or use.

FAILURE TO WITHHOLD SALES TAX [11F]

18. Where a person is required to withhold sales tax and he fails to withhold the tax or deposit it, the officer of Inland Revenue (not below the rank of Assistant Commissioner) shall give a show-cause notice to that person and pass an order to determine and recover the tax to be withheld and applicable penalty and default surcharge.

SALES TAX WITHHOLDING RULES

19. Chapter XIX-D of The Sales Tax Rules, 2006 (comprising on Rule-150ZP to Rule-150ZZL) deals with the procedural matters relating to withholding of sales tax by the recipient of supply. Those provisions are discussed below:

Applicability of the Rule [Rule-150ZZH]

20. These rules are applicable to the following persons and services:

21. All taxable goods and services as are supplied to *withholding agents* specified in the Eleventh Schedule.

Synopsis of Taxes

Sales Tax – Scope of Tax

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2. Services on which federal excise duty is payable in sales tax mode, and the ones specified in the Schedule to the Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

In case of supplies to Federal or Provincial Government departments, *withholding agent* includes the accounting office which is responsible for making payment against the purchases made by a government department.

Responsibility of Withholding Agent [Rule-150ZZI]

The withholding agent shall have the following responsibilities:

1. While intending to make purchases of taxable goods it shall indicate in an advertisement or notice issued for this purpose that the sales tax (as provided in the rules) shall be deducted from the payment to be made to the supplier.
2. A withholding agent, (other than a recipient of advertisement services) shall deduct an amount at the rates specified in the Eleventh Schedule and make payment of the balance amount to the supplier.

The withholding agent shall not be entitled to reclaim or deduct the amount of tax withheld from the suppliers as input tax.

Example: 29.7

A registered person has supplied taxable goods worth Rs. **100,000** to a Government department (i.e., withholding agent). Under this case sales tax is to be withheld at the rate of **one-fifth (1/5th)** of the sales tax as shown in the invoice. Compute the amount of sales tax deductible by the withholding agent and the amount payable to the supplier.

Answer:

- Value of taxable supplies (excluding sales tax) = **100,000**
- Sales tax chargeable @ 18% (18% of Rs. 100,000) = **18,000**
- **Value of tax invoice = 118,000**

Sales tax deductible by the withholding agent (1/5th of Rs. 18,000) = 3,600

Amount payable to the supplier:

1. Value of taxable supplies (excluding sales tax) = **100,000**
2. Less: Sales tax payable to supplier:
 - Total sales tax = **18,000**
 - Less: Sales tax deductible = **3,600**
 - **Balance tax payable = 14,400**

Amount payable to supplier by withholding agent = 114,400

A withholding agent shall deduct an amount equal to **one-tenth (1/10th) of the total sales tax shown on the sales tax invoice** but such persons who are registered as wholesalers, dealers, or distributors, the same amount shall be paid to the supplier.

Example: 29.8

Considering the same information as of Example 29.7 and considering that the supplier is a wholesaler, the tax computation shall be as below:

Answer:

- Value of taxable supplies (excluding sales tax) = **100,000**
- Sales tax chargeable @ 18% (18% of Rs. 100,000) = **18,000**
- **Value of tax invoice = 118,000**

- Sales tax deductible by the withholding agent (1/10th of Rs. 18,000) = Rs. 1,800
- Amount payable to the supplier:
 1. Value of taxable supplies (excluding sales tax) = Rs. 100,000
 2. Sales tax payable to supplier:
 - Total sales tax = Rs. 18,000
 - Less: Sales tax deductible = Rs. 1,800
 - Balance tax payable = Rs. 16,200

Amount payable to supplier by withholding agent = Rs. 116,200

4. Purchases by Government Departments & Public Sector Organizations

Where purchases are made by **government departments, autonomous bodies, and public sector organizations** from an **unregistered person**, the **whole tax applicable** on the value of supplies shall be deducted from the payment to be made to the supplier.

Example: 29.9

An autonomous body has purchased taxable goods worth Rs. 100,000 from an unregistered person. Compute the amount of sales tax to be withheld and amount payable to the supplier.

Answer:

- Value of taxable supply = Rs. 100,000
 - Sales tax deductible by withholding agent @ 18% = Rs. 18,000
 - Amount payable to the supplier = Rs. 82,000
-

5. Payment Procedure for Government Departments

- Where purchases are made by government departments, the procedure laid down in **Rule-150ZUA(3)** shall be observed by the **concerned Drawing and Disbursing Officer (DDO)**.
- Where purchases are made by withholding agents **other than government departments** or by a **registered person**, the sales tax deducted **shall be deposited into NBP** or any

other designated bank branch through a **prescribed "sales tax return-cum-payment challan"** by the **15th of the following month**. This challan shall be in duplicate.

- A **single return-cum-payment challan** can be filed in respect of **all purchases** for which payment has been made by the withholding agent in a month.
- Where the withholding agent is **not registered** for sales tax or federal excise duty but holds a **National Tax Number (NTN)**, they shall **file the 'Monthly Sales Tax Return for Withholding Agent'** electronically and **deposit the withheld amount**. Any **other withholding agent** may also opt to file electronically. **[Rule-26(I)]**
- The **withholding agent shall submit all such information and data** to the **Commissioner** having jurisdiction as required by the Commissioner.
- The **withholding agent shall issue a certificate** to the supplier showing:
 1. The **name and registration number** of the supplier.
 2. A **description** of the goods purchased.
 3. The **amount of sales tax deducted** from the supplier.

Responsibility of the Registered Supplier [Rule-150ZZJ]

The rules lay down the following responsibilities of the **registered supplier**:

1. The **supplier shall issue a tax invoice** for all taxable supplies made to the withholding agent.

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Sales Tax – Scope of Tax

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2. The supplier shall file a **monthly return** as required under the **Sales Tax Rules, 2006**. While making payment of sales tax, he besides credit of input tax shall claim credit of sales tax deducted by the withholding agent.

Responsibility of the Commissioner [Rule-150ZZK]

The Rules specify certain responsibilities of the Commissioner, which are given below:

1. **The Commissioner shall keep a list of all withholding agents** falling in his jurisdiction and **monitor the payment** of tax deducted by them.

2. **The Commissioner shall ensure** that the **prescribed return is filed** by the withholding agents in his jurisdiction.
 3. **The Commissioner shall ensure** that the **returns received from the bank are duly fed in the computerized system.**
 4. **The Commissioner shall ensure** that the **supplies falling under his jurisdiction** and as mentioned in the returns **filed by withholding agents** are **filing returns under the Sales Tax Act** and **are declaring the supplies made to withholding agents.**
-

TAX ON GAS SUPPLIED TO CNG STATIONS [38(I)]

The **Gas Transmission and Distribution Company** shall charge **sales tax on the CNG stations @ 18% of the value of supply** to CNG consumers. The value **shall be as notified by the FBR** from time to time **as provided in section 2(46) of the Sales Tax Act, 1990.** The amount of **sales tax shall not be included in the value supplied.**

This provision is **applicable notwithstanding anything contained in any law or notification** made thereunder – except the **higher or lower rate** notified by the **FBR** with the **approval of the Federal Minister-in-charge** under the **authority of section 3(2)(b).**

SALES TAX ON RETAILERS [3(9) & (9A)]

For **charging sales tax**, retailers are grouped into the following categories:

1. **Tier-1 retailers**
 2. **Retailers other than Tier-1 retailers**
-

Tier-1 Retailers [3 (9)-(9A)-(12), 8(6), 14AB & 56C(2)]

1. The **Tier-1 retailers** shall pay **sales tax at the rate** as applicable to the **goods sold.** The **tax rate** may be **as fixed by the FBR** or should **follow relevant provisions** of **STA** or a **notification** issued under that Act.
2. **All Tier-1 retailers** shall integrate their **retail outlets with FBR's computerized system** for **real-time reporting** of sales. The **set threshold** for such data, and in such **manner and conditions** as prescribed by the **FBR.**

3. **Inclusion of sales tax through monthly electricity bills** does not **apply to Tier-1 retailers. CIR concerned shall issue direct order to the electricity supplier in this regard. [Proviso to 9(1)]**
4. Where a **Tier-1 retailer** does not **integrate his retail outlet** during a **tax period** or **part thereof**, the **adjustable input tax** for which the **tax period shall be reduced by 60%.** **[8B(6)]**

Synopsis of Taxes

Sales Tax – Scope of Tax

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5. **FBR may direct discontinuance of gas and electricity connection** of a Tier-1 retailer on **non-registration under STA or on non-integration with FBR's Computerized System**, if it is a **notified Tier-1 retailer.** **[14AB]**
6. **FBR may prescribe procedures for "mystery shopping"** in respect of **invoices issued by Tier-1 retailers** integrated with **FBR online system randomly** and take action **if any discrepancy is found.** **[56C(2)]**

Tier-1 Retailers **[2(43A)]**

A "**Tier-1 retailer**" means a retailer **falling in any one or more** of the following **categories:**

1. **A retailer operating as a unit of a national or international chain of stores**
2. **A retailer operating in an air-conditioned shopping mall, plaza or centre, excluding kiosks**
3. **A retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rs. 1,200,000**
4. **A wholesaler-cum-retailer, engaged in bulk import and supply of consumer goods on a wholesale basis to the retailers as well as on retail basis to the general body of consumers**
5. **A retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by the State Bank of Pakistan**
6. **A retailer whose adjustable withholding tax under 236G or 236H of ITO during the immediately preceding twelve consecutive months has exceeded the threshold as may be specified by the FBR**

7. **A retailer dealing in bulk in "white goods" such as tax on distributors, dealers and wholesalers of electronics and no threshold has been prescribed for section 236G**
8. **A retailer dealing in articles of textile and leather, subject to sub-clauses 2(43A)(ii) & 236G of ITO, that are not subjected to withholding tax under 236H has exceeded Rs. 100,000/- threshold as a Tier-1 retailer. [Rule-150ZEA(5) of ST Rules, 2006]**
9. **Any other category of persons as notified.**

Retailers other than Tier-1 [3(9) & (12)]

1. **A sales tax shall be charged from retailers not falling in Tier-1 category through their monthly electricity bills at the following rates:**

S. No Monthly Electricity Bill Sales Tax Rate

- | | | |
|---|----------------------|------------------------------|
| 1 | Up to Rs. 20,000 | 5% of the electricity bill |
| 2 | Exceeding Rs. 20,000 | 7.5% of the electricity bill |

2. **The electricity supplier shall deposit the amount so collected directly without adjusting against his input tax.**

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Sales Tax – Scope of Tax

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3. **Tax under this procedure shall be in addition to the following taxes payable on supply of electricity:**
 - i) **Sales tax @ 18% u/s 3(1);**
 - ii) **Further tax u/s 3(1A); and**
 - iii) **Extra tax u/s 3(5).**
4. **Collection of sales tax through monthly electricity bills does not apply to a Tier-1 retailer or to a person who is not a retailer. The Commissioner having jurisdiction shall issue orders to the electricity supplier regarding exclusion of these persons.**
5. **The FBR may levy and collect such amount of tax at such rates and from such date as it may determine, from retailers through their monthly electricity bill. Tax so levied may be in lieu of or in addition to the tax charged above. The FBR may notify the mode, manner or time of payment of such tax.**
6. **Different rates or amounts of tax may be specified for different persons or classes of persons.**

Tax In Lieu of or In Addition to Tax u/s 3(9) [21(1)]

The **FBR may levy and collect tax** from **retailers** (excluding **Tier-1 retailers**) subject to the **following conditions**:

1. **This tax shall be in lieu of or in addition to tax u/s 3(9) and shall be levied by notification in the official Gazette.**
 2. **Tax shall be collected through their monthly electricity bill.**
 3. **Different rates or amounts of tax may be specified for different persons or classes of persons.**
 4. **The notification shall contain the mode, manner or time of payment of the tax.**
 5. **It shall be imposed from such date as the Government may deem fit.**
-

MINIMUM PRODUCTION OF GOODS IN THIRTEENTH SCHEDULE [3(9A) & 3(13)-Schedule]

The **minimum production for a month of goods specified** in the **Thirteenth Schedule** shall be **determined** on the **basis of a single or more inputs** as contained in the **production criteria per product** as **specified in that Schedule**. The **minimum production shall be treated as gross supplies** during the **month**, and **input-production exceeds** the **actual supplies** for the **month**. **Tax liability shall be imposed and charged accordingly.**

THE THIRTEENTH SCHEDULE

Goods and Criteria for Determining Minimum Production

Minimum production of the specified goods shall be determined as per the following criteria:

Product	Production Criteria
Steel billets and ingots	One metric ton per 700 kwh of electricity consumed
Steel bars and other re-rolled long profiles of steel	One metric ton per 110 kwh of electricity consumed

Product	Production Criteria	
Ship plates and other re-rollable scrap	5% of the weight of the vessel imported for breaking	
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Procedure and Conditions

- 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 tax shall be discharged on the basis of minimum production.**
- Where, in a subsequent month, actual supplies exceed the minimum production, the registered person shall be entitled to get adjustment of excess tax on account of excess of minimum production: no refund shall be admissible.**
- In a "full year", tax actually paid shall not be less than the liability determined on the basis of minimum production for that year. In case of excess payment, no refund shall be admissible.**
 - "Full year" means the financial year of the company or registered person, or period starting from July 01 to June 30 of the next year, in other cases.**
- In case of ship-breaking, the liability against minimum production, or actual supplies (whichever is higher), shall be deposited on a monthly basis or on a proportionate basis depending upon the required to break the vessel.**
- The payment of tax on ship plates does not absolve ship breakers of any tax liability in respect of items other than ship plates obtained by ship-breaking.**
- The meters of refineries employing self-generated power shall install a tamper-proof meter for recording their in-house consumption. Such meter shall be physically protected with restricted access to the officers of the Commissioner having jurisdiction. The officers having Federal jurisdiction shall have full access to such meters.**
- The minimum production of industrial units employing both distributed power and self-generated power shall be determined on the basis of total electricity consumption.**

1. **All Tier-1 retailers shall integrate their retail outlets with FBR's computerized system for real-time reporting of sales. The retailer who fails to do so, shall be liable to pay sales tax as prescribed by the FBR. [Proviso to 3(9A)]**
 2. **Where a Tier-1 retailer does not integrate his retail outlet during a tax period or part thereof, the adjustable input tax for which the tax period shall be reduced by 60% [3(9A) Proviso to 3(9A) & 8(6)(i)(b)]**
-

COLLECTION OF EXCESS TAX, etc. [3B]

Where any amount of tax or charge, which was not payable or which is in excess of the tax or charge actually payable, has been collected at the time of the tax or charge being collected and paid to the exchequer, the person collecting such tax or charge is required to pay the amount so collected to the Federal Government.

- **The Government may recover such amounts as arrears of tax or charge payable under the Sales Tax Act, 1990.**
- **Any claim for refund in respect of such amount shall neither be admissible to the registered person nor to any buyer or consumer of goods and services.**
- **This restriction shall continue irrespective of any law or judgment of any court, including a High Court and the Supreme Court.**

Synopsis of Taxes

Sales Tax – Scope of Tax

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The burden of proof

The burden of proof that the effect of tax or charge has been or has not been passed to the customer shall be on the person collecting the tax or charge.

CHARGING TAX AT ZERO PER CENT (4)

Zero Rated Supply [2(48)]

It means a supply which is charged to tax at the rate of zero percent under section 4 of the Sales Tax Act, 1990.

According to section 4, the following goods shall be charged to tax at the rate of zero percent:

1. **Goods exported out of Pakistan;**
2. **Goods specified in the Fifth Schedule;**

3. **Supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan; and**
4. **Such other goods as the Federal Government may notify. The government shall exercise its powers under this section to take immediate action for the purpose of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements.**

While exercising these powers at point No. 4 above, the Federal Government has directed (vide SRO 492(1)/2009 dated 15-06-2009) that the goods exempted via S. No 3 of the Schedule are at the rate of zero percent on their export by manufacturers who make local supplies of both taxable and exempt goods.

The following goods shall not be treated as zero-rated supply:

1. The goods which are exported but have been or intended to be re-imported in Pakistan;
 2. The goods which have been cleared for export but are not exported; and
 3. The goods, which have been exported to a country, specified by the Federal Government.
-

Exported Goods Not Falling under Zero-Rated Supplies

(SRO 190(1)/2002 as amended by SRO 1360(1)/2012 & SRO 691(1)/2019)

Supply of the following categories of goods, exported by air or via land route to Afghanistan and through Afghanistan to Central Asian Republics, shall not be treated as zero-rated supplies:

- i) **Items other than PVC and PMC materials (PCT Code 39.10 & 39.14) as are manufactured in the Export Processing Zones or in manufacturing bonds;**
- ii) **Goods exported to be charged against irrevocable letters of credit, or advance payment, in convertible foreign currency;**
- iii) **Goods exported without fulfilling the conditions prescribed in paragraphs 8,12B, entry 10 of Schedule I and Schedule IV to the Export Policy and Procedure Order, 2000;**
- iv) **Cigarettes, cigars, capillaries and cigarettes of tobacco or of tobacco substitutes;**
- v) **Dyes and chemicals;**

- vi) Vitamins and chemicals;
- vii) Polyester metalized film.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-491]

- vi) Ball bearings;
- vii) Vegetable ghee and cooking oil (*if exported from Export Processing Zones or manufacturing bonds*);
- viii) All petroleum products whether imported or produced locally (*unless there is a Government to Government contract done through oil marketing companies*).

Note: Irrespective of the zero-rated supply, further tax under sub 3(1A) of the Sales Tax Act, 1990 (i.e., 4% on supplies to non-registered persons) shall be applicable.

Example: 29.10

A manufacturing company which is registered under the Sales Tax Act, 1990 has the following transactions during a tax period:

Particulars	Amount (Rs.)
Purchases from registered manufacturers	2,000,000
Purchases from registered retailers	500,000
Purchases from non-registered persons	500,000
Imports	1,000,000
Supplies to registered persons	1,500,000
Supplies to non-registered persons	500,000
Export	2,000,000

Required:

Compute tax liability of the company.

Answer:

Output Tax:

Particulars	Amount (Rs.)	Tax (Rs.)
Supplies to registered persons	1,500,000	270,000
Supplies to non-registered persons [N-1]	500,000	110,000
Exports	2,000,000	NIL
Total Output Tax	4,000,000	380,000

Less: Input Tax

Particulars	Amount (Rs.)	Tax (Rs.)
Purchases from registered manufacturers (2,000,000 × 18%)	2,000,000	360,000
Purchases from registered retailers [N-2]	500,000	NIL
Purchases from non-registered persons [N-2]	500,000	NIL
Total Input Tax	1,500,000 × 18%	360,000

Excess Output Tax:

380,000 - 360,000 = 20,000 (*Net Payable*)

Notes & Explanations:

N-1:

- In case of supplies to a non-registered person, there will be charged a further tax @ 4% of the value of supplies besides charging tax at the normal rate of sales tax.

N-2:

- Registered retailers and non-registered persons cannot issue tax invoices for supplies made by them, so a registered person buying goods from them cannot claim the corresponding input tax in respect of such purchases.

N-3:

- A registered person computes his liability for the tax period and if there is an excess of input tax over output tax, the excess input tax shall be carried forward to offset it against tax payable in the next tax period.
- However, a person is required to pay at least 10% of the output tax for a tax period after any such amount of input tax shall be carried forward to be compensated in the tax adjustment.
- The amount of tax payable for the tax period and the amount of input tax to be carried forward shall be computed as below.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-492]

Tax Payable

Particulars	Amount (Rs.)
Total output tax (as shown above)	380,000
Less: Input tax adjustable (90% of output tax)	342,000
Input Tax Carried Forward	38,000
Total Output Tax	380,000
Less: Tax Paid	Total input tax for the period
	630,000

Excess amount of input tax to be carried forward (388,000)

RESTRICTION ON SUPPLY OF GOODS TO NON-REGISTERED PERSONS [8(5)]

The **Federal Government** may specify any **goods or class of goods** which a **registered person** **cannot supply to any subscriber** who is **not registered** under the **Sales Tax Act, 1990**, while exercising the **above-referred power**. The **Federal Government** has **specified certain goods** which **cannot be supplied** to a **non-registered person** (*except in certain cases as specified below*).

