

# **Sales Tax on Services Implications of the Finance Acts 2019**

**Karachi Tax Bar Association**

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**Presented By:**

**Saud ul Hassan**

**Director – Tax**

**EY Ford Rhodes**

# Overview

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- Key Amendments in Sindh Sales Tax on Services
- Key Amendments in Punjab Sales Tax on Services
- Key Amendments in Islamabad Capital Territory Tax on Services
- Key Amendments in Khyber Pakhtunkhwa Sales Tax on Services

# KEY AMENDMENTS IN THE SINDH SALES TAX ON SERVICES ACT, 2011

# Addition to List of Taxable Services (Second Schedule), under the Sindh STSA, 2011 (Notifications)

- Following new services have been taxed by addition in the Second Schedule to the Sindh STS Act, 2011 @ 13% or at reduced rates through notifications.

S. No.	Description	Rate of Tax	Reduced Rate
1.	Renting of machinery, equipment, appliances and other tangible goods	13%	5%
2.	Indoor sports and games center	13%	10%
3.	Services provided or rendered by cab aggregator and the services provided or rendered by the owners or drivers of the motor vehicles using the cab aggregator services	13%	5%
4.	Warehouses or depots for storage or cold storages	13%	
5.	Training services	13%	5%
6.	Actuarial services	13%	
7.	Services of mining of minerals and allied and ancillary services	13%	-
8.	Site preparation and clearance, excavation, earth moving and demolition services	13%	-
9.	Waste collection, transportation, processing and management services	13%	-
10.	Vehicle parking and valet services	13%	5%
11.	Electric power transmission services	13%	-
12.	Insurance agents	13%	5%

# Withdrawal Of Exemption From Sindh Sales Tax For Certain Services (Notifications)

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- Exemptions as earlier available on the following services have been withdrawn.
  - **Exemption available to Life Insurance services** provided to individuals for insurance policy coverage up to Rs.500,000 and group life insurance services has been withdrawn effective from 01 July 2019. Now group life insurance services are taxable at 13% whereas insurance policies coverage upto Rs. 500K are now taxable at 3%.
  - **Advertisement in newspaper and periodicals**, except colour advertisement and black and white advertisement occupying specified space in newspaper or periodicals. Such advertisement shall now be chargeable at the rate of 3%.
  - **Internet services**, up to 4 mbps. Such services are now taxable at 19.5%.
  - Service provided or rendered by banking companies and non-banking financial companies in respect of **Hajj and Umrah, Cheque Book issuance and Musharika and Modaraba financing**. Such services are now taxable @ 13%.
  - **Construction and repair services** of roads, ports, airports, railways, transport terminals and bridges provided to Government including Local Government and Cantonment Board buildings. Now Government civil works, as paid out of their respective expenditure budgets, shall be taxable at 5%.

# Certain Amendments Regarding Exemptions Or Taxing For Certain Services (Notifications)

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- **Threshold for exemption available to Beauticians, Salons and Laundries** has now been reduced upto **annual turnover limit to Rs. 2.5 million (earlier 4 M) and total utility to Rs.25,000 (earlier 40K) in any month.**
- **Exemption given to health insurance services** for the period from 01 July 2016 to 30th June 2019 has been **extended upto 30th June 2020.**
- **Services of Stand-alone Cable TV Operator have been exempted (excluding Advertisement Services on Cable TV) for the tax periods from July 2018 to June 2020** with certain conditions and restrictions.
- **Option filed by the transporter for charging 15% on inter provincial transportation services with respect to petroleum oils** has now been validated **upto 30th June 2020** from 30th June 2019.
- **New transporter willing to file an option for 15% can also approach to the Commissioner, SRB atleast 10 days** before the commencement of economic activity in relation to the inter province services. This option will also be valid upto 30th June 2020.

# Introduction or Amendments in Reduce Rate for Certain Services (Notifications)

- Reduce rates for following services has been introduced or amended with certain conditions and restrictions including bar on adjustment of input tax.

S. No.	Description	Rate of Tax	Reduced Rate
1.	Service provided or rendered by stand-alone laundries and dry cleaners	13%	5%
2.	Service provided in the matter of manufacturing or processing of textile and leather goods for others on toll basis	13%	3%
3.	Travel Agents	8%	5%
4.	Tour operators	8%	5%
5.	Service provided or rendered by fashion designers	10%	5%
6.	Inter-city transportation or carriage of goods by road through truck addas or bus/wagon excluding carriage of petroleum oils, automotive vehicles and cargo by Logistic Companies having 25 or more vehicles in its fleet.	8%	3%
7.	Life insurance policies of Individuals coverage upto Rs. 500K	Exempt	3%
8.	Advertisement in newspaper and periodicals	Exempt	3%
9.	Government civil works, as paid out of their respective expenditure budgets	Exempt	5%

# Classification of New Persons as Withholding Agents (Notification)

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- List of withholding agents have been enlarged. Now the following persons will also be **withholding agents who will deduct and deposit the whole amount of Sindh Sales Tax on receipt of the following taxable services** for which they have been particularly declared as withholding agents.
- SRB-registered persons or insurers receiving or procuring the **services of insurance agents or insurance brokers**;
- **Persons or passengers using the services of a cab aggregator** required to deduct or withhold the tax in relation to the services provided or rendered by the owners or drivers of the motor vehicles using the services of the cab aggregators. **In relation to this rule, the cab aggregator** resident in Pakistan and the branch office or resident representative in Pakistan of the cab aggregator not resident in Pakistan **would also be the withholding agent**; and
- Persons receiving or procuring the **services of contractors and construction as are liable to reduced rate of tax at 2% or 5%.**



