

**Budget Proposals**  
**on**  
**SALES TAX**  
**at**  
**Income Tax Bar - Karachi**

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**Presentation by**  
**Majid Khandwala**

# Reduction in Sales Tax Rate

- Current rate 15%

## Ground Realities

- Existence of a parallel economy
- High rates results in higher tax evasion
- Need to be competitive with the advent of WTO
- Indirect tax is borne by all, rich and poor alike

## Proposal

The rate be reduced to 10%

This rate should not be enhanced for a period of say 5 years.

# Definition of input tax [Section 2(14)]

The definition of input tax covers tax paid

- On supply of goods
- On imports
- In Azad Jammu and Kashmir
- On excisable services chargeable in sales tax mode

## Ground Reality

Sales tax has also been levied on certain services through provincial legislation with effect from July 01, 2000. It has been clarified time and again by the CBR that sales tax on services under the Provincial Ordinances is a permissible input adjustment.

## Proposal

Definition of input tax should be modified to include sales tax paid on services chargeable under Provincial Sales Tax Ordinances.

# Exemption on self supply of intermediate goods

Clause 43 of the Sixth Schedule exempts raw materials and intermediary goods and services if used by a sales tax registered manufacturer himself in the manufacture of goods subjected to sales tax.

The exemption does not extend where the ultimate goods produced are exempt from tax.

## Ground Reality

Industries producing ultimately exempt goods like food and medicines are facing difficulties

Value to be assigned on self-supply of intermediate goods is difficult

If KESC or WAPDA electricity is used there is no problem.

However, if self-generated electricity is used then it becomes taxable

## Proposal

The exemption on self-supply of intermediary products should be exempt from sales tax whether the ultimate product is taxable or exempt

# Input Claim on Telephone Bills

- Telecommunication services are subject to CED in sales tax mode.
- Input tax definition under section 2(14) encompasses such CED in sales tax mode.
- Hence input tax on telephone bills can be legitimately claimed .

## Ground Reality

Electricity and gas have Special Procedures

These stipulate that the bill shall constitute an invoice, and

Input tax may be claimed if sales tax registration number and declared business address is mentioned on the bill.

- There are no Special Procedures for Telecommunication Services .
- The subscribers sales tax registration number on telephone bills is not mentioned on the bill
- Section 7 requires that input tax claim can only be made if a registered person holds a tax invoice in his name and bearing his registration number.

# Input Claim on Telephone Bills - continued

- Effectively the input tax admissible under law can be denied.

## Proposal

Like other utilities Special Procedures should also be prescribed for Telecommunication Services.

The need for having the registration number of the subscriber on the telephone bill should be dispensed with – particularly for the past.

# Certain transactions not admissible [Section 73]

- any transaction involving payment exceeding Rs.50,000
- shall be through a banking instrument
- showing transfer of the **amount of sales tax invoice**
- from the business account of the buyer
- within 180 days of the invoice
- Non-compliance would result in disallowance of input tax for the buyer.
- The seller is required to deposit the proceeds in the business bank account

## Ground Reality

- There is an assumption that payment is in the form of currency— netting off against payables, inter-company adjustments, adjustment against brokerage/commission, discounts, exchange of goods, etc. are common business transactions which are overlooked by section 73.

# Certain transactions not admissible [Section 73] (Contd.)

## Proposal

Non-cash payments should be catered for

If payment is not made within the prescribed time by the buyer, the input tax already claimed should be offered back.

If payment is made after the prescribed time, then it may be reclaimed by the buyer at the time of actual payment.

Section 73 should be revised accordingly.

# Sales tax on basis of Retail Price (Third Schedule)

Includes substances registered as Drugs under the Drugs Act, 1976 and medicaments classifiable under Chapter 30 of the First Schedule to the Customs Act, 1969

## Ground Reality

This was inserted when pharmaceutical products were subjected to sales tax in early 2002.

The exemption was reinstated in August 2002

## Proposal

The entry in the Third Schedule appears to be redundant and should be removed.

# Restriction on Input Tax Claim

## SRO 490(I)/2004

Restricts input tax claim on

- Vehicles falling under Chapter 87 of the First Schedule to Customs Act, 1969
- Food, beverages, garments, fabrics, etc. and consumption on entertainment
- Gifts and giveaways

### Ground Reality

- Apart from motor cars and motor cycles, Chapter 87 includes tractors, public transport vehicles, motor vehicle for transport of goods, trailers, etc.
- Input on staff uniforms is being restricted as it is held to be fall under garments and fabrics

### Proposal

The restriction on vehicles which cannot be used for private purposes should be reduced.

There appears to be no rationale behind restriction on garments and fabrics

# Special Procedure for Commercial Importers

- This is applicable to persons registered **exclusively as Commercial Importers** under the Act.
- Sales tax is computed at 15% on a minimum value addition of 10%.
- Output tax is to be paid in advance at import stage.