If any such supply is made to a non-registered person, the registered person shall charge tax in respect of such goods. (*SRO 480(1)/204 dated 12-06-2014 as modified by various subsequent Notifications.*)

Restricted Goods

1. **Polypropylene granules** (*Type granules falling under PCT Heading 3902.1000*)
 2. **Molasses** (*falling under PCT Heading 1703.1000*)
 3. **Un-manufactured tobacco**
 4. **Air-conditioning, chilling plants, and humidification plants**
 5. **Cranes**
 6. **Storage tanks, heat exchanger, and gas separator**
-

Note:

Above restriction shall not be applicable on **supply of goods** (*under serial No. 4 to 6*) to the following persons:

- **Retail sales to ultimate consumer**
 - **Persons not liable to pay income tax** but are **liable to deduct tax at source** under the **Income Tax Ordinance, 2001**
 - **The Government organization** *not liable to registration or enforcement*
-

EXEMPTION [13]

The **supply or import of goods specified in the Sixth Schedule** shall be **exempt from the levy of sales tax**.

- The **Federal Government** is **empowered to exempt the import or supply of any goods or class of goods** from the **whole or any part of the tax chargeable under the Sales Tax Act, 1990**.
 - The **exemption** may be **granted by way of a special order in public interest or through a general order** (*SRO notification issued under section 13(2) & (4)*).
-

Approval of Federal Government [13(2)(a)]

The **Federal Government** may exempt any supplies made or imports of any goods or class of goods from the whole or any part of the tax under the **Sales Tax Act, 1990** in circumstances goods from the whole or for the purposes of *(missing text... likely continued in next page)*.

Synopsis of Taxes

Sales Tax – Scope of Tax

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1. **National security**
2. **Natural disaster**
3. **National food security in emergency situations**
4. **Implementation of bilateral and multilateral agreements**

Note: The exemption so granted shall be notified in the official Gazette and may contain the conditions and limitations specified in the notification.

Life of Exemption Notifications [13(7)]

Exemption Notifications issued under 13(2) of the Sales Tax Act, 1990, may, for the purpose of their validity, be divided into two categories, namely:

1. **Notifications Issued Before 30-06-2015:**
 - These notifications shall remain effective till rescinded by a notification issued for this purpose; and
 2. **Notifications Issued On or After 01-07-2015:**
 - Such notification shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.
-

Notes:

1. **All such notifications** *(which are not rescinded earlier)* shall be deemed to have been in force from 01-07-2016 and, if not earlier rescinded, shall continue to be in force till 30-06-2018.
 2. **All notifications issued on or after 01-07-2016 and placed before the National Assembly** shall continue to be in force till 30-06-2018, or if not earlier rescinded by the Federal Government or the National Assembly.
-

Exemption of IT Services (SRO 590(1)/2017 dated 01-07-2017)

- The **FBR**, with the **approval of the Federal Minister-in-charge**, has notified that **export of IT services and IT-enabled services** shall be **exempt from the whole of the sales tax**.
-

LIABILITY TO PAY SALES TAX [3(3) & (3A)]

- The **sales tax** is a **tax which is borne by the ultimate consumer** but is **collected through some other person**.
- The **person who is liable to pay tax to the government** shall be **determined in accordance with the following schedule**:

S. No.	Situation	Person Liable to Pay Tax
1	Supply of goods in Pakistan	Person making the supply
2	Goods imported into Pakistan	Person importing the goods
3	Supply of specified goods	Person receiving the supply

Note:

- The **FBR**, with approval of the **Federal Minister-in-charge**, may **specify the goods in respect of which the liability to pay tax shall be upon the person receiving the supply (3(3A))**
-

Tax Liability for Ginned Cotton [S3A & SRO 1087(1)/2019, dated 19-09-2019]

- In case of **supply of ginned cotton**, the **liability to pay sales tax** shall be **on the person receiving the supply**.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-494]

1. The **ginner shall make a supply** of ginned cotton **only to a person who is registered** under the Sales Tax Act, 1990.
2. The **ginner shall issue a tax invoice** for the supply made. The **tax invoice shall be issued at the time and on which cotton is dispatched**. The **ginner shall also file the monthly sales tax return**.
3. The **recipient of the supply** shall **deposit the tax on supplies received** under a **payment challan indicating the name and registration number of the supplier**.

4. **Tax on unpaid stock** shall be **deposited along with the return** for the **tax period** in which the **invoice is issued**.
 5. Where **tax is not deposited by the due date**, the recipient **cannot claim the adjustment or refund of the input tax** unless the **tax and additional tax or penalties applicable under the law** are paid.
 6. **Where any undeclared supply of ginned cotton is detected**, the **ginner shall be liable to pay tax, etc., as per law**.
 7. **Non-payment or short payment of tax** by the **ginner** or the **recipient of the supply** shall be **adjudicated** by the **officer having jurisdiction in the area where the contravention is made**.
 8. **Where tax is deposited by the ginner**, it shall **absolve the recipient from liability to pay tax on such supplies**.
-

Liability of Tax on Purchases by Exporters (SRO 410(1)/2001, dated 18-06-2001)

- Where the **goods are supplied to or received by a person as an exporter** under the provisions of **Duty and Tax Remission for Exports Rules, 2001**, then **sales tax in respect of such goods shall be payable by the person receiving the supply instead of the person making the supply**.
 - If such person is **unable to account for the goods in the manner prescribed in the Rules**, then the said, **besides any other legal action, shall be liable to pay sales tax, default surcharge, and penalty liable under the law**.
-

CHANGE IN TAX RATE [5]

- If there is a **change in the rate of tax**, the tax shall be **charged according to the following principles**:

On Taxable Supplies Made by a Registered Person

- The **applicable rate shall be the rate, which is in force at the time of supply**.

On Goods Imported into Pakistan

1. If **goods are entered for home consumption**, the **rate of tax shall be the rate prevailing on the date on which the goods declaration is presented under section 79 of the Customs Act**.

2. If goods are cleared from a warehouse, the **rate of tax** shall be the rate prevailing on the date on which the goods declaration is presented under section 104 of the Customs Act.
 3. In case of any other goods, the **rate of tax** shall be charged according to the rates in force at the date of actual payment.
-

Example: 29.11

- Consider that the **following sales tax related transactions** for the month of June, wherein the **sales tax rate** was changed on the 10th day of the month with immediate effect.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-495]

Purchases:

- **Upto 6th June:** Rs. 2,000,000
- **From 10th June to 30th June:** Rs. 4,000,000
- **Total:** Rs. 6,000,000

Sales:

- **Upto 9th June:** Rs. 3,000,000
 - **From 10th June to 30th June:** Rs. 3,000,000
 - **Total:** Rs. 6,000,000
-

Required:

Compute **tax liability for the month** considering that **sales tax rate** was changed from **17% to 18% on the 10th June**. All purchases were made from **registered persons**.

Answer:

Tax Liability Prior to Change in Tax Rate

- **Output Tax** (Rs. 3,000,000 × 17%) = Rs. 510,000
- **Less: Input Tax** (Rs. 2,000,000 × 17%) = Rs. 340,000

- **Net Tax** = Rs. 170,000
-

Tax Liability After Change in Tax Rate

- **Output Tax** (Rs. 3,000,000 × 18%) = Rs. 540,000
 - **Less: Input Tax** (Rs. 4,000,000 × 18%) = Rs. 720,000
 - **Net Tax** = Rs. (180,000)
-

Total Tax for the Month:

- Rs. (170,000) + Rs. (360,000) = Rs. **530,000**
-

TAX ON VALUE ADDITION [7A(1)]

The **Federal Government** is empowered to **notify that the tax** on specified **description or class of goods** shall be **charged on the basis of value addition**, which is determined as follows:

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Value of the supply for which the goods are supplied

Less: Value of the supply for which the goods are acquired

Value addition

Other Provisions in this regard are as below:

1. The **goods on which tax shall be levied on value addition** may be **supplied by the person in the same state or after further manufacture.**
 2. The **FBR may prescribe certain limitations or restrictions in respect of such goods.**
 3. The **power of the FBR to impose tax on value addition** is **not specified to special goods but irrespective of any other provision of the Sales Tax Act, 1990.**
-

Note:

- In case a tax is charged on value addition, the provisions regarding undetermined output tax and credit of input tax shall not apply; rather, the tax shall be computed on the declared value addition and the tax liability of the person dealing in the specified goods.

Example: 29.12

A company manufactures such goods, which are specified by the FBR to be taxed on the basis of value addition. A summary of the transactions for a tax period is below:

- Purchases of raw material: Rs. 250,000
- Manufacturing & other total costs: Rs. 100,000
- Sales (Rs. 600 per unit): Rs. 120,000
- Closing stock of finished goods: Rs. 60,000

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-496]

The company processed the whole raw material purchased during the period and produced 1,000 units. You are required to compute the Sales Tax liability of the company.

Answer:

Calculation	Amount (Rs.)
Value of the goods sold at the time of acquisition (N-1)	400,000
Value of goods at the time of supply	600,000
Addition in value made by the company	200,000
Sales Tax = Value Addition × Tax Rate = Rs. 200,000 × 18% 36,000	

N-1 Value of goods at the time of acquisition

- Total purchases value = Rs. 250,000
- Value of goods used in supply = Rs. (250,000 / 1,000) × 800 = 200,000

VALUE ADDITION TAX [7A(2) & Twelfth Schedule]

The **minimum value addition tax** shall be **payable** in respect of the **goods or class of goods specified in the Twelfth Schedule** against the **value added by the registered persons**. The **rate of value addition tax** and **registered persons liable to pay it** along with the **conditions, limitations, restrictions, and procedure** are specified in the **Schedule**.

The **Federal Government** may, by **notification in the official Gazette**, amend any provision of the Twelfth Schedule.

Tax Rate and Applicability Thereof

- In addition to the **normal sales tax** u/s 3 of the **Sales Tax Act, 1990**, **value addition tax** shall be **payable @ 3% ad valorem**.
 - It shall be **collected at import stage** from the **importers on all taxable goods**.
-

Non-Applicability of Value Addition Tax

The **value addition tax** shall not be charged on:

1. **Raw materials and intermediary goods imported** by a manufacturer for **in-house consumption**
 - (e.g., **motor scrap, motor scrap, and copper cable cutting scraps**)
2. **Petroleum products** falling in **Chapter 27** of the **Pakistan Customs Tariff**
 - If imported by a **licensed OIL Marketing Company** for sale in Pakistan
3. **Registered service providers** importing goods
 - For **in-house business use** (e.g., **furtherance of their taxable activity**) and **not intended for further supply**
4. **Cellular mobile phones or satellite phones**
5. **LNG / RLNG**
6. **Second-hand worn clothing or footwear** (PCT Heading **6309.00**)
7. **Gold, in un-worked condition**

8. **Silver, in un-worked condition**
9. **Goods** as specified in the **Third Schedule**, **taxed on retail price basis**
10. **Plant, machinery, and equipment**
 - Falling in **Chapters 84 & 85** of the **First Schedule** to the **Customs Act, 1969**
 - If imported by a **manufacturer for in-house installation or use**

Synopsis of Taxes

Sales Tax – Scope of Tax

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Electric Vehicles and Motor Cars

11. **Electric vehicles (4 wheelers) CKD kits** for small cars/SUVs, with 50 kWh battery or below and LCVs with 150 kWh battery or below till **30th June 2025**.
12. **Electric vehicles (4 wheelers) small cars/SUVs**, with 50 kWh battery or below and LCVs with 150 kWh battery or below in CBU condition till **30th June 2026**.
13. **Electric vehicles (2-3 wheelers and heavy commercial vehicles)** in CBU condition till **30th June 2025**.
14. **Motor cars of cylinder capacity up to 850cc.**

Other Conditions

1. **Value Addition Tax Adjustments:**
 - The **value addition tax** paid shall form part of **input tax**.
 - The importer shall **deduct the same** from the **output tax due for the tax period**.
 - This adjustment is subject to **limitations and restrictions** under **Section 7 of the Sales Tax Act**.
2. **Excess Input Tax Adjustment:**
 - Any **excess input tax** over output tax shall be **carried forward** to the **next tax period** as provided under **Section 10** of the **Sales Tax Act**.
3. **Tax on Value Addition Under Twelfth Schedule:**
 - **Excess input tax** paid under **Twelfth Schedule** shall **not be refunded**.
 - Instead, it shall be **adjusted** for **making input tax zero-rated supplies**.

4. Registered Persons & Input Tax Adjustments:

- If a **registered person** is **dealing in imported goods**, they are **entitled to claim refund** of the **excess amount of input tax**.
- **Other registered persons** shall be **allowed adjustment** against **output tax**.

5. Carrying Forward Input Tax:

- The **importer** must **adjust the input tax paid** during the **current tax period**.
 - Any **unadjusted amount** may be **carried forward** to **subsequent tax periods**.
-

TIME, MANNER, AND AMOUNT OF PAYMENT [7, 8 & 9]

The **provisions** of the **Sales Tax Act, 1990** regarding the **time and manner of the payment of tax** are summarized below:

1. Tax on Imported Goods:

- Shall be **charged and paid** at the time of **clearance of goods** under the **Customs Act, 1969**.
- Special provisions **governing collection & payment of sales tax** at **import stage** shall **prevail**.

2. Tax on Local Supplies:

- **Tax on taxable supplies** during a **tax period** shall be **paid by the date** as prescribed for **payment of tax**.

3. Tax Payment Mode:

- **Sales tax payable** is **deposited in a bank designated** by the **Federal Board of Revenue (FBR)**.
- **Other modes** of payment may be specified by **FBR**.

4. Government Exemptions:

- **Federal Government** may allow **payment of sales tax** in **non-installments** by its **departments** or any **public sector organization** on **import or supply** of any **goods or class of goods**.

5. Registered Persons & Input Tax Credit:

- A **registered person** is entitled to deduct input tax paid or payable during the tax period.
- The tax payable shall be deducted from the output tax due from them.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-498]

6. The **entitlement to deduct tax paid** is subject to the **provisions of Section 8B and Section 73** of the Sales Tax Act.
 - Where a **registered person** did **not deduct input tax** within the **relevant period**, they **may claim** such tax in the **return for any of the six (6) succeeding tax periods**.
7. A **registered person** can **deduct input tax** from **output tax** only if:
 - **(i)** They hold a **tax invoice** for taxable supplies made in Pakistan.
 - **(ii)** They hold a **bill of entry** or **goods declaration** duly cleared by **Customs** under **Sections 79, 81, or 104** of the **Customs Act, 1969**, in case of **imported goods**.
 - **(iii)** They hold a **banking channel slip** showing **payment of sales tax** in respect of goods and services acquired.
 - **(iv)** The claim **must bear the name and registration number** of the **registered person**.

Note: All above-referred documents (**tax invoice, goods declaration, or treasury challan**) should **bear the name and Sales Tax registration number** of the person claiming the **input tax credit**.

8. A **registered person** shall **NOT** be entitled to **claim input tax** if:
 - **(i)** They did **not receive a supply**.
 - **(ii)** They do **not hold a tax invoice** in their **own name** and **bearing their registration number**.
 - **(iii)** In the **case of supply of electricity or gas**, if the **bill does not bear the registration number and address** where the business is conducted.
 - The **FBR** may **notify** that from the **notified date**, a person shall **not be entitled to claim input tax** if their **supplier has not declared such supply in their return or has not paid the due tax**.
9. The **FBR**, with approval from the **Federal Minister-in-charge**, may:
 - Allow a **registered person** to **adjust input tax** beyond **standard limitations**.

- Apply **special input tax adjustments** for **any specified sector or class of registered persons**.

10. The **Federal Government** may, by notification, **restrict input tax claims** in cases where:

- **(i) A class of registered persons faces distortions** in tax payments.
- **(ii) Wastage or material shrinkage** exceeds a **notified limit**.

11. The **FBR**, with approval from the **Federal Government**, may:

- **Allow a registered person to adjust input tax** beyond **standard limitations**.
- **Restrict input tax claims** for **specific goods or services** to prevent **tax fraud**.

12. **No input tax deduction** shall be allowed for **goods or services used for personal consumption or non-business purposes**.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-499]

Example: 29.13

A company is engaged in the business of concrete pre-casting. The company purchased the following materials during a tax period:

- Cement from a registered manufacturer (20,000 bags @ Rs. 300) → Rs. 6,000,000
- Sand from a non-registered supplier → Rs. 700,000
- Concrete-crushed from a registered person (20,000 Cubic ft.) → Rs. 1,000,000
- Steel from Pak Steels (50 tons) → Rs. 700,000
- Total Purchases → Rs. 8,400,000

The company incurred manufacturing and other costs worth Rs. 2,000,000. During the month, it sold the goods for Rs. 12,000,000. It is further provided that during the tax period, the company used 1,000 bags of cement, 2,000 Cubic ft. concrete, and 10 tons of steel for repair and maintenance of the office building.

Required:

Compute the sales tax liability of the company, assuming that the whole supply was made to registered persons.

Answer:

- **Output Tax = Rs. 12,000,000 × 18% = Rs. 2,160,000**
- **Less: Allowable Input Tax = Rs. 1,285,400**
- **Net Tax Liability = Rs. 875,600**

N-1 Input Tax on Purchases

Item Purchased	Total	Credit Not Allowed	Credit Allowed
Cement (Rs. 6,000,000 × 18%)	Rs. 1,080,000	Rs. 54,000	Rs. 1,026,000
Concrete (Rs. 700,000 × 18%)	Rs. 126,000	Rs. 12,600	Rs. 113,400
Steel (Rs. 700,000 × 18%)	Rs. 126,000	Rs. 36,000	Rs. 144,000
Total	Rs. 1,386,000	Rs. 102,600	Rs. 1,285,400

Input tax not allowed is computed as follows:

- Cement: $(1,000 \times 300 \times 18\%) = \text{Rs. } 54,000$
- Concrete: $(2,000 \times 50 \times 18\%) = \text{Rs. } 18,000$
- Steel: $(10 \times 50 \times 18\%) = \text{Rs. } 36,000$

The credit of input tax is not allowed in respect of such goods, which are used for a non-taxable activity and are not directly used in the supply of taxable goods.

Point 13:

A registered person dealing in both taxable and non-taxable supplies can reclaim only such proportion of input tax as is attributable to taxable supplies [8(2)].

- Example: X Ltd. purchases raw material worth Rs. 2,000,000 from a registered person.
- The company uses the raw material for both taxable and exempt supplies.
- During the tax period, the company manufactured and supplied taxable and exempt goods.

Synopsis of Taxes

Sales Tax – Scope of Tax

[29-500]

Tax Computation for X Ltd.

- Taxable supplies = 2,500,000
- Exempted supplies = 1,500,000
- Total turnover = 4,000,000

Required:

Compute the tax liability of X Ltd.

Answer:

Output Tax:

Description	Calculation	Amount (Rs.)
Taxable supplies	$2,500,000 \times 18\%$	450,000
Exempt supplies	-	0
Total output tax		450,000

Less: Input Tax Attributable to Taxable Supplies

Formula:

$$\text{Total Input Tax} \times \left(\frac{\text{Value of Taxable Supplies}}{\text{Total Supplies}} \right)$$

$$(1,500,000 \times 18\%) \times \left(\frac{2,500,000}{4,000,000} \right) = 225,000$$

- Total Input Tax Deductible = 225,000
-

Net Tax Liability:

$$450,000 - 225,000 = 225,000$$

Thus, Net Tax Liability = Rs. 225,000

Conditions for Input Tax Deduction

1. In order to deduct or reclaim input tax, a person must be a registered person [8(3)].
2. A registered person is not entitled to deduct or reclaim input tax in respect of certain goods [8(1)].

Cases Where Input Tax Cannot Be Claimed

A registered person cannot deduct input tax if:

- i) The goods are not used for taxable goods production.
- ii) The goods have extra tax (under rule 36(1)) applicable.
- iii) The sales tax on the goods has not been deposited in the government treasury.
- iv) The supplier's registration is marked as ineligible by CREST or tax authorities.
- v) The goods are exempt from tax.
- vi) Input tax is not properly invoiced.
- vii) Purchases made from a supplier who has not submitted details to FBR.
- viii) Goods or services acquired for personal or non-business use.
- ix) Goods used in buildings and property (except plant and machinery).
- x) Vehicles under Chapter 87 of the First Schedule of the Customs Act cannot claim input tax, except in specific cases.

Synopsis of Taxes

Sales Tax – Scope of Tax

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xii) Services in respect of which input tax adjustment is barred under the respective provincial sales tax law.

xiii) Import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under the Eighth Schedule to the Sales Tax Act, 1990.

(Agricultural machinery or equipment to moos most in the Eighth Schedule.)

xiv) Such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return nor has the output tax of the tax payable as indicated in the return. The date of enforcement shall be notified by FBR.

