

Chapter 1

DEFINITIONS

[Section 2]

Section 2 of the Sales Tax Act 1990 provides definitions of various terms and concept used in the Act. This section defines a total of 48 terms.

NECESSITY OF UNDERSTANDING DEFINITION

Like every other subject, Sales Tax Law also contains a few terms which are exclusively meant for the subject. It also contains certain other concepts which although are used in other subjects, yet in the Act, they have some specific meanings. As the readers come across this terminology throughout the discussion of the law, we have tried to provide an understanding of these concepts at the very start. These concepts include the important definitions provided in section 2 of the Act and also include many others terms which are subsequently used in the law. A complete understanding of these definitions will enable the readers to follow the subject more easily and comprehensively. For this purpose, important definitions and terms are being explained in this chapter.

1. Active Tax Payer

It means a registered person who does not fall in any of the following categories;

- a) Who is blacklisted or whose registration is suspended U/s 21 of the Sales Tax Act, 1990.
- b) Who fails to file the monthly Sales tax return within the due date for two consecutive tax periods, as required U/S 26 of the Sales Tax Act, 1990.
- c) Who fails to file an Income Tax return within the due date u/s 114 or wealth statement u/s 115 of the income tax ordinance 2001.
- d) Who fails to file quarterly or an annual withholding tax statement under section 165 of the Income Tax Ordinance, 2001.

1A. Appellate Tribunal

It means the Appellate Tribunal established under section 130 of the Income Tax Ordinance, 2001.

Explanation

The Federal Government is the appointing authority of the Appellate Tribunal. Any person including the Sales Tax Department, if not satisfied with the decision or order passed by a Commissioner of Inland Revenue (Appeals), can appeal to the Appellate Tribunal.

The decision of the Tribunal on point of facts is final. However, in case of point of law the matter may be referred to High Court.

The Appellate Tribunal consists of two types of members (i) judicial members, and
(ii) accountant members.

The qualifications necessary for their appointments are as follows:

(1) Judicial Members

The Federal Government may appoint a person as judicial member of the Appellate Tribunal if

- (a) He has exercised the powers of a District Judge and is qualified to be a Judge of High Court, or
- (b) He is or has been an Advocate of High Court and is qualified to be a Judge of High Court.

(2) Accountant Members

A person may be appointed as an accountant member of an appellate tribunal if,—

- (a) He is an officer of Inland Revenue equivalent to the rank of Chief Commissioner Inland Revenue; or
- (b) a Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals) having at least three years experience as Commissioner shall also be eligible for appointment.
- (c) is a person who has, for a period of not less than ten years, practiced professionally as a Chartered Accountant.
- (d) is a person who has practiced professionally as a Cost and Management Accountant for at least ten years.

The Federal Government may appoint as many judicial and accountant members as it thinks necessary for the proper working of the Appellate Tribunal Inland Revenue. The Federal Government shall appoint any of the

members of the Appellate Tribunal to be the Chairman of the Appellate Tribunal. The terms and conditions of appointment of the Chairman and judicial and accountant members shall be such as the Federal Government may determine.

2. Appropriate Officer

It means an officer of Inland Revenue authorized by the Board by notification in the official Gazette to perform certain functions under the Act.

2A. Arrears

In relation to a person, means, on any day, the sales tax due and payable by the person under this Act before that day but which has not yet been paid.

Explanation

Person. It includes a company or association of persons, Federal Government, Provincial Government, a local authority, a foreign government or public international organization.

Sales Tax. It means the tax, additional tax, or default surcharge, fine, penalty or fee or any other sum payable under the provisions of this Act.

Tax. It means the sales tax. It is a tax on the supply of goods and is charged, levied and paid at the rate of 17% of the value of taxable supplies made by a registered person and of the value of goods imported into Pakistan. The sales tax is not imposed on the supply or import of such goods as specified in the Sixth Schedule.