## Ground Reality

Under Registration Rules the categories are as follows –

**Manufacturer Importer Wholesaler Retailer**

There is no category of a Commercial Importer

Under customs laws import can either be an industrial import or a commercial import. Hence customs classification is being applied.

Import of goods for self use is also subjected to value addition.

Persons who are not exclusively registered as importers are also subjected to advance output tax at import stage.

There is no place in the normal tax return to claim the advance output tax.

# Proposal

Suitable amendments be made in the Special Procedure for Payment of Sales Tax by Commercial Importers on Value Addition.

**GOVERNMENT OF PAKISTAN**  
**Sales Tax Return – cum - Payment Challan**

Annex  
 [See rule 13(F)]

Number	Period
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Note: In case of revised return, insert  
 Date of Initial Filing

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PL tick the relevant box

Please see the instructions on the reverse before you fill this return

(01) Sales Tax Registration Number

(02) N.T.N #

(03) Name

(04) Tax Period

MONTH	YEAR
<input type="text"/>	<input type="text"/>

(05) Excess amount of Input Tax carried forward from the preceding tax period, if any.  Rs.

(06) Unclaimed Input Tax from immediate three preceding tax period (excluding Column #05)  Rs.  
 Reason for delayed claim:

(07) Sales	VALUE (Excluding Sales Tax)	Rate	SALES TAX DUE (Output Tax)
(a) Taxable Supplies	Rs.	15%	Rs.
(b) Exports/Zero-rated Supplies	Rs.	0%	
(c) Supplies to DTRE Registered Persons	Rs.	0%	
(d) Exempt Supplies	Rs.		
<b>TOTAL</b>	Rs.		<b>Rs.</b>

(08) Purchases	VALUE (Excluding Sales Tax)	Rate	SALES TAX PAID (Input Tax)
(a) Taxable Imports	Rs.	15%	Rs.
(b) Taxable Purchases (Domestic)	Rs.	15%	Rs.
(c) Tax paid on utilities (Tele + Gas + Elec)	Rs.	15%	Rs.
(d) Zero-rated Purchases / Imports	Rs.	0%	
(e) Exempt Purchases / Imports	Rs.		
(f) All other Purchases	Rs.		
<b>TOTAL</b>	Rs.		<b>Rs.</b>

(09) Arrears / Additional Tax / Recoveries pointed out by Audit  Rs.

(10) Penalty for late filing  Rs.

(11) **Net amount payable (Including Arrears, Additional Tax and Penalties)**

**TOTAL SALES TAX PAYABLE** [7-(5+6+8)+9+10]  Rs.

(Under each head)

0220000 Sales Tax  Rs.

0225000 Sales Tax on Services collected on behalf of Provincial Government  Rs.

0226000 Central Excise Duty on Goods & Services collected in the manner of Sales Tax  Rs.

(12) **Refund** [(5+6+8)-7]  Rs.

(13) **Carry forward** [(5+6+8)-7]  Rs.

# Special Procedure for Payment of Retail Tax

- Applicable to persons registered exclusively as retailers under the Act.
- Sales Tax to be paid on value addition of 10% or at reduced rates specified for certain types of goods.
- Value addition is to be computed on **all purchases**.

## Ground Reality

Retailers like supermarkets and general stores deal in –

- Taxable goods.
- Taxable goods on the basis of retail price (e.g. soft drinks, ice-cream, cigarettes).
- Exempt goods (e.g. food, medicines)

Tax on basis of value addition is levied on all categories of goods thereby –

- Denying the exemptions as envisaged by the Sixth Schedule.
- Double taxation of goods on which sales tax has been paid on the basis of retail price.

## Proposal

Suitable amendments be made in the Special Procedure for payment of Retail Tax .

# Extension of time limit for issue of show cause notice [Section 36]

- Significant amendment has been made in section 36 vide Finance Act, 2003
- The time limit for issuance of show cause notice for the recovery of tax has been extended from 3/5 years to an indefinite period, if audit observations are issued within 3/5 years

## Ground Reality

Under section 24, a registered person is required to retain sales tax records for 5 years only

It is very difficult to retrieve and explain old records due to passage of time and change of personnel

## Proposal

The second proviso to subsection (4) should either be omitted

# Adjudication (Section 45)

- Adjudication is conducted by Collector, Additional Collector and Deputy Collector
- Deputy Collector is empowered to hear cases involving principal amount of up to 5 million
- Adjudication by Deputy Collector increases one more layer of appeal

## Ground Reality

The Collector Adjudication generally reproduces the arguments of the taxpayer as well as the Department.

No input is made by the adjudicator

The departmental point of view is confirmed.

## Proposal

The adjudicating authority should be independent of the assessing authority.

The level of appeal should be reduced as no justice can be expected at the Collectorate level.

# Thank You