- The input goods or services attributable to supplies made to un-registered distributors, dealers or wholesalers, for which sales invoices do not bear their name or NTN, as the case may be, shall be rejected in total on 20%.
- Supply of specified goods to non-registered persons; and
- Any other goods, which are specified for this purpose by the Federal Government.

15. If a registered person is an activity which is liable to Fixed Tax cannot deduct or reclaim input tax. [8(1)]

16. If a registered person has received taxable supply from a person who pays fixed amount of tax, that registered person is also not entitled to claim a credit for the input tax. [8(1)]

17. Any modification in the tax invoice due to the return of supplies or due to any other genuine reasons can be adjusted and the tax payable shall be determined after considering such modifications. [8]

APPORTIONMENT OF INPUT TAX

Rules 24 and 25 of the Sales Tax Rules, 2006 deal with the apportionment of input tax. The provisions of these Rules are summarized below.

1. These rules are applicable to such registered persons who make taxable and exempt supplies simultaneously.
2. Input tax paid on raw materials relating wholly to the taxable supplies shall be admissible.
3. Input tax paid on raw materials relating wholly to the exempt supplies shall not be admissible.
4. Input tax incurred for making both exempt and taxable supplies shall be apportioned and admissible amount shall be calculated as below:

Residual Input Tax × Value of Taxable Supplies

Retail Value of Taxable + Exempt Supplies

Notes:

i) "Residual Input Tax" means the amount of tax paid on raw materials, components and capital goods being used for taxable as well as exempt supplies. However, the input tax on fixed capital assets used wholly for making taxable or exempt supplies shall not be included in residual input tax.

ii) Monthly adjustment of input tax claimed as above shall be treated as provisional adjustment & at the end of next financial year, the registered person shall make final adjustment on the basis of taxable and exempt supplies made during that year.

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Sales Tax – Scope of Tax

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Although the monthly adjustment of input tax is treated as provisional adjustment, yet a person shall be punishable under the respective provisions of law if due to the wrongful application of the formula there is an incorrect adjustment of input tax.

Example: 29.15

A manufacturing company is engaged simultaneously in manufacturing and supply of taxable as well as exempt goods. Summary of its transactions for the month of August is given below. Compute the tax liability of the company for the tax period.

- Purchase of goods to be used for taxable supplies – Rs. 600,000
- Purchase of goods to be used for exempt supplies – Rs. 800,000
- Purchase of goods to be used for both taxable and exempt supplies – Rs. 1,500,000
- Total purchases of goods – Rs. 2,900,000
- Supply of totally taxable goods – Rs. 1,500,000
- Supply of totally exempt goods – Rs. 800,000
- Supply of partly taxable and partly exempt goods – Rs. 3,750,000

Total supplies – Rs. 4,500,000

Answer:

- Output Tax:
 - Taxable supplies $(1,500,000 + 3,750,000) \times 18\% = \text{Rs. } 945,000$
 - Exempt supplies = Rs. Nil
- Less Input tax allowed as credit:
 - Goods to be used for taxable supplies $(600,000 \times 18\%) = \text{Rs. } 108,000$
 - Goods for taxable as well as exempt supplies:

$(\text{Value of taxable supplies} \div \text{Value of taxable + exempt supplies}) \times \text{Residual Input Tax}$

$(3,750,000 \div 1,500,000 + 3,750,000) \times 450,000 = \text{Rs. } 450,000$

Net tax liability:

Rs. 387,000

GOODS IN RESPECT OF WHICH INPUT TAX CANNOT BE CLAIMED [8(1)(b)]

The Federal Government has the power to specify such goods on which a registered person shall not be entitled to reclaim or deduct input tax. The Federal Government, while

exercising its powers, has notified certain goods on which the exact credit for input tax cannot be allowed or reclaimed. The excerpt of various notifications issued in this respect are summarized below:

Export of Cigarettes to Afghanistan, Iran, or China

SRO 1232(I)/2004, dated December 16, 2004.

A registered person exporting cigarettes from Pakistan by land route to Afghanistan, Iran, or China shall not be entitled to reclaim input tax paid on cigarettes so exported.

Sale to Unregistered Persons

SRO 480(I)/2004 dated 12-06-2004.

Where the FBR has notified that such goods are not to be supplied by a registered person to a non-registered person and the person has still contravened these provisions, then he shall not be entitled to claim credit of input tax in respect of such goods.

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Sales Tax – Scope of Tax

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Input Tax on Certain Goods (*SRO 490(I)/2004 dated 12th June 2004*)

A registered person cannot claim input tax in respect of the following goods, if these are acquired otherwise than as stock in trade:

1. Vehicles falling in chapter 87 of the First Schedule to the Customs Act, 1969
2. Food, beverages, garments, fabrics, etcetera and consumption of entertainments.
3. Gifts and give-aways.
4. Supply of electricity and gas to residential colonies of registered persons.
5. Building material including cement, bricks, paints, varnishes, distempers, etc.
6. Office equipment and machines, excluding electronic fiscal cash registers; furniture, structure, fixtures, and furnishings, including those directly used in taxable activity.
7. Electrical and gas appliances, pipes, fittings excluding those directly used in taxable activity.
8. Waxes, cables, ordinary electrical fittings, and sanitary fittings excluding those directly used in taxable activity.
9. Crockery, cutlery, utensils, etc., excluding those directly used in taxable activity.

Note: If a registered person has acquired the above-noted goods as a stock in trade, then he can claim input tax.

Stock in trade means such goods which are purchased by a registered person in the course of business for sale in the same state or after further processing or manufacture.

Supply of Locally Produced Coal *(SRO 549(I)/2008 dated 06-06-2008)*

A registered person who is making taxable supply of locally produced coal *(PCT heading 27.01)* shall not be allowed an adjustment of input tax.

This restriction shall not apply to registered persons making taxable supply of such coal where value of supply exceeds Rs. 6,900 per metric ton. *(SRO 982(I)/2017 dated 31-07-2017)*

ADJUSTMENT OF INPUT TAX IN SUCCEEDING TAX PERIODS *(Proviso to Section 7(1))*

A taxpayer is entitled to adjust the amount of input tax in any of the six (6) succeeding tax periods if he has missed to claim input tax which could not have been adjusted in the relevant tax period.

JOINT AND SEVERAL LIABILITY OF REGISTERED PERSONS [A]

The sales tax recovery shall be jointly and severally liable for payment of any unpaid amount of sales tax if the person receiving the supply is in the knowledge or has reasonable grounds to suspect that some or all of the tax payable on the supply received by him or any previous or subsequent supply of the goods supplied would go unpaid.

The burden of proof, in this case, shall lie on the tax department.

The FBR may exempt any transaction or transactions from the above provisions by issuing a notification in the Official Gazette.

ADJUSTABLE INPUT TAX [B]

The Finance Act, 2007 has introduced a new scheme and procedure for adjustment or refund of input tax. Legal provisions in this regard are discussed below. *(B(8)(1))*

1. In relation to a tax period, a registered person shall not be allowed to adjust or refund input tax in excess of ninety per cent (90%) of the output tax for that tax period. In other words, at least ten per cent (10%) of the output tax for a tax period must be paid by a registered person. *(B(8)(1))*
2. The above provision shall not be applicable to the tax charged on the acquisition of a fixed asset or capital goods etc. In other words, the total input tax on such items shall be allowed as tax credit in the relevant tax period. *(B(8)(1))*
3. The FBR may, by notification, exclude any person or class of persons from the purview of the above discussed provisions. *(B(8)(1))*
4. The inadmissible input tax, *(i.e., over and above 90% of output tax)* may be allowed as adjustment subject to the following conditions: *(B(8)(2))*
 - (i) Listed & or Companies: Upon furnishing a statement along with an annual audited account, duly certified by the auditors, showing value additions less than 90% of the output tax.
 - (ii) Case of Other Registered Persons: If conditions and restrictions as may be notified by the FBR are satisfied.
5. The adjustment or refund of input tax as discussed in point No. 4, if any, shall be made at any time but not later than the second month following the end of the financial year of the registered person. *(B(8)(2))*
6. The FBR is empowered to prescribe any other limit of input tax adjustment for any person or class of persons. *(B(8)(4))*
7. Input tax allowed on locally manufactured electric vehicles *(subject to reduced rate of tax under the Eighth Schedule)* shall be limited to the extent of the amount of output tax and no input tax credit in excess of output tax must be allowed. *(B(8)(4))*
8. The case of an auditor shall be referred to the Council for disciplinary action under *20 of Chartered Accountants Ordinance, 1961* if he is found guilty of misconduct in furnishing the statement mentioned in point No. 4 *(B(8)(4))*
9. In case of Tier-1 retailers who have integrated their retail outlet in the manner as prescribed under *Section 2(43A)* for a period of past three years, the adjustable input tax for whole of that tax period shall be reduced by sixty per cent *(60%)*. *(B(8)(1))*

Exclusion from the Purview of Section 8(B) (Table-1)

(Table-1 of SRO 1190(1)/2019, dated 02-10-2019, Position provided vide 31-10-2019, SRO 98(2)/2021, dated 26-01-2021 & SRO 242(1)/2024, dated 23-02-2024)

Provisions of section 8B(1) shall not apply to the following registered persons:

- 1. Person registered in the electric power sector.**
- 2. Oil marketing companies and petroleum refineries.**
- 3. Fertilizers manufacturers.**
- 4. Persons making zero-rated supplies, including exports, provided that the value of such supplies exceeds 50% of value of all taxable supplies in a tax period.**
- 5. Distributors.**
- 6. Gas distribution companies**

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- 7. Telecommunication services.**
- 8. Pakistan Steel, Bin Qasim, Karachi.**
- 9. Registered persons other than manufacturers, making supplies of items covered under the Third Schedule, on which sales tax has been paid by the manufacturer or importer on retail price, provided that value of such supplies exceeds 80% of value of all taxable supplies in a tax period.**
- 10. Commercial Importers where value of imports subject to 3% value addition as per Twelfth Schedule to the Act. Air supplies exceeds 50% of value of all taxable purchases, including imports, in the tax year.**
- 11. CNG dealers provided that the value of natural gas on which sales tax has charged and deposited/levied by the FBR exceeds 50% of value of all taxable purchases in a tax period.**
- 12. Petroleum dealers registered as oil marketing companies.**
- 13. Sales tax registered manufacturing companies of cold rolled, GI or coated coils / sheets which are listed on Pakistan Stock Exchange.**
- 14. Pakistan LNG Limited (PLL).**

Adjustment of Input Tax Upto 95% of Output Tax *(Table-2 of SRO 1190(1)/2019, dated 02-10-2019)*

The following persons may adjust input tax to the extent of 95% of the output tax for that tax period. The excess amount of input tax (*i.e., exceeding 95% of output tax*) shall be carried forward to the next tax period:

1. All tier-1 retailers who have integrated all their POSs with the FBR.
2. Wholesalers of yarn.
3. Automobile manufacturing companies which are listed on Pakistan Stock Exchange till June, 2021.

Under the above tables, provisions of section 8B (1) to (3) of the Sales Tax Act, 1990 shall apply (limiting inadmissible input tax to be adjusted or carried forward to the next tax period).

DEBIT AND CREDIT NOTES (B(8)(9))

A registered person may issue a debit or credit note and adjust the resultant modification in the tax amount against the output tax if the following conditions are fulfilled:

1. The person has issued a tax invoice against the supply of goods made by him; and
2. The modification is necessary due to any of the following reasons:
 - i) Cancellation of supply;
 - ii) Return of goods;
 - iii) Change in the nature of supply; or
 - iv) Change in the value of supply; or
 - v) Any other event requiring modification in the amount of tax on invoice and in the return

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Sales Tax – Scope of Tax

[29-506]

The Debit and Credit Note and Destruction of Goods Rules

Rule-19 through Rule-23 of the Sales Tax Rules, 2006 deal with the matters connected with the issuance of debit and credit notes and destruction of goods. Legal provisions in this regard are discussed below:

1. The buyer may return the taxable goods within one hundred and eighty (180) days of the supply. The Commissioner, at the request of the supplier, may extend this period upto further one hundred and eighty (180) days.
2. The buyer shall return the goods along with a debit note.

3. The supplier, on receipt of the goods supplied by him shall issue a credit note.
 4. The debit and credit notes shall be issued in duplicate and shall contain the following information:
 - i) The description of the goods;
 - ii) The quantity of the goods;
 - iii) The amount of sales tax, based on the invoice issued at the time of supply;
 - iv) The amount of sales tax paid; and
 - v) The number and date of the original tax invoice.
 5. For cancellation of supplies made to, or return of goods by, an unregistered person, the supplier shall issue a credit note providing all relevant information. However, credit note shall only be issued with prior approval of the CIR.
 6. The buyer is not entitled to input tax in respect of the goods returned by him. Where he has already claimed the credit for the input tax, the same amount shall be adjusted in the tax period in which goods are returned.
 7. The supplier shall reduce the amount of output tax in his return for the tax period in which he receives the goods.
 8. Where goods are returned on the ground that those are unfit for consumption and need to be destroyed by the supplier, then along with other formalities regarding returned goods, an approval of the Commissioner, Inland Revenue shall be obtained for the goods so destroyed. Further, the goods shall be destroyed in the presence of an officer (not below the rank of an Assistant Commissioner) deputed by the Commissioner.
 9. Where perishable goods have been lost or destroyed in transit from the manufacturing station/warehouse, or when goods unfit for consumption and are destroyed as above, the credit notes may be issued within 15 days of returns of such goods.
-

Notes:

1. A supplier, as per above, is allowed to reduce his output tax liability in respect of the returned goods on the basis of a credit note issued by him.
 2. The input tax credit in respect of goods so destroyed shall not be admissible.
-

Change in Value or Supply of Electricity or Natural Gas (Rule-22A)

Electricity and natural gas distribution companies may, in case of change in value of supply, make adjustment in their bill for subsequent months. In this case separate debit or credit note shall not be issued.

The buyer shall claim credit of input tax only according to the sales tax actually paid.

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RECOVERY OF SHORT-PAID TAX [114]

Where a registered person pays the amount of tax less than the due tax as indicated in his return, the tax authorities may recover the amount of such tax along with default surcharge without giving a show-cause notice to such person. Tax authorities may also seize any of any goods from his business premises. For the purpose of recovery of the tax the business bank account may also be attached.

However, the penalty cannot be imposed unless a show-cause notice is given to the concerned person.

LIMITATION FOR ISSUING ORDERS IN CERTAIN CASES [118]

For the purposes of issuing an assessment order or any other order in consequence of or to give effect to any order made by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court, provisions of section 124 of the IT0 shall apply mutatis mutandis.

PROVISIONS OF SECTION 124 OF INCOME TAX ORDINANCE, 2001

Assessment after Appellate Decision [124]

Wherever any appellate authority (i.e. CIR(A), ATIR, HC or SC) has issued an order in an appeal before it, and that order has the effect on the assessment, the CIR shall issue a fresh assessment order in accordance with the judgment received.

While making fresh assessment, it shall not be necessary to issue a fresh show-cause notice if no new matter, statement or other particulars, which had already been furnished, is further relied on.

Time limit for Assessment [124(1) & (2)]

Assessment order must be passed within the following maximum time limits:

1. Appellate Decision Requiring Modification in Assessment [124(1)]

- Two years from the end of the financial year in which order is received by CIR.

2. Assessment Set Aside [124(2)]

- One year from the end of financial year in which order of the ATIR, High Court or the Supreme Court is received by CIR(A). This time limit is applicable only where no further appeal has been preferred against the order setting-aside the assessment.

3. Cases of Deemed Default [124(4)]

- Where any appellate authority provides any direct relief (e.g. refund of tax) to taxpayer, CIR shall issue necessary order within two (2) months from the date order was served on him.

BEST JUDGEMENT ASSESSMENT [119]

- 1. An officer of Inland Revenue (Assistant Commissioner or above in rank) may make best judgment assessment, determining the tax payable or refund due and penalty and default surcharge, if the person:**
- i) Fails to furnish a sales tax return if so required u/s 26(2A) of STA; or

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- 1. ii) Fails to produce accounts, documents and records required, or any other relevant document or evidence that may be required by the concerned officer u/s 25 or 38A of STA.
- 2. The assessment shall be based on any available information or material and be made after giving a notice or to show cause to the person.
- 3. Where accounts, records, etc., are not produced, the officer may also disallow or reduce input tax on goods or services, if the person does not produce documentary evidence of the transaction.
- 4. Where the assessment has been made for non-filing of return, the show-cause notice and assessment order shall be liable to the person. He/she, within sixty days of the assessment order, may pay the amount of tax payable along with default surcharge and penalty.

5. Where the FBR has specified conditions for the purpose of determination of minimum taxable liability in respect of a person who is required to file return but who fails to submit return, the Officer of Inland Revenue shall determine the tax liability as per related specified procedure.

ASSESSMENT OF TAX AND RECOVERY OF TAX NOT LEVIED OR SHORT LEVIED OR ERRONEOUSLY REFUNDED [11]

1. An officer of Inland Revenue (Assistant Commissioner or above in rank) may make an assessment determining the tax payable or refund due and penalty and default surcharge charged, where:
 - i) Due to any reason (including by way of collusion or a deliberate act) any tax or charge has not been levied or short levied; or
 - ii) The officer has suspects on the basis of audit or otherwise that due to any reason a person has:
 - a) Not paid or short paid dues as tax. Where a tax or charge has not been levied, tax shall be recovered as tax fraction of the value of supply.
 - b) Claimed input tax credit or refund which is not admissible; or
 - c) Claimed refund at an amount of refund not due.
2. The assessment shall be based on any available information or material and be made after giving a notice to show cause to the person.
3. The officer may disallow or reduce input tax on goods or services, if the person does not provide documentary evidence of the transaction.
4. Where a supply charge has not been levied, tax shall be recovered as tax fraction of the value of supply.

LIMITATION FOR ASSESSMENT [116]

1. The law provides no time limit for best judgment assessment (u/s 11D), recovery of tax not levied, due cause, 116 for recovery of tax not withheld (u/s 11) that should be initiated within five (5) years, from the end of the financial year in which the “relevant date” falls.

2. An order u/s 11D, 11E, and 11F shall be made within one hundred and twenty (120) days of issuance of show cause notice. The CIR may, for reasons to be recorded, extend this period maximum for a period of ninety (90) days.
3. Any period during which the proceedings are adjourned on account of a stay order or ADR proceedings or the time taken through adjournment by the registered person shall be excluded from the computation of the period of 120 days. Such adjournment may be made for a maximum period of sixty (60) days.

Relevant Date [11(3C)]

"Relevant Date" means—

1. The time of payment of sales tax or charge as provided u/s 6 of STA.
 2. The time of payment for goods or services on which sales tax was to be withheld u/s 3.
 3. In a case where sales tax or charge has been erroneously refunded, the date of its refund.
-

TAKING OF SAMPLES [25A]

For the purpose of determining the value of the goods and the tax liability in respect thereof, an authorized officer of Inland Revenue may take a sample of the goods or raw material. The sample shall be taken against a proper receipt and each of the Large Taxpayers Unit or Regional Tax Office and the registered person shall keep a copy of the receipt. The minimum possible quantity shall be taken as a sample.

TRANSACTIONS BETWEEN ASSOCIATES [25AA]

Where there is any transaction between associates, the Commissioner or an officer of Inland Revenue may determine the transfer price of taxable supplies between the persons as is necessary to reflect the fair market value of supplies in an arm's length transaction.

The FBR may notify rules regarding transactions between associates.

GOODS SUPPLIED FROM TAX-EXEMPT AREAS [60]

Special provisions relating to goods supplied from tax-exempt areas are as below:

1. The conveyances carrying goods supplied from the tax-exempt areas shall be accompanied by the prescribed documents in respect of the goods carried.
2. The Regional Tax Office having jurisdiction may establish check-posts on the routes originating from tax-exempt areas for the purpose of examining the goods and documents.
3. For the purpose of ascertaining validity and conformity to the goods carried, an officer (not below the rank of Inspector) authorized by the CIR may examine such goods at check-posts, make physical inspection of such goods along with the existing record.
4. The goods shall be seized along with the vehicle carrying the goods if the prescribed documents are not there or there is any discrepancy in such documents. Proper acknowledgment for seizure shall be given by the officer.

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5. The notices to the owner of the goods and the vehicle to show cause against imposition of penalty shall be issued within fifteen (15) days of their seizure.

"Tax-exempt areas"

"Tax-exempt areas" means Azad Jammu and Kashmir, Gilgit-Baltistan, Border Sustenance Markets, and Tribal Areas as defined in Article 246 of the Constitution of the Islamic Republic of Pakistan and such other areas as may be prescribed.