Additional Tax or Default Surcharge. It means the surcharge payable by a defaulter, e.g., if a registered* person does not pay tax due or any part thereof in time or in the manner specified under this Act or claims a tax credit, refund or makes an adjustment which is not admissible or incorrectly applying the rate of 0% default surcharge is payable by him at the following rate:

- (i) Twelve percent per annum for the amount of tax due or the amount of refund erroneously claimed.
- (ii) 2% per month of the amount of tax evaded or the amount of refund fraudulently claimed.

Registered* person means a person who is registered or is liable to be registered with the Sales Tax Department in the area where his registered office is located.

Fine

It means a monetary punishment to a person, who is guilty of an offence, shall be liable to fine equal to amount of tax involved, e.g. amount of tax due is not paid even after the expiry of a period of 60 days of the issuance of the notice for such payment a fine is to be charged from such person equal to the amount of tax involved.

Penalties

It means a monetary punishment to a person who is guilty of fraudulent conducts, e.g. failure to file the return of sales tax within the prescribed time or unauthorizedly issue of an invoice in which an amount of tax is specified, the sales tax authorities shall attract penalties under the Sales Tax Act.

3. Associates (Associated Persons)

It means, —

- a. Where two persons associate and the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person;
- b. Two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both persons are employees of a third person;
- c. An individual and a relative of the individual;
- d. Members of an association of persons;
- e. A member of an association of persons and the association, where the member, either alone or together with an associate or associates under another application of this section, controls fifty *per cent* or more of the rights to income or capital of the association;
- f. A trust and any person who benefits or may benefit under the trust;
- g. A shareholder in a company and the company, where the shareholder, either alone or together with an associate or associates, controls the company —
 - (i) fifty *per cent* or more of the voting power in the company;
 - (ii) fifty *per cent* or more of the rights to dividends; or
 - (iii) fifty *per cent* or more of the rights to capital; and

- h. Two companies shall be associates if a person, either alone or together with his associates controls —
 - (i) fifty *per cent* or more of the voting power in both companies;
 - (ii) fifty *per cent* or more of the rights to dividends in both companies; or
 - (iii) fifty *per cent* or more of the rights to capital in both companies.
- i. Two persons shall not be associates under serial # c and d above where the Commissioner is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.

Explanation

“Relative” in relation to an individual, means —

- (a) an ancestor, a descendant of any of the grand-parents, or an adopted child, of the individual, or of a spouse of the individual; or
- (b) a spouse of the individual or of any person specified under serial # 3.
- (c) *Close Relatives*. It means the family, parents, brothers, sisters and dependents of registered person.

3A. Association of Persons

It includes a firm, a Hindu undivided family, any artificial juridical person and any body of persons formed under a foreign law, but does not include a company.

3AA. Banking Company

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

4. Board

It means the Federal Board of Revenue established under section 3 of the Federal Board of Revenue Act, 2007.

4A. Chief Commissioner

It means a person appointed as the Chief Commissioner Inland Revenue under section 30 of the Sales Tax Act, 1990

4AA Commissioner (Appeals)

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

5. Commissioner

It means the Commissioner of Inland Revenue appointed under section 30 of the Sales Tax Act, 1990

5A. Common Taxpayers Identification Number

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

5AA. Company

It means —

- (a) A company as defined in the Companies Act 2017;
- (b) A body corporate formed by or under any law in force in Pakistan;
- (c) A *modaraba*;
- (d) A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
- (e) A trust, a co-operative society or a finance society or any other society established or constituted by or under any law for the time being in force; or
- (f) A foreign association, whether incorporated or not, which the Board has, by general or special order, declared to be a company for the purposes of the Income Tax Ordinance, 2001.

5AAA. Computerized System

It means any comprehensive information technology system to be used by the Board or any other office as may be notified by the Board, for carrying out the purposes of this Act.

5AB. Cottage Industry

It means a manufacturing concern which fulfils each of the following conditions, namely:-

- (a) Does not have an industrial gas or electricity connection.
- (b) Is located in a residential area.
- (c) Does not have a total labour force of more than ten workers: and
- (d) Annual turnover from all supplies does not exceed eight million Rupees.