LICENSING OF BRAND NAME [40E]

Manufacturers of the specified goods shall be required to obtain brand licenses for each brand or stock keeping unit (SKU) in a manner prescribed by FBR.

Any specified brand and SKU found to be sold without obtaining a license from FBR shall be deemed counterfeit goods and subject to outright confiscation and destruction in the prescribed manner. Such destruction and confiscation shall be without prejudice to any other penal action which may be taken under the Sales Tax Act, 1990.

SALE OF TAXABLE ACTIVITY, ETC. [49]

The following shall be the treatment of tax liability in a case where a registered person terminates his taxable activity or sells or transfers the ownership of his taxable activity.

Transfer to Non-Registered Person [49(1)]

- If the taxable activity is terminated or transferred to a non-registered person, the stock of taxable goods shall be deemed as supply and the tax on such goods shall be recovered from the registered person.
- Where the tax could not be recovered from the transferor, it shall constitute a first charge on the assets of the business and shall be recovered from the transferee.

Transfer to Another Registered Person [49(2)]

- If the taxable activity is sold or transferred to another registered person as an ongoing concern, the tax liability (i.e., stock) shall be transferred to the new owner through a zero-rated invoice and no sales tax chargeable on such goods shall be accounted for and paid by the transferee.
-

TAX LIABILITY OF A DECEASED PERSON [53]

Any sales tax liability of a deceased registered person shall be recovered from his successor upto the assets transferred to him out of the estate of the deceased person.

BANKRUPTCY OF A REGISTERED PERSON [54]

- If a registered person becomes bankrupt, the tax liability shall pass on to the estate in bankruptcy if not paid by the registered person.
 - If tax liability is incurred by a business in bankruptcy, the tax is deemed to be a current expenditure and shall be paid before the claims of other creditors.
-

LIABILITY IN CASE OF A PRIVATE COMPANY OR BUSINESS ENTERPRISE [58]

- Where a private company or business enterprise is wound up and any tax chargeable on the company or its shareholders remains unpaid, every person who was
 - a partner,
 - a director, or
 - a shareholder owning not less than ten percent (10%) of the paid-up capital,

shall be jointly and severally liable for such tax.

Up capital of the company or business enterprise during the period to which such tax liability relates shall be jointly and severally liable for the payment of tax.

This provision shall be applicable irrespective of anything to the contrary contained in the Companies Act, 2017.

Any director or partner who pays tax as above shall be entitled to recover the tax paid from the company or a share of the tax from any other director or partner.

A shareholder who pays tax as above shall be entitled to recover the tax paid from the company or from any other shareholder, owning not less than ten percent (10%) of the paid-up capital, in proportion to the shares owned by other shareholders.

The amount due under this section shall be treated as if it were tax due under an assessment order under the Sales Tax Act, 1990.

LIABILITY FOR THE ACTS OF THE AGENT [58]

A registered person shall be liable for the act done by a person to whom he has authorized (whether expressly or impliedly) as his agent for the purposes of the Sales Tax Act, 1990.

RECTIFICATION OF ERRORS [57]

The officer making any order may correct any clerical or arithmetical error in any assessment, adjudication, or decision made by him. This rectification may be made at any time by issuing a notice to the person who may be affected by it. The officer who is successor in office is also empowered to make necessary corrections.

TAX PAID ON STOCKS ACQUIRED BEFORE REGISTRATION [58]

Where a person has purchased from a registered person or has imported certain goods before his registration under the Sales Tax Act, 1990, the sales tax paid by him on such purchases or imports shall be deemed as his input tax if the following conditions are fulfilled:

In Case of a Purchase from a Registered Person

1. The goods are purchased within thirty (30) days before the date of compulsory registration or the date of application for registration.

2. The person holds a tax invoice issued by the seller.
3. The goods are available as uncooked or un-consumed stock on the date of compulsory registration or the date of application for registration.

In Case of an Import

1. The goods are imported within ninety (90) days before the date of compulsory registration or the date of application for registration.
2. The person holds a "bill of entry" in respect of such import.
3. The goods are available as uncooked or un-consumed stock on the date of compulsory registration or the date of application for registration.

IMPORT OF GOODS WITHOUT PAYMENT OF TAX [60]

The Federal Government may, with certain conditions, limitations, or restrictions, allow the following persons to import the goods without payment of whole or any part of the tax applicable to such goods:

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1. **Registered importers**, importing the goods for subsequent exportation.
2. **Registered manufacturer-cum-exporters**, importing raw material, etc., to be used in manufacturing the goods meant for export.

REPAYMENT OF TAX TO PERSONS REGISTERED IN AJK [81A]

The **FBR** may authorize the repayment in whole or in part of the **input tax** paid on any goods acquired in or imported into **Pakistan** by the persons registered in **Azad Jammu and Kashmir** as are engaged in making zero-rated supplies.

While authorizing repayment the FBR may impose such conditions, limitations, or restrictions as it may deem fit.

CERTIFICATE OR COPY OF DOCUMENTS [69]

A registered person may apply to the **Tax Department** for an attested duplicate copy of any sales tax document as is available with the department. The officer in hand may allow the copy

when found fit. An assistant Commissioner shall provide the required document on payment of a fee of **rupees one hundred (100)**.

INADMISSIBLE TRANSACTIONS [73]

Payment of the amount of invoice of a transaction (other than utility bills) as shown in the sales tax invoice, shall be **made through crossed cheque, bank draft, pay order, or any other banking instrument** if it exceeds **Rs. 50,000** in aggregate to a single supplier in a tax period. Otherwise, such transaction shall **not be admissible for the purposes of input tax credit adjustment, deduction, refund, repayment of draw-back, or zero-rating of tax under the Sales Tax Act.**

In order to render a transaction (exceeding Rs. 50,000) as admissible, the following conditions should be fulfilled:

1. The payment is made through a **banking channel/instrument**.
2. The banking instrument should be in **favour of the supplier**.
3. It should be drawn from the **business bank account** of the buyer to the **business bank account** of the seller.

Other provisions of the law in this regard are the following:

- **Online transfer of payment** from the **business bank account** of the buyer to the **business account** of the seller shall be treated as a transaction through the banking channel **if the transaction can be verified** from the bank statements of both parties.
- On **violations** of the above provision, the buyer **shall not be entitled to claim any credit under the Sales Tax Act, in respect of such transaction**.
- In case of a **transaction on credit**, the payment may be made **within one hundred and eighty (180) days** of issuance of a tax invoice.

"Business Bank Account" Definition

A **business bank account** means a **bank account utilized by the registered person for business transactions and declared to the Commissioner** in whose jurisdiction he is registered. This declaration is **made through Form STR-1** or change of particulars in the registration database.

Adjustments made by a **registered person** in respect of **amounts payable and receivable** to and from the same party shall be treated as payments satisfying the provisions of **section 73** subject to the following conditions:

1. **Sales tax**, wherever applicable, has been **charged and paid by both parties**.
2. The **registered person** has **sought prior approval of the Commissioner** before making such adjustments.

Supplies to Non-Registered Persons [73(4)]

A **registered person** shall not be entitled to **deduct input tax (credit adjustment or deduction of input tax)** which is attributable to **such taxable supplies exceeding Rs. 100,000.00, in aggregate, in a financial year or Rs. 10,000.00 in a tax period** as are made to a **certain person** who is **not a registered person** under the **Sales Tax Act, 1990**.

This provision **does not apply** to supplies made to the following persons:

- **Government (Federal, Provincial, Local) departments, authorities, etc., not engaged in making taxable supplies.**
- **Foreign missions, diplomats, and privileged persons.**
- **All other persons** not engaged in the supply of taxable goods.
- **Persons or class of persons notified by the FBR** subject to specified **conditions and restrictions**.

SERVICE OF ORDERS, DECISIONS, ETC. [56]

Certain **documents such as notices, orders, or requisitions** are **required to be served on persons** under the **Sales Tax Act, 1990**. The **legal provisions** in this regard are discussed below:

Service of Documents on Resident Individual [56(1)]

It shall be treated that any **notice, order, or requisition** is **properly served** on a **resident individual** (*other than in a representative capacity*) if it is:

1. **Personally served** on the individual.

2. **Served on the representative of the individual**, in the case of an individual under a **legal disability** or a **representative character**.
3. **Sent by registered post or courier service** to the **person's registered office or address** in **Pakistan**, or any other place of business in **Pakistan**.
4. **Served in the manner prescribed for service of summons under the Code of Civil Procedure, 1908**.
5. **Sent electronically through e-mail** or to the **e-filer** maintained for the **e-filing of returns**, by the **registered person**.

Service of Documents on Non-Resident Individual [56(2)]

It shall be treated that any **document is properly served** on a **non-resident individual** if it is:

Personally served on the **representative** of the person.

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Service of Notice, etc. on Dissolved Association of Persons [56(3)]

Where a **notice, order, or requisition** is required to be served on an **association of persons** which is **dissolved**, it may be served on any person who was the **principal officer or member** of the association **immediately before the dissolution**.

Service of Notice, etc. on Discontinued Business [56(4)]

Where any **notice, order, or requisition** is required to be served on the **person discontinuing the business**, it may be served on the **person personally** or any **individual who was his representative** at the time of discontinuance.

Note:

Where any notice under the **Sales Tax Act** is **not complied with in any manner**, its **validity or invalidity of service or notice shall not be called into question** [56(5)].

REMOVAL OF DIFFICULTIES [55]

The **FBR** may issue **instructions or directions** for **removing the difficulty**, if any, which may arise in giving effect to the provisions of the **Sales Tax Act or Rules** made or **notifications issued** thereunder. However, **it should be noted** that the **instructions or directions so issued should not be inconsistent** with the provisions of the **Sales Tax Act, 1990**.

REPRESENTATIVES [58A]

For the purposes of the **Income Tax Ordinance, 2001**, the following **persons** are **representatives of taxpayers**:

S. #	Type of Person	Representative
1	An individual who is under a legal disability (i.e., minor, person of unsound mind, etc.)	The guardian or manager who receives or is entitled to receive income on behalf of or for the benefit of the individual.
2	A company other than trust	The principal officer of the company.
3	A Trust	Any trustee of the trust.
4	A Provincial Government or Local Government	An individual responsible for accounting for the receipts and payments on its behalf.
5	An Association of Persons	The principal officer of the AOP or any partner of an AOP.
6	Federal Government	Any individual responsible for accounting for the receipts and payments on behalf of the Federal Government.

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S. #	Type of Person	Representative
7	A Public international organization, a foreign government, or a political sub-division of a foreign government	Any individual who is responsible for accounting for the receipts and payments in Pakistan on behalf of the organization, government, or political sub-division.
8	Non-resident person	Any person in Pakistan: i) Who is employed by or on his behalf; ii) Who has any business connection with him; iii) Who receives any income on his behalf; iv) From whom he controls income; v) Who holds any money to his credit or disposal; vi) Who is his trustee; or vii) Who is declared by CIR as representative of the non-resident.

Notes:

1. Where a **Court appoints any person as Court of Wards, the Administrator General, Official Trustee, Receiver, Manager, or Liquidator** in respect of a taxpayer, such **person shall be the representative of the taxpayer. [58A(2)]**

2. **Non-resident shall have the same meanings** as assigned to it under the **Income Tax Ordinance, 2001**.
 3. **A person cannot be declared as a representative of a non-resident unless he has been given an opportunity of being heard. [58A(4)]**
-

SPECIAL PROCEDURES [71]

The **Sales Tax Law** contains a **series of Special Procedures** for **various matters**. These **special procedures are created by the FBR**. According to it, **irrespective of anything provided in the Sales Tax Act**, the **FBR is empowered to prescribe special procedures in respect of specified supplies**. These **special procedures** may contain provisions regarding:

1. **Scope and payment of tax**
2. **Registration under the Sales Tax Act**
3. **Book-keeping and invoicing requirements**
4. **Filing of returns**

Once a **special procedure** has been specified in respect of a **supply**, the **normal procedure laid down in the law will not be applicable for such supplies**. Most of the **special procedures** were prescribed under the **Sales Tax Special Procedures Rules, 2006**, which is replaced by the **SRO 1125(I)/2011 & 398(I)/2015**. Now, whenever there will be a need of any special procedure, it will be provided in the **Sales Tax Rules, 2006**.

CONDONATION OF TIME LIMIT [74]

In **any case or class of cases**, the **FBR is empowered to permit an application to be made or any act or thing to be done after the expiry of time limit** specified under the **Sales Tax Act or Rules**.

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The **FBR may do so at any time before or after** the expiry of such time or period.

The **FBR may empower any Commissioner to exercise the above-referred power of FBR** in any case or class of cases. This authority will be handed over to the **Commissioner through a notification in the Official Gazette**. The **FBR may impose certain limitations or conditions on the power of empowering the Commissioner**.

"Any act or thing to be done" includes any act or thing to be done by the registered person or by the authorities specified in section 30 of the Sales Tax Act, 1990.

VALIDATION OF NOTIFICATIONS AND ORDERS [74A]

The **Federal Government** retains powers to **issue notifications and orders under the Sales Tax Act, 1990. All such notifications and orders issued and notified before 01-07-2018** by the **Federal Government** by exercising its authority under the law shall be deemed as valid.

Notwithstanding any **omission, irregularity, or deficiency in the establishment** of enforcement authorities such as the **Directorate General (Intelligence and Investigation) Inland Revenue** or authorities appointed therein, or **orders passed, notices issued, and actions taken before 01-07-2018**, all such actions shall be deemed valid under the Sales Tax Act, 1990.

APPLICATION OF CUSTOMS ACT [75]

The **Federal Government** is empowered to notify that any of the provisions of the **Customs Act, 1969** shall be applicable to the tax imposed under Sales Tax Act. These provisions may be relating to the following matters:

1. **Levy of customs duty**
2. **Exemption from customs duty**
3. **Drawback of duty**
4. **Warehousing**
5. **Confiscation, penalty of offences and appeals**

The **Government** may make such **modifications or alterations** as are **considered necessary or desirable** to adapt them to the **circumstances**.

FEE AND SERVICE CHARGES [76]

The **Federal Government** may levy **fee and service charges** for valuation, in respect of any other **service or privilege provided** by any **formation under the control of the FBR, including Inland Revenue and Customs authorities**.

The **rates of fees and service charges** and **the conditions, limitations, or restrictions** shall be as **notified in the Official Gazette**.

The FBR may authorize and prescribe the manner in which fee and service charges collected shall be expended.

COMPUTATION OF SALES TAX LIABILITY

The amount of sales tax payable, refund claim, and input tax to be carried forward shall be determined as follows:

Total Tax Payable

Output Tax on supplies to:

- **Taxable persons:**
 - Registered persons (@ 18%) → XXX
 - Non-registered persons (@ 18% + 4%) → XXX
- **Zero-rated supplies** → XXX
- **Supply to DTRE registered person** → XXX
- **Exempt supplies (not taxable)** → XXX

Less:

- **Input Tax**
 - Taxable imports → XXX
 - Taxable purchases → XXX
 - Tax paid on utilities (Telephone, Gas & Electricity) → XXX
 - Zero-rated purchases → XXX
 - Exempt purchases → XXX

Sales Tax for the tax period → XXX

Add:

- **Arrears of tax** → XXX
- **Default surcharge** → XXX
- **Penalties** → XXX

Total Tax: XXX

Less:

- **Input tax carried forward from the previous tax period → XXX**
- **Unclaimed input tax from the previous tax period → XXX**

Net tax liability for the tax period → XXX

Important Notes:

1. **Supplies made by a registered person to non-registered persons** are subject to a **further tax @ 4%**. This tax is in **addition to the normal sales tax @ 18%**.
2. **According to section 8B(1), a registered person can claim credit of input tax up to a maximum of 90%** of the output tax for the tax period. However, under a **cut-off case**, if **input tax is more than the output tax**, the **registered person must still pay 10% of output tax**

CHAPTER - 30

REGISTRATION

REGISTRATION [14]

Registration means the registration of a person under the **Sales Tax Act, 1990**. The Act empowers the **Board** to make rules in this behalf. The registration shall be regulated in the manner prescribed under the **Sales Tax Rules, 2006 (STR), Chapter-1** (i.e., **Rules-1 through Rule-21** of STR) contains the provisions regarding **registration and de-registration** of persons. These provisions are discussed in the coming pages.

TYPES OF REGISTRATION

The **Sales Tax Act, 1990** and the **Sales Tax Rules, 2006** recognize the following different types of registration:

1. Registration through Application

This applies when a person **liable to be registered under the Sales Tax Act** submits an **application** for registration, which is then **granted by the concerned tax authority**.

2. Voluntary Registration

This applies when a person **not liable to be registered** opts for registration voluntarily under the Sales Tax Act. **A voluntary registration may fall under any of the following cases:**

1. Registration of such a person who is **making or intends to make taxable supplies**, but the **value of his supplies is below the threshold**.
2. Registration of a person **making exempt supplies but who does not desire to avail any tax exemption**.

Normally, a **person having more than a sufficient input tax and a lesser amount of output tax liability** will get **himself registered under the Sales Tax Act** to adjust the cost of the **registered tax**.

3. Temporary Registration

This applies **upon the application** of a person who applies for **registration as a manufacturer** when **importing plant/machinery**. Once the **case gets resolved**, the **person is allowed de-registration** if the import of machinery is **not liable to tax**.

4. Compulsory Registration

In cases where a **person is legally liable to be registered** but **does not apply for registration**, the **Commissioner Inland Revenue (CIR)** or another **competent tax authority** may **register the person compulsorily**. This **registration is done without the application** of the person.

PERSONS LIABLE TO BE REGISTERED [14(1) to (3)]

Any of the following persons **making taxable supplies in Pakistan**, if **not already registered**, are **required to be registered under the Sales Tax Act, 1990**:

1. **A manufacturer who is not running a cottage industry.**

REGISTRATION (Continued)

Persons Liable to be Registered (Continued)

2. **A retailer** who is liable to pay **Sales Tax under the Sales Tax Act** or its **Rules (excluding those who pay sales tax through electricity bills under sub-section 3(9) of the Act)**;
3. **An importer**;
4. **An exporter** who intends to obtain **sales tax refunds** against **his zero-rated supplies**;
5. **A wholesaler, dealer, and distributor**; and

6. A person **who is required under any law (Federal or Provincial) to be registered** for the purpose of **any duty of tax collected or paid** as if it were a **levy of sales tax** to be collected under the **Sales Tax Act**. (*Examples of such laws: Federal Excise Act, 2005, and Provincial laws regarding levy of sales tax on services*).

A person engaged in making taxable supplies in Pakistan may apply for registration if so required for making imports or exports or under any provision of any Federal law.

Registration under **ST&As** is **regulated by the Sales Tax Rules** notified by the **FBR** in the **official Gazette**.

APPLICABILITY OF RULES [Rule-3]

Chapter-1 of the **Sales Tax Rules, 2006**, is **applicable to the following persons**:

1. A person who is **liable to be registered** under the **Sales Tax Act**;
2. A person who is **required to be registered** under **any other Federal or Provincial law** for the purpose of **any duty of tax collected or paid** as if it were **sales tax** under the **Sales Tax Act**;
3. A person who is **subject to compulsory registration**;
4. A person who is **already registered** and **requires any changes in his particulars**;
5. A person who is **blacklisted** or whose **registration is suspended**;
6. A person who is **required to be de-registered**.

APPLICATION FOR REGISTRATION [Rule - 5(1)]

A person who is liable to **be registered shall** (*before making any taxable supplies*) **apply** on the **computerized system for registration** through an **owner, authorized member, partner, or director**.

Application for registration **shall be filed** with the **RTO in whose jurisdiction the registration is sought**.

RTOs shall be determined **as per the table given below**:

S. No	Person	RTO Having Jurisdiction
1	Companies: a. A public limited company or an unlisted public limited company .	Where the registered office is located.
	b. A private company , which is primarily engaged in manufacturing .	Where the factory is situated.
	c. Any other company which is engaged in business other than manufacturing or processing .	Where the main business activities are actually carried on.
2	An un-incorporated person.	Where the business is actually carried on.

DOCUMENTS TO BE ATTACHED WITH APPLICATION [Rule – 5(2)]

The **applicant having NTN or income tax registration** shall, using his **login credentials**, upload the following **information and documents**:

1. **Bank account certificate** issued by the bank in the **name of the business**;
2. **Registration or consumer number** with the **gas and electricity supplier**;
3. **Particulars of all branches** in case of **multiple branches** at various locations;
4. **GPS-tagged photographs** of the **business premises**;
5. In case of a manufacturer, also the **GPS-tagged photographs** of **machinery and industrial electricity or gas meter installed**; and
6. In case of a corporate manufacturer, individual, AOP, and small & medium company (SMC), a **balance sheet indicating the amount of business capital, assets, and liabilities**.

Note:

◆ **Electronic filing of the return shall only be allowed with prior authorization of CIR through IRIS.** *If such a person who is already registered does not fulfill this requirement, registration may be suspended.*

PROCEDURE FOR REGISTRATION [Rule-5(3) to 5(6)]

1. **Application** along with the **prescribed documents** shall be submitted.

2. On **furnishing the above-referred documents**, the **system shall register the applicant for sales tax**.
3. **SMC shall register an individual, AOP, and SMC only if the balance sheet has been uploaded in IRIS and LRO has approved the application through an order in IRIS**.
4. **Within one (1) month of the registration, the applicant or his authorized person shall visit e-Sahulat Centre of NADRA for bio-metric verification.**
 - **The individual, any member of an AOP, and a director of an SMC shall visit e-Sahulat Centre of NADRA along with the original and copy of CNIC.**
 - **The biometric verification shall only be done once every year.**
 - **Failure to do so within the prescribed time limit shall only be made with prior authorization of the Commissioner IR.**
5. **In case of failure to visit or failure of verification, the registered person's name shall be taken off the Sales Tax Active Taxpayers List.**
6. **In case of mass authentication, the FBR may require pre-verification or post-verification through field offices or an authorized third party.**

TEMPORARY REGISTRATION [Rule-5A]

Temporary registration applies to **a person who has applied for registration as a manufacturer but has not yet installed machinery**. Under this case, **temporary registration is granted for the purpose of importing machinery to be installed by him**. Legal provisions connected with **temporary registration** are as follows:

1. **The temporary registration is allowed for a period of sixty (60) days, subject to:**
 - **Furnishing a complete list of machinery to be imported, along with applicable import documents (e.g., Bill of Lading or Goods Declaration).**
2. **Registration shall be issued through the computerized system within 72 hours of the filing of a complete application.**
3. **With this registration, the person shall be allowed to import plant, machinery, and raw materials meant for use in the manufacturing setup.**
 - **If customs authorities suspect misuse, they may issue a post-dated cheque equal to the difference in duties and taxes.**
4. **After the expiry of the temporary registration:**

- The person **must provide evidence** that the **imported machinery has been installed**.
 - **GPS-tagged photographs** of the **business premises** shall be submitted within **60 days** of issuance of **temporary registration**.
5. If a person **has not installed the machinery within sixty days**, he **must return the import documents and benefits obtained**.
 6. The **registered person cannot issue tax invoices** under **temporary registration**.
 7. The amount of **input tax paid during temporary registration** shall be **carried forward to subsequent tax periods**.
-

COMPULSORY REGISTRATION [Rule-6]

Compulsory registration applies when a **person liable to be registered fails to register**. The procedure is as follows:

1. **The registration authority may issue a notice** to the concerned person.
2. **If no response is received, the Commissioner may register the person compulsorily**.
3. **The person shall be liable to pay sales tax from the date of compulsory registration**.
4. If a **registered person remains unregistered**, his **registration will be done through the computerized system and intimated without courier service**.

CHANGE OF REGISTRATION [Rule-7]

- After receiving a **registration certificate**, if there is **any change** in the **name, address, or other particulars**, the **registered person must apply for modification**.
- The **change must be recorded in the computerized system within 14 days** of such a change.
- **Change in business category** (e.g., from **Manufacturer** to another category) is **allowed** only if the **necessary rules and conditions are fulfilled**.
- Upon **approval of the change**, a **revised registration certificate will be issued**, effective from the date when the new information was applied.
- The **tax authorities may modify the registration** based on **available information** after providing a **reasonable opportunity for the person to respond**.

TRANSFER OF REGISTRATION [Rule-8]

- The **Federal Board of Revenue (FBR)** may transfer **registration of a person** from:
 - **Large Taxpayer Unit (LTU)** to **Regional Tax Office (RTO)**, or vice versa.
- The **responsibilities and liabilities** of the registered person **will also be transferred** to the new jurisdiction.
- **FBR shall issue an intimation letter** to the **registered person** when such a **transfer occurs**.
- The **person must file tax returns** with the new **RTO or LTU** after the transfer.
- If a **person wishes to transfer their own registration**, they **must apply to the FBR** for approval.

OPTION TO FILE APPLICATION WITH COMMISSIONER [Rule-9]

- If a **person applies for registration directly to the Commissioner**, the Commissioner **ensures the application is processed within 3 days** through the computerized system.

DE-REGISTRATION [21(1) & Rule-11]

The **Federal Board of Revenue (FBR)** or an authorized officer **may de-register a registered person** if they **no longer fulfill the requirements** of the **Sales Tax Act, 1990**.

A **registered person may also apply** for cancellation of their registration in the following cases:

1. If they **cease business operations**.
2. If the **supplies they make become exempt** from sales tax.
3. If the **person no longer wishes to remain registered**.
4. If a person **initially registered for refunds** now **wants to cancel the registration** because they no longer meet refund requirements.
5. The **Commissioner may de-register a person** who **fails to file tax returns** for six consecutive months.

Procedure for De-Registration

1. A person **may apply** for de-registration through the **Commissioner**.

2. The Commissioner **may also initiate de-registration** on their own.
3. A person **will not be de-registered** if they **fail to provide records** for **audit or inquiry**.
4. The Commissioner must complete **de-registration proceedings within 90 days**.
5. If the Commissioner finds that de-registration is justified, they must ensure:
 - **All tax liabilities have been cleared.**
 - **The final return has been filed.**
 - The case is **referred to the Large Taxpayer Unit (LTU) or Regional Tax Office (RTO)** for further processing.
6. **De-registration cannot occur** if the person **has not filed sales tax returns for six consecutive months** unless they are **given an opportunity to be heard**.

Impacts of De-Registration

1. The person **no longer needs to maintain sales tax records** but must **keep previous records for six years**.
2. They **cannot charge sales tax** after de-registration.
3. They **cannot claim input tax deductions**.

Stocks at the Time of De-registration

Closing Down the Business or Continuing to Trade Below the Threshold:

- If a person ceases business operations, they must **account for sales tax on all stocks and assets in hand** at the time of de-registration.

Transferring the Business as a Going Concern or Change in the Legal Status of the Registered Person:

- If the **business is transferred** to another **registered person**, no **tax accounting is needed** for stock and assets in hand.
- However, if the **business is transferred to a non-registered person**, the seller must **account for sales tax on all stocks and assets** at the time of transfer.

SUSPENSION OR BLACKLISTING OF A REGISTERED PERSON [21(2) to (4) & Rule-12]

1. **The Commissioner** may order the **suspension or blacklisting** of a registered person if they:
 - **Commit tax fraud.**
 - **Evade tax.**
 - **Fail to deposit tax** on their supplies **after recovering it from buyers.**
2. In such cases, the Commissioner will:
 - **Suspend registration and conduct a detailed inquiry.**
 - If fraud is proven, the **person may be blacklisted** and **de-registered.**
 - During the **suspension period**, invoices issued by the person **will not be entertained** for tax purposes.
3. The **FBR** may also **blacklist a registered person** if they:
 - **Issue fake or flying invoices.**
 - **Engage in fraudulent tax refunds.**
 - **Do not conduct actual business activities.**
 - **Are involved in any fraudulent activity.**
4. The **Commissioner** may **direct further legal action** against a blacklisted person.

Modification of Blacklisting Order by Chief Commissioner [21(5)]

The Chief Commissioner may modify the order of suspension and blacklisting subject to the following provisions:

1. The CCIR may call for and examine the record of proceedings and the order of suspension and blacklisting, either of his own motion or on application of a registered person.
2. CCIR shall make order after making necessary inquiry; and
3. Before passing the order, opportunity of being heard shall be provided to the registered person.

Procedure for Suspension and Blacklisting

The following procedure shall be followed by the LTUs and RTOs for suspension and blacklisting of registered persons:

Suspension:

1. The Commissioner having jurisdiction may suspend the registration of a person through the system **without prior notice**, pending further inquiry. Such an action may be taken if he is satisfied that the person has **issued fake invoices, evaded tax or committed tax fraud**. The basis for such satisfaction may include:
 - a) **Non-availability** of the registered person at the **given address**;
 - b) **Refusal** by the registered person to allow **access to business premises** or furnish records to an authorized officer;
 - c) **Abnormal tax profile** e.g. taking excessive **input tax adjustments**, continuous **carry forward** or sudden **increase in turnover**;
 - d) **Making suspicious purchases** from or **making supplies** to other **blacklisted or suspended persons**;
 - e) **Non-filing** of sales tax **returns**;
 - f) **Recommendation** by any other **Commissioner**; or
 - g) **Any other reason** to be specified by the **Commissioner**.
2. The **suspension order** shall be in writing and shall **contain the reasons for suspension**. For the purpose of **information and necessary action** as per law, the **copy of the order** shall be endorsed to the following:
 - a) The concerned registered person;
 - b) All other **LTUs and RTOs**;
 - c) The **FBR's computer system**;
 - d) The **STARR computer system**; and
 - e) The **Customs Wing computer system**.
3. **A registered person** who has not filed sales tax return for **six (6) consecutive months** shall be **suspended through the system without any notice**.
4. Where the **buyers and suppliers** of such a person **whose registration is suspended** are also required to be **suspended**, the Commissioner shall **inform the Chief Commissioner** of the concerned **LTU/RTO** complete facts of the case along with the **reasons requiring suspension**.

of these buyers/suppliers. On the basis of this intimation proceedings for suspension and blacklisting of these persons shall be initiated.

5. **During the currency of suspension** the registered person shall **not be entitled to adjustment and refund of input tax**. Similarly, invoices issued by such person shall **not**

be accepted for claiming input tax by his customers. The invoices may be **rejected** whether issued prior to or after suspension of registration.

6. **Within seven (7) days** of issuance of **suspension order** the Commissioner shall issue a **show-cause notice** through registered post or **courier service**. The notice shall clearly state that the person **shall be blacklisted**, within **fifteen (15) days** of the issuance of **show-cause notice**, if:
 - i) The person has not provided the required record;
 - ii) The person has not allowed access to his **business records or premises**; and
 - iii) Where there is no **reasonable excuse** specified by the Commissioner.
 7. Where the **suspended person** is not **available at the given address**, the notice may be **affixed on the main notice board of the LTU/RTO**.
 8. The **suspension order shall become void ab-initio** if the above-referred **show-cause notice** is **not issued within seven (7) days** of the suspension order.
 9. The Commissioner may **revoke the suspension** of a registered person if he is satisfied on the **basis of the reply** to the **notice** and **representation of the person**.
-

Blacklisting:

1. Where the **offence is confirmed** (after giving an opportunity of being heard), the Commissioner shall issue **order for blacklisting** and **proceed to take legal and penal action under the Sales Tax Act, 1990**. The order shall be appealable **self-speaking** and shall contain the following:
 - i) The **reasons for blacklisting**;
 - ii) **The time period** for which **any refund or input tax** claimed by such person or **any other person** on the basis of invoices issued by him from the **date of his registration** shall be treated as **inadmissible**; and
 - iii) **Any recovery to be paid or penalties to be imposed**.
2. **The order of blacklisting shall be issued within ninety (90) days** of the issuance of **notice of blacklisting**. If such **order is not issued within the specified time**, the **suspension order shall become void ab-initio**.
3. Copies of the **order of blacklisting** shall be **forwarded** to all **such persons** from whom the **suspension order was intimated**.

4. Each **LTU/RTO** shall circulate the **lists of blacklisted persons** to their **refund sections, audit sections and other concerned zones** to make sure that the **order is properly implemented**.
5. **All LTUs/RTOs** shall **circulate the copies of the order** along with a **computer-generated list of invoices issued by blacklisted persons**. It is **circulated to all officers** having jurisdiction over the **persons who have claimed credit or refund of input tax** on the **basis of the invoices issued by the blacklisted person**.

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6. **The officers, who have received the list as above, shall issue show-cause notices** to concerned persons under **§11 and 21(3)** for rejecting the input tax or refund claimed against the invoices circulated. **After due proceedings the matter will be decided** and a **self-speaking appealable order** shall be issued.

ACTIVE TAXPAYERS LIST [21(4)]

Maintaining **active taxpayers list** is the responsibility of the **Federal Board of Revenue (FBR)**. In this regard, the law empowers **FBR to prescribe Rules** containing the manner in which the list is to be **maintained** and the **restrictions and limitations** to be imposed on a person who ceases to be an active taxpayer.

NON-ACTIVE TAXPAYERS [Rule-12A]

1. A registered person who does **not fulfill any** of the conditions contained in the definition of **"active taxpayer"** shall automatically become a **"non-active taxpayer"**. The name of such person shall be **removed from the active taxpayers list** maintained by the **FBR**.
2. A **non-active taxpayer shall not be entitled to:**
 - i) **File Goods Declarations for import or export;**
 - ii) **Issue sales tax invoices;**
 - iii) **Claim input tax or refund; or**
 - iv) **Avail any concession** under the **Sales Tax Act, 1990** and the **Rules made thereunder**.
3. **All persons including Government departments, autonomous bodies, and public sector organizations are prohibited** to make **any purchases from a non-active taxpayer**.

4. **Where a person has made purchases from a non-active taxpayer and makes entry in Annexure-A of his return, a message will appear that the supplier is a non-active taxpayer and credit shall not be admissible for input tax against such invoices.**
-

RESTORATION AS AN ACTIVE TAXPAYER [Rule-12B]

A non-active taxpayer may be restored as an active taxpayer if the following conditions are fulfilled:

1. **The registered person files the return or wealth statement along with payment of any tax due under the Sales Tax Act, 1990 or the Income Tax Ordinance, 2001;**
 2. **The RTO or LTU having jurisdiction over the registered person recommends to the FBR for restoration. Such a recommendation may be made after conducting necessary audit or other investigation; and**
 3. **The FBR issues an order for restoration as an active taxpayer.**
-

DISCONTINUANCE OF GAS AND ELECTRICITY CONNECTIONS [14A&B]

1. **The FBR may, through Sales Tax General Order, direct the gas and electricity distribution companies for discontinuing the gas and electricity connections of any person who falls in the following categories:**
 - i) **Retailers (including Tier-1 retailers) who fail to register for sales tax purpose or**
 - ii) **Tier-1 retailers registered but not integrated with FBR's Computerized System.**
2. **Where such person is registered or integrated, the FBR shall notify the restoration of their gas & electricity connection through Sales Tax General Order.**
3. **Synopsis of Taxes - Sales Tax: Records & Books [30-528]**

CHAPTER-31

RECORDS AND BOOKS

RECORDS TO BE KEPT BY REGISTERED PERSONS

Sections 22 through 25 deal with the books and records to be maintained under the Sales Tax Act, 1990. Under the provisions of the Sales Tax Act, a registered person making taxable supplies shall maintain the following records of goods purchased, imported, and

supplies (including zero-rated and exempt supplies) made by him or by his agent on his behalf. [22]

. Records of goods purchased showing the following information:

- i) The description of the goods,
- ii) The quantity of the goods,
- iii) The value of the goods,
- iv) The name, address, and registration number of the supplier, and
- v) The amount of tax on the purchases.

2. Records of supplies made showing the following information:

- 4. i) The description of the goods,
 - ii) The quantity of the goods,
 - iii) The value of the goods,
 - iv) The name and address of the person to whom supplies were made, and
 - v) The amount of tax charged.
5. 3. Records of goods imported showing the following information:
- 6. i) The description of the goods,
 - ii) The quantity of the goods,
 - iii) The value of the goods, and
 - iv) The amount of tax paid on imports.
7. 4. Record of zero-rated supplies.
5. Double entry sales tax accounts.
6. Record of exempt supplies.
8. 7. Invoices.
9. 8. Credit / debit notes.
10. 9. Bank statements.
11. 10. Banking instruments in terms of section 73.
12. 11. Inventory records.
13. 12. Utility bills.
14. 13. Salary and labour bills.
15. 14. Cash books.
16. 15. Rental agreements.

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16. Sale-purchase agreements.

17. Lease agreements.

18. Record relating to gate passes, inward or outward, and transport receipts.

19. Electronic version of records mentioned above.

20. Such other records as may be specified by the Board.

Notes:

1. The above records are to be maintained by the registered person at his business premises or the registered office.
 2. The records shall be maintained in English or Urdu language.
 3. The Federal Board of Revenue may require any person or classes of persons to keep such other records as specified by the Board. **[22(2)]**
 4. The person paying retail tax shall keep such record as may be specified by the Board.
Now the retailers fall under two categories, i.e., paying tax under the normal regime u/s 3 of the Sales Tax Act, 1990 and paying tax through electricity bills. Under both cases, a retailer shall keep records applicable to his particular case.
-

USE OF SPECIFIED BANK ACCOUNTS [22A(1)]

The Board may, by notification, require a registered person or class of registered persons to declare and use only such number of business bank accounts as specified by the Board. Only these accounts shall be used for making or receiving payments on account of purchase or sale transactions and making payment of tax due.

KEEPING RECORDS ON COMPUTER [22A(2) & (3)]

A registered person may keep his business records in such form and manner as may be prescribed by the **FBR**. The **FBR** may specify that:

1. Any class of registered taxable persons shall use such **electronic fiscal cash registers** as approved and prescribed by the FBR;
2. In respect of a person or class of persons, the Board is empowered to prescribe or approve the procedure or software for the following purposes:
 - i) **Electronic maintenance of records;**
 - ii) **Filing of sales tax returns;**
 - iii) **Filing of refund claims; and**
 - iv) **Any other matter.**

SUBMISSION OF ANNUAL AUDITED ACCOUNTS [22(4)]

Companies which are also registered under the Sales Tax Act are required to submit a copy of the annual audited accounts, along with a certificate by the auditors certifying the payment of due tax by the registered person

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TAX INVOICE [23]

The law requires that every registered person shall issue a tax invoice at the time of making a supply of goods. The tax invoices shall contain the following particulars in Urdu or English language: **[23(1)]**

1. **Serial Number;**
2. **Name, address and registration number of the supplier;**
3. **Name, address and registration number of the recipient and in case of supplies by manufacturer or importer to unregistered distributor, the NIC or NTN of such unregistered distributor;**
4. **Date of issue of the invoice;**
5. **Description, quantity, unit, and condition in case of textile yarn and fabric) of the goods;**
6. **Value of the goods (exclusive of sales tax);**
7. **Amount of Sales Tax; and**
8. **Value inclusive of sales tax.**

Only one tax invoice shall be issued for a taxable supply. If the original one is lost a copy clearly marked as "**COPY ONLY**" may be issued.

The Federal Board of Revenue may specify modified invoices for different persons or classes of persons.

Notes:

1. Tax invoice shall be issued only by the following persons: **[23(2)]**
 - i) A registered person; and

- ii) A person paying retail tax.
- 2. An invoice issued by a retailer (paying retail tax) cannot be termed as tax invoice because in this case it does not contain the amount of sales tax.

Issuance of Invoices Electronically [23(3)]

A registered person making a taxable supply shall issue electronic invoices. It shall be subject to such conditions, restrictions, and limitations notified by the **FBR**.

Procedure for Regulating Tax Invoices [23(4)]

The **Board** may by notification in the official Gazette, prescribe the manner and procedure for regulating the issuance and authentication of tax invoices.

PROCEDURE FOR ISSUANCE OF ELECTRONIC SALES TAX INVOICES (ESTI)

[Rules 1500 to 150Z, SRO 1525(1)/2023 of 12-12-2023 & SRO 28(1)/2024, dated 10-01-2024]

A special procedure for issuance of electronic sales tax invoices (ESTI) by "integrated supplier" has been notified. **Currently, it applies to following suppliers of "fast moving consumer goods":**

1. **All importers and manufacturers,**
2. **All wholesalers (including dealers), distributors, and**

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3. **All wholesaler-cum-retailers engaged in bulk import and supply on wholesale basis to the retailers.**

Integrated Supplier means a registered person notified by **FBR** under rule 1500 of the **Sales Tax Rules, 2006**. *(Currently, the above-mentioned three categories of registered persons dealing in FMCG are integrated suppliers.)*

"Fast Moving Consumer Goods" (FMCG) means a consumer good which are supplied in retail marketing as per daily demand of a consumer, excluding durable goods.

Transmission of Sales Tax Invoices Electronically (SRO 28(1)/2024, dated 10-01-2024)

W.e.f. 01-02-2024, the above-referred three categories of suppliers of **FMCGs** shall transmit sales tax invoices electronically.