5AC. Computerized Risk-based Evaluation of Sales Tax (CREST)

It means the computerized programme for analyzing and cross-matching of sales tax returns.

6. Customs Act

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

6A. Defaulter

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

- (a) The proprietor of a sole proprietorship,
- (b) The partner of a firm,
- (c) The director of a company,
- (d) The guarantor, and
- (e) The successor.

6B. Default Surcharge

It means the surcharge payable by a defaulter at the rate specified in Section 34 of Sales Tax Act, 1990. A person may be liable to pay default surcharge for:

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

7. Distributor

It means a person appointed by a manufacturer, importer or any other person for a specified area to purchase goods from him for further supply and includes a person who in addition to being a distributor is also engaged in supply of goods as a wholesaler or a retailer.

8. Document

It includes any electronic data, computer programmes, computer tapes, computer disks, Micro films or any other medium for the storage of such data.

9. Due Date

“Due date” in relation to the furnishing of a return under section 26 means the 15th day of the month following the end of the tax period, or such other date as the Board may by notification in the official Gazette, specify

and different dates may be specified for furnishing of different parts or annexures of the return.

9A. e-Intermediary

It means a person appointed as e-intermediary under Section 52A for filing of electronic returns and such other documents as may be prescribed by the Board from time to time, on behalf of a person registered under Section 14.

10. Establishment

It means an undertaking, firm or company, whether incorporated or not, an association of persons or an individual.

11. Exempt Supply

It means a supply which is exempt from tax under section 13 of the Sales Tax Act, 1990.

Explanation

It means a supply, which is exempted from the levy of the Sales Tax by the Federal Government. A complete list of such exempted supply has been provided in Sixth Schedule. The Federal Government is empowered under the above mentioned section to make any change in this list and the conditions mentioned for exemption. However, it is necessary that such changes should be notified in the official gazette.

11A. FBR Refund Settlement Company Limited.

It means the company with this name as incorporated under the Companies Act, 2017 for the purpose of settlement of sales tax and income tax refund claims including payments by way of issuing refund bonds under Section 67A.

11B. Firm

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

12. Goods

It include production, transmission and distribution of electricity and every kind of movable property other than actionable claims, money, stocks, shares and securities.

Explanation

Goods means tangible movable property. Actionable claims, money, stock, shares and securities are not goods within the provision of the Act.

Actionable Claims means claim to any debt, other than a debt secured by mortgage of immovable property e.g. Cheque, Discount cards .coupons etc and therefore not subject to sales tax.

Money means and includes not only coins but also bank notes, promissory note, and bank deposit.

Security means acknowledgement of debts or claim the payment of which is secured in some way or other, e.g., bearer bonds, stock certificates, treasury bills, etc.

Share means share in the share capital of the company and includes stock.

Note: Immovable property is not subject to Sales Tax. In general sense immovable property is land and building.

13. Importer

It means any person who imports any goods into Pakistan.

14. Input Tax

In relation to a registered person, means —

- (a) tax levied under this Act on supply of goods to the person;
- (b) tax levied under this Act on import of goods by the person;
- (c) tax levied under the Federal Excise Act, 2005, in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services; and
- (d) Tax levied on services provided to the persons under sales tax laws of provinces including Islamabad , and .
- (e) tax levied under the Sales Tax Act, 1990, as adopted in the state of Azad Jammu and Kashmir, on the supply of goods received by the person.

Explanation

Purchases made by a registered person for business purposes are known as inputs and tax on such purchases is called input tax. Input tax is worked out by multiplying rate of tax with the value of purchases.

14A. KIBOR

It means 'Karachi Inter Bank Offered Rates' applicable on 1st day of each quarter of the financial year.

Explanation

Karachi Inter Bank Offered Rates as the rate of amount payable in addition to refund in case of delay in payment of refund of sales tax and excise duty.

15. Local Inland Revenue Office

It means the office of Superintendent of Inland Revenue, or such other office as the Board may, by notification in the official Gazette, specify.