Provisions of the Special Procedure

- 1. An integrated person shall install electronic invoicing system (EIS) provided by a person, licensed under the Sales Tax Rules, 2006.**
- 2. Integrated person shall not make any sale or supply without being recorded in EIS.**
- 3. The integrated supplier shall issue a real-time verifiable ESTI for every taxable supply and service made.**
- 4. The record and documents shall be retained on electronic media for six (6) years.**
- 5. Integrated supplier shall comply with all specified requirements for integration, recording, storage, issuance and transmission of verifiable electronic invoices in real-time. It may be provision in any hardware, software or connectivity required for integration and operations of EIS.**
- 6. The authenticity and integrity of the data shall be ensured by the registered person. Prevention from loss and corruption of data during the storage shall also be ensured.**
- 7. Invoice data shall be stored in such manner that information at the time of original transmission of invoice could be re-created at the time of departmental audit.**
- 8. The integrated supplier shall allow physical and online remote access to the record, system, logs and instruments maintained in electronic form as and when required u/s 25 of the Sales Tax Act.**
- 9. A registered buyer who receives ESTI shall fulfill the same criterion and conditions for storing as apply to the supplier.**
- 10. A buyer may, with approval of CIR, store ESTI in a paper-based system.**
- 11. On contravention, an integrated supplier shall be liable to penal action as provided in the Sales Tax Act.**
- 12. All provisions of Electronic Transactions Ordinance, 2002, relating to the recognition of documents, records, information, communication and transaction in electronic form, accreditation of certification service providers and for other related matters, shall apply.**

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RETENTION OF RECORD AND DOCUMENTS [24]

13. The records and documents maintained under the **Sales Tax Act** shall be retained for **six (6) years** after the end of the relevant tax period.
14. Where any proceedings for **assessment, appeal, revision, reference, petition** and **Alternative Dispute Resolution** is pending, the records shall be maintained for a further period till the final decision is made.

Synopsis of Taxes - Sales Tax: Returns [32-533]

CHAPTER-32

RETURNS

‘Return’ means any return required to be furnished under Chapter-V of the **Sales Tax Act, 1990** (i.e., sections 26 to 29).

A registered person is liable to file a tax return with the Sales Tax Authorities. The sales tax department may require filing of the following different types of returns:

1. **Monthly sales tax return** (u/s 26);
2. **Quarterly return** (u/s 26);
3. **Annual return** (u/s 26);
4. **Special return** (u/s 27); and
5. **Final return** (u/s 28).

SALES TAX RETURN [26]

A return, which is furnished by every registered person within the **due date** for the purchases and supplies made, tax due and paid, and other prescribed information during a **tax period**, is termed as **Sales Tax Return**.

A true, complete, and correct return is to be filed in the prescribed form with a **designated bank** or any other **office** specified by the **Board**.

It is to be noted that **every registered person**, irrespective of the fact whether he has made any **taxable supply** during a tax period or not, shall be liable to furnish the **sales tax return** for every tax period. (28(1))

Normally, the sales tax return is a **monthly return** to be filed by the due date. However, the **Board** is empowered to notify that **certain persons or class of persons should submit returns quarterly**.

The **Board may further require** any person or class of persons to submit a **prescribed return annually**.

This return shall be in addition to the **monthly return** or **quarterly return** being filed by registered persons.

Filing through Electronic Media

Filing a return electronically on the web or **any magnetic media** or **any other computer-readable media** specified by the Board shall be deemed to be a return **as required under section 26(1)**.

The Board shall make rules for **determining eligibility of the data of such returns** and **e-intermediaries**, who will **digitize the data of such returns** and transmit the same electronically under their **digital signature**.

Filing of Monthly Returns

Rule-13 through Rule-18 of the **Sales Tax Rules, 2006** deals with the matters connected with the **filing of monthly returns**. Important provisions of the **Rules** are summarized below:

1. These Rules are applicable to all such **registered persons** who are required to file a return **u/s 26** of the **Sales Tax Act, 1990**.
2. Every person who is registered under the **Sales Tax Act, 1990** or the **Federal Excise Act, 2005** shall file his return in the prescribed form **STR-7** along with all annexures. The

Synopsis of Taxes - Sales Tax: Returns [32-534]

Instructions given in the form shall be adhered to and the return shall be filed electronically. **[R-14(1)]**

1. Manufacturers of goods specified in **proviso to sub-rule (1) of rule 14** shall furnish details of such goods manufactured and supplied in **prescribed Annex-I** of the Return using the specified **units of measurement**. (*Proviso to R-14(1)*)
2. Where a registered person operates in different sectors **for which different dates of filing of return have been prescribed** in the rules, such person shall file a **single return for all such sectors** by the due date applicable to his **major activity** in terms of **sales tax** or **federal excise duty** payable. (*R-14(2)*)

3. Without approval from the **Commissioner**, a **return cannot be filed** if it is not filed within **six (6) months after the due date.** (R-14(3))
-

ANNUAL SALES TAX RETURN [Rule-17]

Section **26(1)** provides that **Board may require** certain persons to file **annual sales tax return**. The **Board** has prescribed the **rules for this purpose**.

According to these rules **every such person** (whether private or public company) which is registered under the **Sales Tax Act** is also **required to file an annual sales tax return for each financial year in a specified form**.

This **return is to be filed with the RTO** having jurisdiction.

The **last date for filing an annual return is 30th September** of the following financial year.

ELECTRONIC FILING OF RETURN [26(1) & Rule-18]

Filing a return electronically on the **web**, or **any magnetic media** or **any other computer-readable media** specified by the **FBR** shall be deemed to be a **return as required u/s 26(1)**.

The **FBR** shall make rules for:

- Determining eligibility of the **data of such returns** and **e-intermediaries**
- Who will **digitize the data of such returns** and **transmit the same electronically** under their **digital signature**.

Provisions of STR relating to electronic filing of return are as below:

1. Every **registered person required to file return** or any other statement **u/s 26 or 27** or under any **notification shall file the same electronically**. The **manner of filing the return shall be as specified by the FBR through a general order**.
2. Where a **registered person fails to fill-in relevant data or information** in the **sales tax return or in any of its annexures**, the return shall be **treated as invalid**.
3. Where the sales tax return is **submitted by a non-manufacturing individual, an AOP, or a single-member company (SMC)** are **five times more** than the **sum of the capital and liabilities appearing in the balance sheet of the business**, the return shall only be made valid **upon prior authorization by the Commissioner**.

The electronic return designed pursuant to the Change Request Forms (CRFs), and Finalized made operable via portals of the FBR shall be deemed as returns under section 26.

4. **Provisions relating to admissibility of input tax** under the **STA** and the **Federal Excise Act, 2005** with a **condition that the supplier is active** and the **supplier in his return has declared the corresponding sales tax and federal excise returns**.
5. A registered person shall **enter the data of supplies and Debit or Credit Notes** in **prescribed annexures** and **submit that data by the 10th of the month following the tax period**.

Synopsis of Taxes - Sales Tax: Returns [32-535]

- **Submission:** The said data will be immediately available to the respective registered buyer in his "**Purchase Data**" and "**Debit or Credit Note Data**". In order to prepare his return, the buyer shall **load this data in his prescribed annexures**.
 - The **data relating to purchases made from unregistered persons** or from **registered persons** as allowed by the **FBR** for this purpose shall be **manually entered by the buyer**.
7. **Return filed by the buyer** for a tax period shall be **taken as provisional** until the respective **seller files his return** for the same tax period **up to the last date of the month** in which the due date of filing of return falls.
 - Where by the **last day of the month** in which the due date falls:
 1. **Seller fails to file his return, IRIS shall delete the invoices issued by the non-filer seller** and compute the **sales tax liability of the buyer accordingly**. After payment of his sales tax liability, **so computed, the provisional return shall be taken as valid by IRIS; and**
 2. **Seller files his return and pays sales tax liability, the provisional return of the buyer shall be taken as valid by IRIS** with the claim of **invoices from the seller** and corresponding input tax **after payment of the sales tax liability**.
 8. **The FBR's automated system shall inform** a registered person that **all his suppliers have filed their monthly sales tax and federal excise returns, if his all suppliers have declared their supplies made to him** and have **filed their respective returns** for the tax period.
 9. Where a **registered person declares an amount of sales tax withheld by a withholding agent, but does not declare the corresponding sales to such withholding agent** in his

return, the amount of sales tax withheld and reduction in output tax shall not be allowed.

10. Where any buyer of the registered person has not accepted the Credit Note in the monthly return in the **filing of return by the supplier**, the supplier shall be **allowed provisional reduction of such amount**. If the **buyer fails to declare the tax withheld by the 10th day of the next month**, then **credit in respect of tax so withheld shall be adjusted or recovered**.
11. The registered person shall be **advised by FBR's automated system to contact the said buyer and remind him to declare the tax withheld**. In the **absence of any response**, the **registered person could get the benefit of reduction of output tax**. After declaration, the objection shall stand settled and the registered person shall be informed accordingly.
12. Same procedure, as discussed above, shall also apply where any buyer of a registered person has not accepted a Credit Note issued by him.
13. Where required actions (as under S. No. 10 & 11 above) are not taken, the inadmissible input tax credit and reduction in output tax in respect of withholding of sales tax or Credit Note shall be **adjusted or recovered** through next return of the registered person.
14. Credit of input tax shall be allowed to a registered person in respect of such supplies which his supplier has declared in his return.
15. A reduction in output tax shall be allowed to a registered person for such amount of tax withheld and declared by his buyer.
16. A reduction in output tax shall be allowed to a registered person if his buyer has accepted the Credit Note issued by him.
17. The disallowed reduction of output tax shall appear in the monthly sales tax and federal excise return of the registered person with an advice to contact and persuade the respective buyer.

Synopsis of Taxes - Sales Tax: Returns [32-536]

17. The person filing the return electronically shall make payment of the tax, if any, in any of the designated **branches of the National Bank of Pakistan** on the **payment challan** in the **prescribed STR-11**. The **payment of tax may also be made through an electronic payment system** devised for this purpose.

18. Where the due date has been prescribed as 15th of a month, the tax due shall be paid by the 15th and the return shall be submitted electronically by 18th of the same month.

Filing of Returns by Specified Persons (*Proviso to R-18(4)*)

As discussed earlier, a **registered person is required to pay tax by 15th and file return by 18th of the next month**. However, the following **registered persons shall pay tax and file return by the dates** as mentioned against each of them:

S. #	Persons	Due Date for Payment of Tax & Filing of Return, Respectively
1.	Electricity distribution companies	18th and 21st of the month following the tax period in which bill or invoice is issued
2.	Independent power producers	22nd & 23rd of the month following the tax period to which sales tax invoice relates
3.	Gas transmission and distribution companies	15th and 18th of the month following the tax period in which supply was made
4.	Petroleum exploration production companies	18th and 21st of the month following the tax period in which supplies were made
5.	CNG dealers (<i>on quarterly basis</i>)	15th and 18th of the month following the end of the quarter of the financial year
6.	Brick manufacturers-paying tax under 10th Schedule (<i>on quarterly basis</i>)	15th and 18th of the month following the end of the quarter of the financial year
7.	WAPDA Hydroelectric Power	18th and 21st of the month following the tax period in which supplies were made

Filing of Specified Information [26(5)]

The **Board has an authority** to require **any person or class of persons** to furnish **such summary or details** as may be **notified by it**. The **notification shall also contain the details** regarding the **goods for which the information is required**. Generally, the **information will be regarding the imports, purchases, and supplies during the tax period(s)**.

Revised Sales Tax Return [26(3) & (4)]

Where a **registered person**, after **filing a sales tax return**, finds **any omission or wrong statement** in it, **he may file a revised return**.

- **Under such a case**, the **person shall be required to pay the amount of tax short paid** along with the **default surcharge payable under Section 34**.
- **Penalties under Section 33** shall be **payable as per the following table**:

(Table not visible in this page, may continue in next page...)

Synopsis of Taxes - Sales Tax: Returns [32-537]

S. No.	Situation	Quantum of Penalty
1.	Payment before receipt of notice of audit.	Nil
2.	Payment during audit or before issuance of show-cause notice.	25% of the penalty u/s 33.
3.	Payment after issuance of show-cause notice.	Full amount of penalty u/s 33.

Conditions for Filing Revised Return [26(3)]

In order to file a **revised sales tax return**, a **registered person has to fulfill** the following conditions:

1. **Approval of the Commissioner Inland Revenue** having jurisdiction over the registered person has been obtained;
2. The **revised return** can be **filed within one hundred and twenty (120) days** of the **filing of the original return**;
3. The **object of filing the revised return** should be **to correct any omission or wrong declaration** made in the sales tax return;
4. **Approval of the Commissioner shall not be required** if:
 - i) The revised return is **filed within sixty (60) days** of filing of return; and

- ii) Either the tax payable therein is **more than the amount paid** or the **refund claimed therein is less than the amount** as claimed under the return sought to be revised.
-

EXTENSION OF TIME FOR FURNISHING RETURNS [26A(8)]

1. A **person required to furnish a return under section 26** may **apply to the Commissioner** for an **extension of time** to furnish the return.
 2. An **application shall be made in writing** and by the **due date for furnishing the return** for the period to which it relates.
 3. The **Commissioner may, by order in writing, grant an extension**, if he is **satisfied** that the applicant is unable to furnish the return due to:
 - i) **Absence from Pakistan;**
 - ii) **Sickness or other misadventure; or**
 - iii) **Any other reasonable cause.**
 4. An **extension shall not exceed fifteen (15) days** from the due date for furnishing the return. **Extension of a longer period may be granted where exceptional circumstances so justify.**
 5. Where the **Commissioner has not granted an extension**, the **registered person may apply to the Chief Commissioner**, who may **grant an extension or further extension** for a period **upto fifteen (15) days**. Under exceptional circumstances, a **longer extension may be granted**.
 6. **For the purpose of charging default surcharge under section 34**, an **extension or further extension shall not change the due date for payment of sales tax under section 6.**
-

SALES TAX RETURN ON DEMAND [26A(2A)]

Where the **officer of Inland Revenue** is of the opinion that a **person is required to file a return** but **he has not filed the return**, he **may issue a notice** to such person requiring him to furnish...
(text may continue on the next page)

Synopsis of Taxes - Sales Tax: Returns [32-538]

The **return or returns** within **fifteen (15) days** from the date of service of such notice. The officer may fix the longer or shorter period as specified in the notice.

Period for Issuance of Notice

The notice for **filing of return** shall **only be issued within** the following period:

Cases	Notice May Be Given Within:
Tax fraud cases	Fifteen (15) years from the end of the financial year in which the return was due to be filed
Other cases	Five (5) years from the end of the financial year in which the return was to be filed

SPECIAL RETURN [27]

In addition to sales tax return, a **registered person may be required to furnish a special return** for such period and within such date as **notified by the FBR. Special return shall indicate information** such as:

1. **Quantity manufactured or produced;**
2. **Purchases made;**
3. **Goods supplied; or**
4. **Payment of arrears made, etc.**

The **Commissioner may also require any person** (whether registered or not) to **furnish a return** within a **specified period**. The Commissioner may require **furnishing of such return** from a person **either on his own behalf or on behalf of some other person as his agent or trustee**.

FINAL RETURN [28]

The **Commissioner may require a person applying for de-registration to furnish a final return** before allowing **de-registration**. The Commissioner specifies the time within which the final return is to be furnished.

AUDIT OF SALES TAX AFFAIRS [25]

Provisions regarding **audit of sales tax affairs** of a registered person are as below:

1. **CIR may direct** the officer of **Inland Revenue (not below the rank of Assistant Commissioner)** to **conduct audit of sales tax affairs** of any **registered person**. While doing so, the **following points must be adhered to**:
 - i) **The basis of reasons shall be recorded in writing; and**
 - ii) **A notice shall be issued to the person intimating him regarding audit of sales tax affairs.**
2. The **CIR is authorized to direct the conduct of audit** and to issue a **notice independent of the powers of the FBR u/s 72B of STA**. That section does **not restrict the powers of CIR to direct conduct of audit and issue of notice**.
3. The **CIR shall communicate through notice the reasons** to the **registered person** whose audit is to be **conducted**. The **CIR may not provide an opportunity of being heard before issuance of the notice**.

Synopsis of Taxes - Sales Tax: Returns [32-539]

4. The **reasons for audit** shall be **based on scrutiny** of the **available records** including **sales tax and federal excise returns, income tax returns and withholding statements, financial statements or third-party information**.

However, the reasons **shall not include** the mere **verification of input tax, output tax, refund claim and compliance of legal provisions** without identifying risk factors that require such verification.

5. For the **purpose of conducting audit**, the officer **may call for any record or documents including electronic records maintained under any law**. Where such record or documents have been **maintained electronically**, the officer conducting the **audit shall be allowed access to the use of machine and software** on which such data is kept. The officer may obtain attested **hard copies** of such information or data.

The officer **shall not call for record or documents after expiry of six (6) years** from the end of the financial year to which they relate.

6. The **officer may require the person to attend at his office in person** or through an **authorized representative**. The person **shall produce such accounts, documents or evidence** as the officer may consider necessary.

7. The **officer (not below the rank of Assistant Commissioner)** may **conduct or cause to be conducted such enquiry and obtain such information from any third party** as he considers appropriate.
 8. The **officer shall conduct audit to verify the correctness** or otherwise of the **declared tax liability, output tax, input tax claimed, tax paid, refund claimed, costs incurred or other sources** available for **ascertaining compliance** or otherwise with the **provisions of the STA** and the rules made thereunder.
 9. The officer **may conduct audit proceedings electronically** through **video links**, or any other **facility prescribed by the FBR**.
 10. After **completion of audit**, the officer **may pass any order** (u/s 11E of STA) for **assessment and recovery of tax**. Before issuing such an order, **opportunity of being heard shall be provided** to the **registered person**.
 11. Where a **registered person fails to produce** before the officer **any accounts, documents or records, etc.**, required to be maintained under the law, the officer may proceed to make **best judgment assessment u/s 11D of the STA**.
-

PAYMENT OF TAX EVADED [25(11)]

Provisions regarding the **payment of the evaded amount of tax, etc.**, are summarized below:

Payment before Receipt of Notice of Audit:

Where a person has **not received a notice of audit**, he may **voluntarily pay** the amount of **tax evaded or short paid along with the amount of default surcharge**. Under this case the **penalties u/s 33** shall **not be recovered from him**.

Payment before Issuance of Show-Cause Notice u/s 11E:

In addition to the **amount of tax and default surcharge**, a person shall be **required to pay 25% of the penalty u/s 33**, if he wants to **pay the tax, etc., during the audit or at any time before issuance of a show-cause notice**.

Synopsis of Taxes - Sales Tax: Returns [32-540]

Payment after Issuance of Show-Cause Notice u/s 11E:

Where the show-cause notice has been issued and a person wishes to make payment, then he will have to deposit the tax, default surcharge, and full amount of penalty u/s 33 of the STA.

RETURN FILED BY AN AUTHORIZED REPRESENTATIVE [29]

A person who is required to file a tax return under any provision of the Sales Tax Act, 1990 may file the return himself or through his authorized representative. A return filed by an authorized representative of a person is deemed to have been made by the person.

EFFECT OF NON-FILING OF RETURN OR FILING AN INCORRECT RETURN

Where a person who is required to file a tax return and pay the tax, due to any reason fails to do so, he shall be liable to pay the penalty or default surcharge in accordance with **sections 33 and 34** of the Sales Tax Act, 1990. The relevant provisions of the law are summarized below:

Offence	Penalty / Default Surcharge
Failure in furnishing a return within the due date.	Rs. 10,000. However, if the return is filed within ten (10) days of the due date, a penalty of Rs. 200 per day shall be payable.
Submission of false statement.	Higher of Rs. 25,000 or 100% of the amount of tax involved. Further liable to imprisonment for three (3) years or fine up to an amount equal to the loss of tax involved or both.
Repetition of erroneous calculation in the return during a year whereby lesser tax is paid.	Higher of Rs. 5,000 or 3% of the amount of tax involved.
Non-furnishing of information required by Board as 26(5).	Rs. 10,000.
Non-payment of tax in full or part thereof.	Default surcharge at the rate of 12% per annum of the tax due.

ELECTRONIC SCRUTINY AND INTIMATION [50B]

The **FBR may implement a computerized system** for the purpose of **automated scrutiny, analysis, and cross-matching of returns** and other available **data relating to registered persons** and to send **electronically system-based notices** to such registered persons about **any issue detected by the system**.

The **intimation sent by the system** shall be in the nature of an **advice or advance notice**, aimed at allowing the person to **clarify the issue, rectify any mistake or take other corrective action** even before any **legal or penal action is initiated**.