16. Manufacture or Produce

It includes —

- (a) any process in which an article singly or in combination with other articles, materials, components, is either converted into another distinct article;
- (b) any process in which an article is so changed, transformed or reshaped that it becomes capable of being put to use differently;
- (c) Any process incidental or ancillary to the completion of a manufactured product;
- (d) Process of printing, publishing, lithography and engraving; and
- (e) Process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner.

17. Manufacturer or Producer

It means a person who is;

- (a) Engaged in the production or manufacture of goods whether or not the raw materials from which goods are produced are owned by him;
- (b) a person who by any process or operation assembles, mixes, cuts, dilutes, bottles, packages, repackages or prepares goods by any other manner;
- (c) An assignee or trustee in bankruptcy, liquidator, executor, or curator, or any manufacturer, or producer and any person who disposes of his assets in any fiduciary capacity; and
- (d) 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 its name, or on his or its behalf, as the case may be, whether or not such person, firm or company sells, distributes, consigns, or otherwise disposes of the goods.

- (e) for the purpose of refund under this Act, only such person shall be treated as manufacturer-cum-exporter who owns or has his own manufacturing facility to manufacture or produce the goods exported or to be exported.

18. Officer of Inland Revenue

It means an officer appointed by the Board under section 30.

18-A Online market Place

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

- a) By controlling the terms and conditions of the sale;
- b) Authorizing the charge to the customers in respect of the payment for the supply; or
- c) Ordering or delivering the goods.

19. Open Market Price

It means the consideration in money which that supply or a similar supply would generally fetch in an open market.

20. Output Tax

In relation to a registered person, means —

- (a) tax levied under this Act on supply of goods, made by the person;
- (b) tax levied under the Federal Excise Act, 2005, in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services, by the person;
- (c) sales tax levied on services rendered or provided by the person under Islamabad Capital Territory.

Explanation

Supplies made by a registered person in the course of his business are known as outputs and tax on such supplies is called output tax. Output tax is worked out by multiplying rate of tax with the value of supplies.

21. Person

It means, —

- (a) An individual;
- (b) A company

- (c) An association of persons incorporated, formed, organized or established in Pakistan or elsewhere;
- (d) The Federal Government;
- (e) A Provincial Government;
- (f) A local authority in Pakistan; or
- (g) A foreign government
- (h) A political subdivision of a foreign government,
- (i) A public international organization.

22. Prescribed

It means prescribed by rules made under the Sales Tax Act, 1990.

22A. Provincial Sales Tax

It means tax levied under provincial laws or laws relating to Islamabad capital territory, which are declared by the Federal Government, through notification in the official Gazette, to be provincial sales tax for the purpose of input tax.

23. Registered Office

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

24. Registration Number

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

25. Registered Person

It means a person who is registered or is liable to be registered under this Sales Tax Act, 1990. A person liable to be registered but has not been registered shall not be entitled to any benefit available to a registered person.

Explanation

Every person who makes taxable supplies in the country (including zero-rated supplies) is liable to be registered with the Sales Tax Department in the area where his registered office is located otherwise no input tax adjustment is available to him being unregistered person..

27. Retail Price

Retail Price with reference to the third schedule means the 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 body of consumers or, if more than one such price is so fixed for the same brand or variety, the highest of such price 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.

Provided that the Board 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.

28. Retailer

It means a person supplying goods to general public for the purpose of consumption. Any person, who combines the business of import, manufacture or production with retail, shall notify and advertise wholesale prices and retail prices separately, and declare the address of retail outlets.

29. Return

It means any return required to be furnished under Chapter V of Sales Tax Act, 1990.

Explanation

Under Chapter V, the Sales Tax Department may require the filing of following returns:

- (a) Monthly Return
- (b) Annual Return
- (c) Special Return
- (d) Return under Sales Tax special procedures rules.
- (e) Final Return
- (f) Return deemed to have been made/Return filed by the representative

29A. Sales Tax

It means —

- (a) the tax, additional tax, or default surcharge levied under Sales Act;

- (b) a fine, penalty or fee imposed or charged under Sales Tax Act; excluding fee and service charges imposed and collected under section 76 and
- (c) any other sum payable under the provisions of Sales Tax Act or the rules made thereunder.

29AA. Sales Tax Account

It means an account representing the double entry recording of sales tax transactions in the books of accounts.

30. Schedule

It means a schedule appended to this Act.

31. Similar Supply

In relation to open market price of goods means any other supply of goods which closely or substantially resembles the characteristics, quantity, components and materials of the goods of which the open market price to be determined.

31A. Special Audit

It means an audit conducted under Section 32A of the Sales Tax Act, 1990.

Explanation

The Board may appoint Chartered Accountants or Cost and Management Accountants for audit of any registered person.

32. Special Judge

It means the Special Judge appointed under Section 37C of the Act and till such appointment is made the Special Judge appointed under section 185 of the Customs Act. The Government shall exercise this power by issuing a notification in the official Gazette.

33. Supply

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

- (a) Sale or transfer under a hire purchase agreement.

- (b) putting to private, business or non-business use of goods produced or manufactured in the course of taxable activity for purposes other than those of making a taxable supply;
- (c) auction or disposal of goods to satisfy a debt owed by a person;
- (d) possession of taxable goods held immediately before a person ceases to be a registered person.
- (e) In case of manufacture of goods belonging to another person, the transfer or delivery of such goods to the owner or to a person nominated by him and
- (f) production, transmission and distribution of electricity.

The Board with the approval of the Federal Minister-in-charge may specify certain transactions which shall or shall not constitute supply. The Government shall exercise this power by issuing a notification in the Official Gazette..

33A. Supply Chain

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

34. Tax

It means the sales tax.

Explanation

Sales Tax is a tax levied by the Federal Government under the Sales Tax Act, 1990, on sale and supply of goods and services and on goods imported into Pakistan.

Services. Sales tax is also leviable on rendering of certain services such as hotels, marriage halls, clubs, courier services, beauty parlors, etc.

35. Taxable Activity

It means any economic activity carried on by a person whether for profit or not and includes —

- (a) An activity carried on in the form of a business, trade or manufacture;

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

Explanation:

Economic activity means production and distribution of goods and Services. It is immaterial whether the economic activity is undertaken with the object of making a profit or not.

But does not include —

- (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 within clause (b).

36. Tax Fraction

It means the amount worked out in accordance with the following formula:

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

('a' is the rate of tax specified in section 3).

37. Tax Fraud

It means knowingly, dishonestly or fraudulently and without any lawful excuse.

- (i) doing of any act or causing to do any act; or
- (ii) omitting to take any action or causing the omission to take any action, including the making of taxable supplies without getting registration under this Act; or

(iii) falsifying, or causing falsification of the sales tax invoices; in contravention of duties or obligations imposed under this Act or rules or instructions issued thereunder with the intention of understating the tax liability or underpaying the tax liability for two consecutive tax periods or overstating tax credit or tax refund to cause loss of Government revenue.

39. Taxable Goods

It means all goods other than those which have been exempted under section 13.

40. Tax Invoice

It means a document required to be issued under section 23.

Explanation

Section 23 requires that every registered person while making a taxable supply is required to issue a serially numbered tax invoice in urdu and English language at the time of supply of goods, containing:

1. Name, address and registration number of the supplier.
2. Name, address and registration number of the recipient and CNIC or NTN of the unregistered person, as the case may be excluding supplies made by a retailer where the transaction including sales tax does not exceed 100,000 if sale is being made to an ordinary/consumer.
3. Date of issue of invoice.
4. Description and quantity of goods.
5. Value exclusive of tax.
6. Amount of sales tax.
7. Value inclusive of tax.

Note: No person, other than registered person, shall issue a sales tax invoice:

Provided further that not more than one tax invoice shall be issued for a taxable supply.