The system shall **keep record of the issues detected, intimations sent, responses received and actions taken**, and shall **store such information** to the **officer of Inland Revenue** and to the **FBR** in the prescribed manner.

The **FBR** may **prescribe procedures and specification** for the **smooth and efficient operation of the computerized system**.

Synopsis of Taxes - Sales Tax: Offences [33-541]

CHAPTER-33

OFFENCES AND PENALTIES

For proper implementation of the provisions of any law, **certain procedures** are specified and a person is required to follow those procedures. The law also provides for the necessary **actions, measures, and punishments** in case of **non-compliance** with the legal provisions. Just like other laws, the **Sales Tax Act, 1990** also renders **certain actions, non-actions, omissions, or defaults** as **offences**.

Besides **providing for cases of offences**, it also describes **punishments** for those offences. **Offences and their punishment** is discussed below.

PENALTIES, ETC. [33]

Section 33 of the **Sales Tax Act, 1990** deals with such **offences which attract penalties under the law**. All such offences and their **penalties** are tabulated below:

Offence under Section	Offence	Penalty / Fine / Imprisonment
26	Failure in furnishing a return within the due date.	Rs. 10,000. However, if the return is filed within ten (10) days of the due date, a penalty of Rs. 200 per day shall be payable.
23	Non-issuance of a tax invoice.	Higher of Rs. 5,000 or 3% of the amount of tax involved.
3, 7 & 23	Issuance of a tax invoice where not authorized to do so.	Higher of Rs. 10,000 or 5% of the amount of tax involved.

Offence under Section	Offence	Penalty / Fine / Imprisonment
14	Failure in notifying the material changes in particulars of registration of taxable activity.	Rs. 5,000.
3, 6, 7 & 8	Failure in depositing the amount of tax due or any part thereof within the specified time or in the specified manner.	Higher of Rs. 10,000 or 5% of the amount of tax involved.
3, 6, 7 & 8	Payment of tax or any part thereof with a delay (10 days) of the due date.	Rs. 500 for each day of default.
3, 6, 7 & 8	Short payment of tax due to miscalculation for the first time during a year.	Nil.
3, 6, 7 & 8	Failure in payment of tax after expiry of 60 days of issuance of notice by Commissioner or other higher ranking officer.	Besides penalty for non-payment of tax, further liable to imprisonment for up to three (3) years or a fine up to the amount of tax involved or with both.
7 & 26	Repetition of erroneous calculations in the return during a year due to which lesser amount of tax is paid.	Higher of Rs. 5,000 or 3% of the amount of tax involved.

Synopsis of Taxes - Sales Tax: Offences [33-542]

Offence under Section	Offence	Penalty / Fine / Imprisonment
14	Failure in applying for registration under the Sales Tax Act before making taxable supplies, if so required under the law.	Higher of Rs. 10,000 or 5% of the amount of tax involved. Where such person fails to get registration within sixty (60) days of the commencement of taxable activity, he shall further be liable to imprisonment upto three

Offence under Section	Offence	Penalty / Fine / Imprisonment
		(3) years or with a fine upto the amount of tax involved or with both.
22 & 24	Failure in maintaining records as required under the law.	Higher of Rs. 10,000 or 5% of the amount of tax involved.
25	Non-compliance of section 25, without any reasonable cause: (a) Failure in producing the record on receipt of first notice. (b) Failure in producing the record on receipt of second notice. (c) Failure in producing the record on receipt of third notice.	(a) Rs. 5,000. (b) Rs. 10,000. (c) Rs. 50,000.
26	Failure in furnishing information required by Board u/s 25(6).	Rs. 10,000.
2(37) & general	(a) Submission of a false or forged document. (b) Destruction, alteration, mutilation or falsification in records including tax invoice. (c) Making knowingly and fraudulently any false statement, declaration or representation.	Person who commits tax fraud: Penalty: Higher of Rs. 25,000 or 100% of tax evaded or sought to be evaded. Imprisonment based on amount of tax: Less than Rs. one billion or above: Upto five (5) years Rs. One billion or above: Upto ten (10) years Fine: Upto the amount of tax evaded or sought to be evaded. Either or both of the imprisonment and fine may be imposed.
25, 38, 38A & 40B	(a) Not allowing an authorized officer to enter in the premises where record is kept. (b) Refusal of access to the stocks, accounts or records or non-presentation of the same as and when required under the law.	Higher of Rs. 25,000 or 100% of the amount of tax involved. Shall also be liable to imprisonment upto five (5) years or with fine upto the amount of tax evaded or sought to be evaded or with both.

Synopsis of Taxes - Sales Tax: Offences [33-543]

Offence under Section	Offence	Penalty / Fine / Imprisonment
2(37)	Committing or attempting to commit a tax fraud.	Person who commits or causes to commit or attempts to commit tax fraud: Penalty: Higher of Rs. 25,000 or 100% of tax evaded or sought to be evaded. Imprisonment based on amount of tax: - Less than Rs. one billion or above: Upto five (5) years - Rs. One billion or above: Upto ten (10) years Fine: Upto the amount of tax evaded or sought to be evaded Either or both of the imprisonment or fine may be imposed. Person who abets or connives in tax fraud: Imprisonment based on amount of tax: - Less than Rs. one billion or above: Upto five (5) years - Rs. One billion or above: Upto ten (10) years Fine: Upto the amount of tax evaded or sought to be evaded Either or both of the imprisonment or fine may be imposed.
48	Violation of any embargo placed on removal of goods in connection with recovery of tax.	Higher or Rs. 25,000 or 10% of the amount of tax involved. Shall also be liable to: - Imprisonment upto five (5) years or with fine upto the amount of tax evaded or sought to be evaded or with both. - Imprisonment upto one (1) year or with fine upto the amount of tax evaded or sought to be evaded or with both.
31 & general	Obstructing an authorized officer in the performance of his official duties.	Higher of Rs. 25,000 or 100% of the amount of tax involved.
73	Failure in making payment in the manner prescribed u/s 73.	Higher of Rs. 5,000 or 3% of the amount of tax involved.
71 & general	Failure in fulfilling any condition, limitation or restriction in a notification issued under the law.	Higher of Rs. 5,000 or 3% of the amount of tax involved.

Offence under Section	Offence	Penalty / Fine / Imprisonment
General	Contravention of any of the provisions of	Higher of Rs. 5,000 or 3% of the amount

Synopsis of Taxes - Sales Tax: Offences [33-544]

Offence under Section	Offence	Penalty / Fine / Imprisonment
General	Any act or omission or attempt by any Officer of Inland Revenue causing loss to the sales tax revenue.	Imprisonment up to three (3) years or with a fine up to the amount of tax evaded or sought to be evaded or both.
General	Repetition of an offence for which a penalty is provided in the Act.	Twice the amount of penalty provided under the Act for that offence.
50A	(a) Knowingly and without lawful authority gaining access to or attempting to gain access to the computerized system.	Penalty of Rs. 25,000 or 100% of the amount of tax involved, and Upon conviction by the Special Judge, imprisonment up to one (1) year or fine equal to the loss of tax evaded or sought to be evaded or both.
	(b) Unauthorizedly using, disclosing, publishing, or otherwise disseminating information obtained from the computerized system.	-do-
	(c) Falsifying any record or information stored in the computerized system.	-do-
	(d) Knowingly or dishonestly damaging or impairing the computerized system.	-do-
	(e) Knowingly or dishonestly damaging or impairing any duplicate tape or disc or other medium on which any information	-do-

Offence under Section	Offence	Penalty / Fine / Imprisonment
	obtained from the computerized system is kept or stored.	
	(f) Unauthorizedly using a unique user identifier of any other registered user to authenticate a transmission of information to the computerized system.	-do-
	(g) Failing to comply with or contravening any of the conditions prescribed for security of unique user identifiers.	-do-
40C(2)	Manufacturing, possessing, transporting, distributing, storing, or selling specified goods or class of goods specified by FBR u/s 40C(1) STA without or in contravention of tax stamps, banderoles, stickers, labels or barcodes.	Specified goods shall be liable to outright confiscation as may be prescribed and destruction. Fine to the person committing the offence shall not be less than Rs. 25,000 or 100% of the tax involved. Upon conviction by a Special Judge.

Synopsis of Taxes - Sales Tax: Offences [33-545]

Offence under Section	Offence	Penalty / Fine / Imprisonment
3(3A) & 40C	1. Conducting transactions in a manner so as to avoid monitoring, tracking, reporting or recording of such transactions, where the person is registered for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system.	Penalty which is higher of 2% of the tax involved or Rs. 500,000. Simple imprisonment up to (2) years or with an additional fine up to Rs. 2,000,000 or both. Imprisonment and additional fine shall be on conviction by a Special Judge . The business premises of such person shall be liable to be sealed in the prescribed manner. A person who abets shall be liable for simple imprisonment up to one (1)

Offence under Section	Offence	Penalty / Fine / Imprisonment
		year or additional fine up to Rs. 200,000 or both.
	2. Issuance of an invoice which does not bear a prescribed invoice number or barcode or QR code or bears duplicate invoice number or defaced barcode or QR code or counterfeits a prescribed invoice number barcode or QR code .	-do-
	3. Any person who abets such act.	-do-
40C	Failure in getting registered under the Sales Tax Act, and if registered, fails to integrate his business as required under law where the person is required to integrate his business for monitoring, tracking, reporting or recording of sale, production and similar business transactions with FBR or its computerized system .	Penalty up to Rs. 1,000,000 . In case of non-removal of the same offence after 2 months after imposition of penalty , the business premises shall be liable to be sealed in the prescribed manner.
3(8A) or 40C(4)	A person who is required to integrate with FBR's system is tampering or integration with FBR's system .	Penalty of: - Rs. 500,000 for first default - Rs. 1,000,000 for second default (after 15 days of order for first default) - Rs. 2,000,000 for third default (after 15 days of order for second default) - Rs. 5,000,000 for fourth default (after 15 days of order for third default) The business premises of such person shall be liable to be sealed.

Offence under Section	Offence	Penalty / Fine / Imprisonment
40C(5)	Failure of licensed integrator to integrate the registered persons in the manner as required under the law.	Where a retailer integrates his business with the FBR's computerized system before imposition of penalty for second default, penalty for first default shall be waived by the Commissioner . Penalty: Higher of Rs. one million or 100% of the total value of the sales suppressed .
2(27) & 3(2)(e)	Failure in printing 'retail price' by a manufacturer or importer of goods subject to tax on retail price.	Penalty , which is higher of Rs. 10,000 or 5% of tax involved. The goods shall be liable to confiscation as may be prescribed. An adjudicating authority may allow redemption of confiscated goods on payment of fine not less than 20% of the total retail price of the goods .
40D	Bringing goods to Pakistan in violation of section 40D.	Penalty , which is higher of Rs. 10,000 or 5% of tax involved. The goods shall be liable to confiscation as may be prescribed. An adjudicating authority may allow redemption of confiscated goods on payment of fine not less than 20% of the total retail price of the goods .
56AB	Failure in sharing information as required u/s 56AB.	Penalty of Rs. 20,000 for first default and Rs. 50,000 for each subsequent default .

DEFAULT SURCHARGE [34]

Default surcharge is an amount payable **over and above** the original amount of tax if there is a default, **due to any reason**, in **payment of actual tax** by the **due date**. It is in addition to the **penalties, fines, and imprisonment** imposed on a defaulter under the **Sales Tax Act**.

Default surcharge may be imposed under any of the following cases: **[34(1)]**

1. **Non-payment** of the tax due or **part thereof** in time or in the specified manner. Default may be **willful or otherwise**.
2. **Claiming a tax credit, refund, or making an adjustment** which is **not admissible**.
3. **Incorrect applying the rate of zero percent to supplies made** by the person.

The **default surcharge shall be payable** by the person making the default at the rates specified below:

Cases of Non-Payment or Erroneous Refund [34(1)(a)]

Where a person **fails to make payment** of tax or claims an **erroneous refund** or an **inadmissible tax credit**, he shall be liable to pay **default surcharge** which is **higher of 12% per annum or KIBOR plus three percent p.a.**, of the amount of tax not paid or the amount erroneously refunded.

Synopsis of Taxes - Sales Tax: Offences [33-547]

Cases of Tax Fraud [34(1)(c)]

Where a person has committed a **tax fraud**, he shall be liable to pay the **default surcharge @ 24% per annum** of the amount of tax evaded or the amount of fraudulent refund claimed. The default surcharge shall be **payable till the entire liability of tax (including default surcharge) has been paid** by the person.

Notes: [34(2)]

1. For the **purpose of computation** of default surcharge, the **amount of penalty shall not be included** in the amount of tax due.
2. For **computation of default surcharge**, the **period of default** shall be reckoned from the date as given below:
 - **In case of inadmissible input tax credit or refund**, the date of **adjustment of such credit or receipt of refund**.
 - **In case of non-payment of tax or part thereof**, the **16th day of the month following** the due date **till the date when tax is actually paid**.

EXEMPTION FROM PENALTY AND DEFAULT SURCHARGE [34A]

The **Federal Government** may, by notification in the **Official Gazette**, **exempt** any person or **class of persons** from the payment of the **whole or part** of the **penalty or default surcharge** imposed under **Sections 33 and 34**.

The **Board** may also **likewise exempt** from **penalty or default surcharge** by a **special order published in the Gazette**. The **special order** shall also contain the reasons.

The **exemption** shall be **subject to such conditions and limitations** as the **Government or the Board may specify** in the notification or special order.

SPECIAL JUDGES

‘Special Judge’ means a person appointed by the **Federal Government** as **Special Judges** under **Section 37C** of the **Sales Tax Act, 1990**. Provisions of the **Sales Tax Act, 1990** relating to **Special Judges** are discussed below:

Appointment of Special Judges [37C]

The **Federal Government** shall **appoint Special Judges** by **notification** in the **official Gazette**. Other provisions in this regard are:

1. The **Government** may **appoint as many Special Judges as it considers necessary**.
2. **Only such person shall be appointed as a Special Judge who is or has been a Sessions Judge**.
3. Where **more than one Special Judge is appointed**, the **Government shall notify the headquarters of each Special Judge and his territorial jurisdiction**.

Cognizance of Offences by Special Judges [37D]

1. A **Special Judge may, within his territorial jurisdiction, take cognizance of any offence punishable under the Sales Tax Act, 1990**.

Synopsis of Taxes - Sales Tax: Offences [33-548]

2. A Special Judge may take cognizance of an offence upon:

- i) A **written report** made by an **officer of Inland Revenue** or by **any other officer especially authorized** in this behalf by the **Federal Government**.
- ii) **Receiving a complaint or information** of facts **constituting such offence**. The complaint, etc., **may be made by any person**; or
- iii) **His own knowledge** acquired during any proceeding before him.

3. Where a written report is made by an officer, the Special Judge shall proceed with the trial of the accused.

4. Where a complaint is made or an information is submitted to or a knowledge is acquired by a Special Judge, he may, before issuing a summons or warrant for appearance of the person complained against:

- i) Hold a **preliminary inquiry** for the purpose of **ascertaining the truth or falsehood of the complaint**;
- ii) Direct **any of the following persons** to hold a **preliminary inquiry** and report to him:
 - a) A **Magistrate**;
 - b) An **officer of Inland Revenue**; or
 - c) A **police officer**.

The **officer directed** by the **Special Judge** shall **conduct the inquiry and make report accordingly**.

5. On the basis of the findings of the inquiry the Special Judge may take any of the following actions:

- i) He may **dismiss the complaint**, if he is of the opinion that there is no sufficient ground for proceeding; or
- ii) He may **proceed against the person complained against**, if he is of the opinion that there is sufficient ground for proceeding.

6. The person holding inquiry, as above, may hold it in accordance with the provisions of section 202 of Code of Criminal Procedure, 1898.

Exclusive Jurisdiction of Special Judge [37E]

A **Special Judge** appointed under the **Sales Tax Act, 1990** shall have **exclusive jurisdiction under this Act**. Notwithstanding anything contained in any law:

1. **No Court** other than the **Special Judge having jurisdiction** shall try an **offence punishable under the Sales Tax Act**.
2. **No Court or officer** (except in the manner and **to the extent** specifically provided for in the **Sales Tax Act**) shall **exercise any power or perform any function** under the Sales Tax Act.
3. **Only the High Court** shall entertain, hear, or decide **any application, petition, or appeal** under **Chapters XXIX and XXXI** of the **Code of Criminal Procedure, 1898**, against or in respect of **any order or direction made by a Special Judge**.
4. **Only Special Judge or the High Court** shall entertain **any application or pass order** under **Chapter XXXIII, XXXIV, XLIV, or XLV** of the **Code of Criminal Procedure**.

Synopsis of Taxes - Sales Tax: Offences [33-549]

Application of Provision of Code of Criminal Procedure, 1898 [37F]

The provisions of the **Code of Criminal Procedure, 1898** (except those which are inconsistent with the provisions of the **Sales Tax Act**) shall apply to the proceedings of the **Court of a Special Judge**. For this purpose, this **Court shall be deemed to be a Court of Sessions Judge**. **Provisions of Chapter XXIIA of the Code shall mutatis mutandis apply** to the trial of cases by a Special Judge.

Transfer of Cases [37G]

A **High Court** or the **Federal Government** may **transfer cases** from the **Court of one Special Judge** to the **Court of another Special Judge** for disposal. Other provisions in this regard are:

1. **A High Court may transfer a case** where **more than one Special Judge** is appointed **within territorial jurisdiction** of the **High Court**.
2. **The Federal Government may transfer a case** where **only one Special Judge** is appointed within **territorial jurisdiction of a High Court**.
3. **Cases shall be transferred** if it appears to the **Federal Government or a High Court** that such transfer **may promote the ends of justice** or **tend to the general convenience of the parties or witnesses**.
4. **Due to transfer of a case**, the **Special Judge shall not be bound to recall and rehear any witness** whose **evidence has been recorded** in the case before the transfer.

Place of Sittings [37H]

A **Special Judge** shall **ordinarily hold sittings at his headquarters**. However, **he may hold sittings at any other place**, by keeping in view the **general convenience of the parties or the witnesses**.

Appeal to the High Court [37I]

Any **person aggrieved** by an **order passed or decision made** by a **Special Judge** under the **Sales Tax Act, 1990** or under the **Code of Criminal Procedure, 1898** may **prefer an appeal** to the **High Court**.

- An **appeal may be filed within a period of sixty (60) days** from the date of the order or decision and **shall be subject to the provisions of chapter XXXI and XXXII of the Code of Criminal Procedure, 1898**.
- An **appeal may be filed by any aggrieved person** including the **Federal Government, Federal Board of Revenue, the Commissioner, Director of Intelligence and Investigation** or **any other officer authorized in this behalf by the Board**.

- The provisions of the Limitation Act, 1908 shall apply to an appeal to the High Court against an order or decision made by a Special Judge.

CHAPTER-34

APPEALS

PECUNIARY JURISDICTION IN APPEALS [43A]

Pecuniary Jurisdiction of Appellate Authorities [43A(1)]

An appeal against the order of CIR or other officer shall lie to CIR(A) or ATIR as below:

Value of Assessment of Tax or Refund of Tax Appeal Shall Lie To

Up to Rs. 10 million	Commissioner (Appeals)
Exceeding Rs. 10 million	Appellate Tribunal Inland Revenue

Appeal Against Order of CIR(A) & ATIR [43A(2) & (3)]

An appeal against the order of CIR or other officer shall lie to CIR(A) or ATIR as below:

Value of Assessment or Refund Appeal Decided By Reference Shall Lie Before

Up to Rs. 10 million	CIR (Appeals)	High Court
Exceeding Rs. 10 million	Appellate Tribunal	High Court

Cases Pending Before CIR(A) [43A(4) & (5)]

Cases pending before the CIR and having value more than Rs. 20 million shall stand transferred to **ATIR on and from 31-12-2024**.

Cases so transferred shall be decided by ATIR within **six (6) months** from the date starting from **16-06-2024**.

POWER TO CALL FOR RECORDS & REVISE THE ORDERS [45A]

The **Federal Board of Revenue (FBR)** and the **Commissioner Inland Revenue** are empowered to call for and examine the **record of any proceedings** under the **Sales Tax Act** or the **Sales Tax Rules**. Provisions in this regard are discussed in the coming paragraphs.