41. Taxable Supply

It means a supply of taxable goods made by an importer, manufacturer, wholesaler (including dealer), distributor or retailer, other than a supply of

goods which is exempt under section 13, and includes a supply of goods chargeable to tax at the rate of zero per cent under section 4 of the Sales Tax Act, 1990.

42. Taxed Supply

Omitted.

43. Tax Period

It means a period of one month or such other period as the Board with the approval of the Federal Minister-in-charge may, by notification in the official Gazette, specify.

Explanation

A period of one month has been prescribed as the tax period or the return filing period. A registered person is required to account for the supplies and purchases made during a month and furnish a tax return in any of the designated branches of National Bank of Pakistan.

43A Tier-I Retailers

Its means;

- a) A retailer operating as a unit of a National or International Chain of stores;
- b) A retailers operating in an air conditioned shopping mall, Plaza or centre excluding KIOSKS;
- c) A retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rs. 12,00,000
- d) A wholesaler-cum- retailer engage in bulk import and supply of consumers goods on wholesale basis to the retailers as well as on retail basis to the general body of the consumer; and
- e) A retailer, whose shop measures one thousand Square Feet in area or more or two thousand square feet in area or more in the case of retailer of furniture .
- f) 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 State Bank of Pakistan and;

- g) A retailer whose deductible withholding tax under section 236G or 236H of the Income Tax ordinance, 2001 during the immediately preceding twelve consecutive months has exceeded the threshold as may be specified by the Board through notification in the official gazette; and;
- ga) a person engaged in supply of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal excluding a person whose shop measures three hundred square feet in area or less.

44. Time of Supply

In relation to:-

(a) **Supply of Goods.** A supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply.

(b) **Supply of Goods Under Hire Purchase Agreement.** A supply of goods under a hire purchase agreement, means the time at which the agreement is entered into; and

(c) **Rendering of services .** services, means the time at which the services are rendered or provided

(d) Receipt of payment

(i) Where any part payment is received for the supply in a tax period, it shall be accounted for in the return for that period; and

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

44A. Trust

It 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.

44AA. Unit Trust

It 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.

46. Value of Supply

For sales tax purposes the value of supply is determined as follows:

1. Supply is in Money

Where the consideration for a supply is in money the value of supply is determined including all federal and provincial duties and taxes which a supplier receives from the recipient for that supply excluding the amount of sales tax.

Explanation

It is clarified that value of supply does not include the amount of subsidy provided by the Federal Government or Provincial Governments to the electricity consumers and has never been chargeable to tax under the Act.

2. Supply is partly or fully in Kind

Where the consideration for a supply is in kind or partly in kind and partly in money the value of supply is determined on the basis of open market price of the supply excluding the amount of tax.

3. Supply between Associated persons

In case the supplier and recipient are associated persons and the supply is made against no consideration or for a consideration which is lower than the open market price, the value of supply means the open market price of the supply excluding the amount of tax.

4. Supply on installment basis

In case a taxable supply is made to a consumer from general public on instalment basis on a price inclusive of mark up or surcharge, rendering it higher than open market price, the value of supply shall mean the open market price of the supply excluding the amount of tax.

5. Supply on discounted price

Where a trade discount is allowed, the value of supply shall mean the discounted price excluding the amount of tax provided that the tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with the normal business practices.

6. Supply for special nature transaction

Where for any special nature of a transaction it is difficult to ascertain the value of a supply, the value of supply means the open market price.

7. Supply for imported goods

Where the goods excluding those as specified in the third schedule are imported the value determined under section 25 of the Customs Act, excluding those as specified in the Third Schedule including the amount of customs duties and federal excise duty levied thereon will also be included in the value of the supply.

8. Value of Supply not correctly declared in the invoice

Where there is a sufficient reason to believe that the value of a supply has not been correctly declared in the invoice, the value determined by the valuation committee will be the value of the supply.

9. Manufacture of Goods

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 and

10. Supply for retail tax

In case of retail tax, the value of supply means the price of taxable goods excluding the amount of retail tax, which a supplier will charge at the time of making taxable supply by him or such other price as the Board may by a notification in the official gazette.