Examine of Records by FBR [45A(1) to (3)]

1. The **FBR can call for and examine** the records subject to the following provisions:

- The FBR may, **suo moto or otherwise**, call for and examine the record of any proceedings of the sales tax department under the **Act or the Rules**.
- The object of **FBR's review** shall be to satisfy itself that the decision or order of the **Officer of Inland Revenue** is **legal and as per the generally accepted procedure**.
- After examining the record, the **FBR may make any order as it may think fit**. However, in case of **increasing tax liability or imposition or increase of any penalty**, it must provide an opportunity of being heard to the affected person.

APPEAL TO THE COMMISSIONER (APPEALS) [45B]

Any person aggrieved from an order of an **Officer of Inland Revenue** may file an appeal to the **Commissioner (Appeals)** if the value of the **assessment of tax or refund of the tax does not exceed Rs. ten (10) million**. The legal provisions in this regard are as follows:

1. It is an appeal against the orders passed by an **Officer of Inland Revenue** under the following sections:
 - **Section 10** – Carry forward or refund of excess amount of input tax;
 - **Section 11** – Assessment of tax;
 - **Section 25** – Access to records and documents;
 - **Section 36** – Recovery of tax not levied or short levied or erroneously refunded; and
 - **Section 66** – Refund of input tax not claimed in relevant tax period.
2. **Who Can File?**
 - It is the **taxpayer** who may file an appeal.
 - The **Sales Tax Department** cannot file an appeal before the **Commissioner (Appeals)**.
3. **Time Limit to File an Appeal:**
 - The appeal may be filed **within thirty (30) days** of the date of receipt of the decision or order.
 - The **Commissioner (Appeals)** may extend this period.
4. **Requirements for the Appeal:**

- The appeal shall be:
 1. **In the prescribed form;**
 2. **Verified** in the prescribed manner;
 3. **Stating precisely the grounds** upon which the appeal is made;
 4. **Accompanied by the prescribed fee;** and
 5. **Lodged within the specified time period.**

5. Appeal Fee Payable:

- **Where the appeal is against an assessment:**
 - **In case of a company: Rs. 5,000**
 - **In case of any other person: Rs. 2,500**
- **Where the appeal is against a matter other than an assessment:** *(The fee structure is not visible in the provided image.)*

APPEAL TO THE APPELLATE TRIBUNAL [46]

It is an appeal against the **orders passed by various Sales Tax authorities**. The provisions concerning an appeal to the **Appellate Tribunal** are as follows:

1. Who Can File an Appeal?

- Any **person** (other than an SOE) aggrieved by an order (**excluding the order of blacklisting u/s 21(2)**) passed by the following authorities may file an appeal to the **Appellate Tribunal Inland Revenue (ATIR)**:
 - i) **An officer of Inland Revenue;**
 - ii) **The Federal Board of Revenue (FBR);** or
 - iii) **The Commissioner (Appeals) under section 45B.**

2. Time Limit to File an Appeal:

- The appeal is to be **filed within thirty (30) days** of the receipt of the orders or decision.

3. Processing of Appeal:

- The **Appellate Tribunal** may **admit, hear, and dispose of** the appeal as per procedure **laid down in sections 131 and 132 of the Income Tax Ordinance, 2001** and the rules made thereunder.

The procedure regarding appeal to the Appellate Tribunal is discussed with full details in Chapter # 23 titled "Appeals and Revisions" under the Income Tax part of the book.

State Owned Enterprise (SOE) [46(1) & 134A(11)]

An **SOE cannot file an appeal before ATIR**. However, where a matter is referred to **ADRC under 134A**, and the **ADRC fails to decide** within the specified period, the **FBR dissolves the committee**, then the SOE **may thereafter file an appeal to ATIR**.

Although section 46(1) provides that an appeal may be filed to ATIR against the order of CIR(A), but section 43A(2) codifies that only a reference may be filed before the High Court against an order of CIR(A). In that case, an appeal against the order of CIR(A) cannot be filed before ATIR.

SAVING [47A]

The period of limitation provided u/s **46(1)(c) and 47(1)** shall continue to apply **where any decision** of the Commissioner (Appeals) or the Appellate Tribunal is received prior to the date of commencement of the **Tax Laws (Amendment) Act, 2024**, i.e., **03-05-2024**.

REFERENCE TO THE HIGH COURT [47]

A reference may be filed to the **High Court**, subject to the following conditions:

1. It may be **filed by an aggrieved taxpayer or CIR** against the orders of **ATIR or CIR(A)**.
2. It may be filed **only if any 'point of law' or 'mixed question of law and fact' is involved**.
3. It is to be **filed within thirty (30) days** of the communication of the order of ATIR or CIR(A).
4. It shall be accompanied by a statement **stating any 'question of law' or a 'mixed question of law and fact'** arising out of the order being challenged.

The procedure specified u/s 133 of the Income Tax Ordinance, 2001 and rules made thereunder relating to a reference to the High Court shall, mutatis mutandis, apply to references to the High Court under the Sales Tax Act, 1990.

For details, the reader may refer to Chapter # 23 of the book titled as "Appeals and Revisions".

APPEAL TO THE SUPREME COURT

Although the **Sales Tax Act, 1990** does not provide the provisions regarding appeal against the orders of **High Court before the Supreme Court**, yet any of the parties may prefer an **appeal as permitted by the Constitution**.

While filing an appeal under the **Sales Tax Act, 1990**, the appellant shall have to **follow the provisions of the Code of Civil Procedure, 1908** relating to the appeals against the **decree issued by the High Court**.

Decision of the Appeal

Any appeal filed before the **Supreme Court** under the provisions of the **Sales Tax Act, 1990** shall be heard by a **bench constituted for this purpose**.

The Court, after **complete examination of the case**, shall give its **judgment**. The Court's **judgment shall be communicated to the Appellate Tribunal**, which shall **pass the necessary orders** for the complete implementation of the judgment. The **cost of the appeal shall be borne by the parties** as decided by the **Supreme Court**. The **court has discretionary powers** in this regard.

POWERS OF TAX AUTHORITIES TO MODIFY ORDERS [11C]

Where in case of a particular taxpayer a **question of law** has been decided by a **High Court or the Appellate Tribunal**, the **Commissioner may follow that decision** in assessment of the **same taxpayer** involving the same **question of law**. The **Commissioner may follow the decision irrespective of the fact** that the Commissioner has **filed an appeal** against such an order of the Tribunal or the High Court.

However, where later on the **decision of the Tribunal or the High Court is reversed or modified**, the **Commissioner may, within a period of one year from the date of receipt of the decision, modify the assessment** based on the orders of the **High Court or the Supreme Court**.

Note: In this case, the **period of limitation** prescribed in the **Sales Tax Act** for making any **assessment or order** shall **not apply** to a modification order of **CIR**.

ALTERNATIVE DISPUTE RESOLUTION (ADR) [47A]

ADR (introduced in income tax law in 2004) helps in **resolving income tax disputes** through an **alternate mechanism**. The **ADRC and its functions** shall be **regulated by the notified rules**.

Subject Matter and Conditions of ADR [134A(1)]

Subject Matter

Disputes related to the following issues **may be referred to ADR:**

1. **The liability of tax of Rs. 50 million or above;**
2. **The admissibility of refund;**
3. **The extent of waiver of default surcharge and penalty; or**
4. **Any other specific relief required** to resolve the dispute.

Conditions

1. The application shall **contain the details** of the hardship or dispute. Where **criminal proceedings** have been initiated, the **matter cannot be referred to ADR.**
 2. **Application for ADR shall be accompanied by:**
 - i) **An initial proposition** for resolution of the dispute (including an **offer of tax payment**); and
 - ii) **An undertaking** that the applicant shall **accept the decision of the ADRC in all respects** and shall, on receipt of the decision, **immediately withdraw any pending litigation** or cases connected with the dispute (**whose details are mentioned in the application**).
-

State-Owned Enterprise (SOE)

Where the aggrieved **person is an SOE**, the **limit of tax liability of Rs. 50 million or above shall not apply**. It shall be **mandatory** for **SOE to apply for appointment of ADRC** for the resolution of any dispute.

No suit, prosecution, or other legal proceedings shall be **against the SOE or the ADRC** in relation to the dispute **resolved under 47A.**

The **SOE shall immediately withdraw all relevant pending litigation and cases** and mention the details thereof in the **undertaking.**

The **SOE may file an appeal to ATIR, a reference to the High Court, or a petition to the Supreme Court** where **ADRC is dissolved.**

Synopsis of Taxes

Sales Tax- Appeals

[34-555]

The procedure specified u/s 134A of the Income Tax Ordinance, 2001 and rules made thereunder relating to ADRC shall, mutatis mutandis, apply to ADRC under the Sales Tax Act, 1990. [134A(2)]

For details, the reader may refer to Chapter # 23 of the book titled as "*Appeals and Revisions*".

RECTIFICATION OF MISTAKES [57]

If there is any mistake in any order passed by a sales tax authority (i.e., Officer of Inland Revenue, Commissioner, Commissioner (Appeals) or the Appellate Tribunal), it may amend the orders passed by it. The authority may make such rectification on its own motion or on being pointed out by any person or authority. Such amendment may be made within five (5) years from the date of the order sought to be amended.

Where the suggested amendment results in the increase in the tax liability of a taxpayer, then it shall be made only after giving the taxpayer a reasonable opportunity of being heard.

Where any mistake is brought into the notice by the taxpayer and desired amendment is not made before the expiry of the financial year next following the date of limitation to the concerned authority, then it shall be deemed that mistake has been rectified as sought by the taxpayer.

COMPUTATION OF LIMITATION PERIOD [70]

While computing the period of limitation for any appeal or application under the Sales Tax Act, 1990, the day on which the order was served is excluded.

Further, a reasonable time required for obtaining a copy of the order shall also be excluded in a case where the concerned person was not furnished with a copy of the order.

BAR ON SUITS AND LEGAL PROCEEDINGS [51]

The Sales Tax Act, 1990 protects the officers of Sales Tax and the orders and assessments made by them under the law. The law provides that:

1. A suit cannot be brought in any Civil Court for the purpose of set off or modify any proceedings under the Sales Tax Act. It may be:
 - i) Any order passed;
 - ii) Any assessment made;
 - iii) Any tax levied;
 - iv) Any penalty imposed; or
 - v) Any collection of tax made.
2. The Federal Government or any public servant shall not be liable to prosecution or other legal proceedings in respect of any order passed or action taken in good faith under the Sales Tax Act, 1990.

3. Where any officer has done anything in his official capacity under the Sales Tax Act and the rules, instruction or directions made under the Act and any governmental agency wants to initiate or undertake any investigation or inquiry against the officer for such action, it will have to seek a prior approval of FBR in the absence of which no investigation or inquiry shall be initiated or undertaken.

Synopsis of Taxes

Sales Tax- Appeals

[34-556]

APPEARANCE BY AUTHORISED REPRESENTATIVE [52]

A registered person may authorise any person to represent him before any officer of Inland Revenue or the Appellate Tribunal. The authority to represent shall be given in writing.

The Authorised representative shall possess such qualifications as may be prescribed under the Rules.

TAXPAYER'S AUTHORIZED REPRESENTATIVE RULES

Rules 58 through 62 of the Sales Tax Rules, 2006 regulate the provisions regarding taxpayer's authorized representatives. The provisions of these Rules are summarized below:

Applicability of the Rules [Rule-58]

These rules are applicable to the cases under any of the following laws:

1. The Federal Excise Act, 2005;
2. The Customs Act, 1969; and
3. The Sales Tax Act, 1990.

Persons Authorized to Represent a Taxpayer [Rule-59]

Only the following persons are authorized to represent a taxpayer before the Inland Revenue authority and the Appellate Tribunal:

1. **A person who is in the employment of the taxpayer**, if such person:
 - i) Is employed on a full-time basis; and
 - ii) Holds at least a bachelor degree in any discipline from a university recognized by the Higher Education Commission.

Note: Such person shall represent only that taxpayer in whose employment he is working on a full-time basis.

2. **An advocate** entered in any rolls, and practicing as such, under the Legal Practitioner and Bar Councils Act, 1973.
3. **A person holding a Bachelor or Master degree in Commerce.**
4. **An ex-employee of the Tax Department** who has served for a period of at least ten (10) years at a post not below the rank of Assistant Commissioner.

Note: Such person shall not be entitled to represent a taxpayer:

- i) Within one (1) year from the date of his retirement or resignation; and
- ii) In any case in which he had made or approved any order.

5. **A person who is an accountant.** Accountant has been defined to mean:
 - i) A Chartered Accountant;
 - ii) A Cost and Management Accountant; or
 - iii) A member of any association of accountants recognized in this behalf by the Federal Government.

Sundry Provisions

1. The following persons are **not entitled** to represent a taxpayer: **[Rule-60]**
 - i) A person who has been convicted as a result of any criminal proceedings under any law for the time being in force in Pakistan;
 - ii) A person who has been dismissed or compulsorily retired from service;
 - iii) A person who has become insolvent; or
 - iv) A person who has been guilty of **misconduct**.

'Misconduct' means a conduct prejudicial to good order, unbecoming of a gentleman, and includes any act on his part to bring or attempt to bring outside or any sort of influence directly or indirectly to bear on the officer of Customs, Federal Excise, and Sales Tax in respect of any manner relating to discharge of his duties under the relevant Acts or creating hindrance in discharge of such duties or impersonation or submission of fake documents.

2. A taxpayer may appoint his **authorized representative** by issuing a **Letter of Authorization** in a specified form. **[Rule-61]**
3. The **FBR may disqualify** a person from representing the taxpayer, on receipt of a complaint against him for **misconduct** from the **Appellate Tribunal** or an **adjudicating authority**. However, before disqualifying, the FBR shall afford such representative an opportunity of being heard. **[Rule-62]**

[35-558] Synopsis of Taxes Sales Tax- Refunds & Recoveries

CHAPTER - 35A REFUNDS AND RECOVERIES

REFUND Refund is an amount payable by the Sales Tax Department to a registered person. It may arise in cases where, due to any reason, the amount of input tax is more than the output tax. The provisions relating to the refund of sales tax are spread over the following:

1. Sections 10 and 66 of the Sales Tax Act;
2. Chapter-V (i.e., Rules-26 through Rule-33) of the Sales Tax Rules, 2006; and
3. Part-III of the Sales Tax General Order No. 3/2004, date 12-06-2004.

The legal points contained in all above referred legislations are discussed in this chapter.

REFUND OF EXCESS AMOUNT OF INPUT TAX [10] Refund of input tax may arise due to the reason that either the amount of input tax is more than the output tax or there is no output tax for a tax period (e.g., there are purchases but no supplies during the month or the total supplies are zero-rated). Provisions regarding refund under both cases are discussed below:

In Case of Zero Rated Supplies [10(1)] The amount of input tax incurred in connection with a zero rated supply (whether local or export) shall be refunded within forty-five (45) days of filing of refund claim. The Board may specify the procedure for refund and it may also lay down certain conditions applicable to refund cases.

The Board may direct that refund of input tax against exports shall be paid at the fixed rates and in the manner as notified in the notification.

In Case of Taxable Supplies [Proviso to section 10(1)] If, in relation to a tax period, the total deduction of input tax exceeds the amount of output tax, the excess amount outstanding at the end of that period along with the input tax as is not adjustable in terms of section 8B(1) (i.e., in excess of 90% of the output tax for the tax period) shall be carried forward to the next tax period. It shall be treated as input tax of that tax period.

The Board may prescribe the procedure for refund of such excess input tax. While notifying the procedure, the Board may specify certain conditions and impose restrictions on refund of excess input tax.

The Board is empowered to restrict or regulate the amount of refund claimed by a registered person as input tax credit. It may also specify the extent and manner in this behalf.

Miscellaneous Provisions [10(2) & (3)] Certain other legal provisions in respect of refund are briefly discussed below:

1. Such excess amounts of input tax shall be refunded to a registered person as is refundable after adjustment of any amount of tax, default surcharge, fine or penalty payable by such person under any law administered by the Board.

[35-559] Synopsis of Taxes Sales Tax- Refunds & Recoveries

2. Where there are reasons to believe that a person has claimed an input tax credit or refund which was not admissible to him, the proceedings against him shall be completed within sixty (60) days.
3. For the purpose of enquiry, audit or investigation regarding admissibility of refund claim, the time limit of sixty (60) days may be extended up to one hundred and twenty (120) days. The officer extending the period should not be below the rank of an Additional Commissioner Inland Revenue.
4. The Board may also extend the above-referred period which shall in no case exceed nine (9) months. The extension must be in writing and contain the reasons therefor.
5. The refund cases are regulated by the Rules framed by Board for this purpose.

SALES TAX REFUND RULES Chapter-V of the Sales Tax Rules, 2006 contains procedural and ancillary provisions regarding refund of input tax to a registered person. These rules are reproduced as Annexure to this chapter.

PERIOD FOR CLAIMING A REFUND [66] Claim for the refund on account of tax paid or over paid through inadvertence, error, mis-construction or non-claiming of input tax within the relevant tax period shall be made within one year of the date of payment, otherwise no claim for refund shall be admitted by the Tax Department.

However, if the refund has become due on account of any decision or judgment of any officer of Inland Revenue, Court or the Tribunal, the period of one year shall be reckoned from the date of judgment or decision of such officer, court or tribunal.

The application or claim filed u/s 66 shall be disposed of within ninety (90) days from the date of filing of such application or claim.

No refund shall be admissible u/s 66 if incidence of tax has been passed to the consumer, whether directly or indirectly.

Notes:

1. The Commissioner is empowered to allow the registered person to take adjustment of such input tax in a tax period as specified by the Commissioner. The only condition is that the Commissioner has to satisfy himself that the input tax adjustment is due and admissible.
2. The period of one year for claiming refund u/s 66 is not applicable to the matters pending with the judicial or quasi-judicial fora. In any particular case where the issue has

been taken to a competent statutory forum for adjudication, the decision of such Court or Tribunal has to be honoured, irrespective of the period consumed in such litigation or any delay in the execution of such decision. [General Order No. 21/2001 dated 25-05-2001]

ADDITIONAL PAYMENT FOR DELAY IN REFUND [67] The law requires that the payment of refund shall be made to a registered person within the time limit specified in section 10 of the Act from the date of filing of refund claim. If the refund is not made within the above-mentioned period, an additional amount equal to KIBOR per annum (for the delayed period) of the amount of refund due, shall be paid to the registered person.

Where there is a reason to believe that the refund claimed is not admissible, the provision regarding payment of additional amount shall not apply till the investigation of the claim is completed and the claim is either accepted or rejected

[35-560] Synopsis of Taxes Sales Tax- Refunds & Recoveries

Where a refund due in the consequence of any order passed u/s 66 is not made within forty-five (45) days of date of such order, the claimant, in addition to the amount of refund due to him shall be paid a further sum equal to KIBOR per annum of the amount of refund. This additional amount shall be due from the date of the refund order.

PAYMENT OF REFUND THROUGH SALES TAX REFUND BONDS [67A] Instead of paying sales tax refunds through cheques or bank debit advices, sales tax refund bonds may also be issued by FBR Refund Settlement Company Limited (FRSC), in book-entry form, through a central depository licensed by the SECP. Payment of refunds through bonds is subject to the following conditions:

1. The claimant has opted for payment of refund in this manner; and
2. The procedure for issuance, redemption and other matters notified by the FBR with approval of the Federal Minister-in-charge is observed.

The procedure to be adopted for this purpose shall be as below:

1. The FBR shall issue a promissory note to the FRSC incorporating the details of refund claimants and their respective amounts of refund.
2. The FRSC shall issue the bonds having maturity period of three (3) years with simple profit @ 10% p.a. The bonds shall be: i) Issued in values in multiples of Rs. 100,000; ii) Traded freely in the country's secondary markets; iii) Approved security for calculating the statutory liquidity reserve; iv) Accepted by the banks as collateral; v) Exempt from

the compulsory deduction of Zakat. The Sahib-e-Nisab may pay Zakat voluntarily according to Shariah.

Redemption of Bonds On Maturity of Bond: The FRSC shall return the promissory note to the FBR, which shall make payment of the amount due (along with the profit due) under the bonds to the bond holders.

Before Maturity of Bonds: The FBR, at its own option, may redeem the bonds in the manner discussed above and pay the amount due along with the profit due to the bond holders. This redemption shall be in the light of any general or specific policy to be formulated by the FBR.

RECOVERY OF ARREARS OF TAX [48] The officer of Inland Revenue may take all or any of the following steps for recovery of any amount of tax which is due from any person under the Sales Tax Act, 1990:

1. Deduct the amount from any money payable to such person by any Department under the Federal Board of Revenue (i.e., Sales Tax, Income Tax, Customs, etc.).
2. Recover the amount from any person who holds any money for or on account of such person.