Provided that, where the Board deems it necessary it may, by notification in the official Gazette, fix the value of any imported goods or taxable supplies.

Provided further that where the value at which import or supply is made, is higher than the value fixed by the Board, the value of goods shall be the value at which the import or supply is made.

11. Value of supply excluding the late payment surcharge.

In case of supply of electric power and gas by a distribution company, the total amount billed including price of electricity and natural gas, as the case may be, charges, rents, commissions and all duties and taxes, local, provincial and federal but excluding the amount of late payment surcharge and the amount of sales tax

Explanation

It is clarified that the value of supply does not include the amount of subsidy provided by the Federal Government or Provincial Governments to the electricity consumers and has never been chargeable to tax under the Act.

12. Value of supply excluding supplemental charges

In case of supply of electricity by an independent power producer, or WAPDA the amount received on account of energy purchase price only and 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

13 Value of supply for Used Vehicles

In Case of Registered Person who is engaged in purchasing used vehicles from general public on which sales tax had already been paid at the time of import or manufacturing, and which are, later on, sold in the open market after making certain value addition, value of supply will be the difference between sale and purchase price of the said vehicle on the basis of the valuation method prescribed by the Board.

46A Whistle blower

It means a person who reports concealment or evasion of sales tax and tax fraud to the competent authority against any person or a sales tax authority committing fraud, corruption, misconduct, or involved in concealment or evasion of taxes.

47. Wholesaler

It includes a dealer and means:

1. Any person who carries on, whether regularly or otherwise, the business of buying and selling goods, by wholesale or of supplying or distributing goods, directly or indirectly, by wholesales for cash or for deferred payment or for commission or other valuable consideration or stores such goods belonging to others as an agent for the purpose of sale.
2. A person supplying taxable goods to any person who deducts income tax at source under the Income Tax Ordinance, 2001.

48. Zero-Rated Supply

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

Explanation

Like all other rates of sales tax, zero percent is a rate of sales tax at which a supply is charged to tax at the rate of zero percent. The following goods shall be charged at the rate of zero percent:

- (a) Goods exported, or goods specified in the Fifth Schedule;
- (b) Supply of stores and provisions for consumption abroad, a conveyance proceeding to a destination outside Pakistan; and
- (c) Such other goods as the Federal Government may by notification in the official Gazette specify.
- (d) Such other goods as may be specified by the Federal Board of Revenue through a general order as are supplied to a registered person or class of registered persons engaged in the manufacture and supply of goods at reduced rate of sales tax.

Zero-rating rate of tax shall not apply in respect of the following supply of goods:

- (i) Goods exported, but have been or are intended to be re-imported into Pakistan;
- (ii) Goods, which have been entered for export but are not exported.
- (iii) The goods which have been exported to a country specified by the Federal Government by notification in the official Gazette.

Difference Between Exempted and Zero-Rated Supply

In case of zero-rated supply the person making the supply is entitled to get refund for input tax paid on his business purchases, while a person making an exempted supply is not entitled to get refund/adjustment of input.

The following table has been designed to help you understand the concept of difference between exempted and zero rated supply.

Distinction Points	Zero Rated Supply	Exempt supply
Definition	"Zero rated supply means a taxable supply which is charged to tax at the rate of zero percent."	"Exempt supply means a supply which is not chargeable to sales tax."
Goods	Goods exported as notified by FBR or listed in the Fifth Schedule are charge to sales tax at the rate of zero percent.	Goods specified Federal Government and FBR and goods listed in Sixth Schedule are exempt supplies.
Invoicing Requirements	Invoice shall be raised for the goods supplied but sales tax shall be charged at the rate of Zero percent.	No sales tax invoice shall be raised.
Registration	A person engage in zero rated supplies has to be registered with the sales tax department.	A person exclusively in the exempt supplies is not liable to the registered.
Input Tax Credit	Input tax paid related to zero rated supplies is refundable.	Input tax paid related to exempt supplies is inadmissible, therefore, neither adjustable nor refundable.