# Changes In Machinery Provisions

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- **Tax demand can now only be recovered after the lapse of thirty day from date of relevant assessment order.** Previously, no such time limitation was provided under the law.
- The time period to **grant stay by the Commissioner (Appeals)**, SRB has been extended **from 60 days to 120 days.**
- A Withholding Agent is made personally liable to pay any amount of tax withheld but not deposited or failed to deduct applicable Sindh Sales Tax withholding
- **Certain powers with respect to asking information, records and documents** for the purpose of examination, scrutinizing and audit have also been **conferred to Auditors and Sindh Sales Tax Officers.**
- **New requirement to maintain and keep records** with respect to tax invoices, debit / credit notes and goods declarations have specifically been placed in Section 26.
- The Officer of Sindh Revenue Board is now empowered to **carry out audit of registered person at its office or place of business** or any other place as indicated in a notice.

# New Special Provisions (Notifications)

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- **Indenters can pay sales tax @ 3% on all outstanding service transactions pertaining** to the indenting on which sales tax has not been paid as yet. This scheme is effective **for July 2015 and onward** transactions subject to the certain conditions including **payment of due tax by 31 August 2019**.
- **Special procedure for services provided by cab aggregator** and an owner or a driver of the motor vehicle using the cab aggregator services have been prescribed. A **owner or a driver** providing services to passengers by using cab aggregator services **are not required to be registered**.
- The **responsibility to charge, collect and pay sales tax @ 5% is upon the cab aggregator** or resident representative of a non-resident cab aggregator.
- **Special procedure for collection and payment of sales tax for insurance agent services**. An exclusive insurance agent is not liable to obtain registration, if the insurance company, appointed him as an agent, has deducted and paid amount **of sales tax** on insurance agent services.
- If the **insurance company is not a resident of Pakistan** then their **agents / broker will discharge their all of obligations** including payment of taxes themselves.

# **KEY AMENDMENTS IN THE PUNJAB SALES TAX ON SERVICES ACT, 2012**

# Addition to List of Taxable Services (Second Schedule), under the Punjab STSA, 2012

- Following new services have been taxed at prescribed rates by addition in the Second Schedule to the Punjab STS Act, 2012.

S. No.	Description	Rate of Tax
1.	Dress designing and stitching services	16%
2.	Rental of bulldozers, excavators, cranes, construction equipment, scaffolding, framework and shuttering, generators, storage containers, refrigerators, shelf or rack renting	16%
3.	Services in respect of treatment of textile, leather but not limited to Dyeing services, Edging and cutting, cloth treating, water proofing, Embroidery, Engraving, Fabric bleaching, Knitting, Leather staining, Leather working, Pre-shrinking, colour separation services, pattern printing and shoe making services.	16%
4.	Apartment house management, real estate management and services of rent collection	16%
5.	Medical consultation / visit fee exceeding Rs. 1,500 per consultation / visit of doctors, medical practitioners and medical specialists. Bed / room charges of hospitals exceeding Rs. 6,000 per day per bed / room	5% Without Input Adjustment

# Amendments to List of Taxable Services (Second Schedule), under the Punjab STSA, 2012

- Following services have been taxed or provided reduced rates through amendments to the existing entries in the Second Schedule to the Punjab STS Act, 2012.

S. No. of II Schd.	Description	Existing Rates	New Rates
15.	Services provided by property developers, builders and promoters (including their allied services)	Rs. 100 per square yard land development and Rs. 50 per square feet for building construction	16% [excluding the documented cost of land], Or option to pay tax @ 8% without input adjustment.
15.	Affordable housing services provided under the Government sponsored housing programs.		16% [excluding the documented cost of land], Or option to pay tax @ 5% without input tax adjustment.
34.	Interior Designers	New Services	16%
43.	Amusement Parks, Arcades and other recreational facilities.	New Services	16%
54.	Facilities for travel by air originating from Punjab for domestic or international travel	Rs. 2,500 – 10,000 per ticket.	5% without Input tax adjustment

# Changes In Machinery Provisions

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- **Withholding** - An 'explanation' in section 14 of the Punjab STS Act, 2012 is inserted to clarify that the expression '**charged**' used in respect of withholding provisions would **mean and include tax liable to be charged under the Punjab STS, 2012 or Rules made thereunder**. This is to ensure enforcement/collection of withholding sales tax in cases where tax liable to be charged is not being been charged by service providers (registered or unregistered) for any reasons.
- **Tax credit not allowed** – Sub-sections (g) and (h) of Section 16B placed bar on claiming of input tax related to services liable to tax rate lesser than 16% and on goods or services used or consumed in services liable to tax rate lesser than 16%. This rate of tax has now been substituted to 15% for admissibility of input tax. Effectively, services acquired under the KPK and Balochistan Acts @15% would be claimable. **Sindh sales tax @ 13% ?**
- **Determination of Minimum Tax Liability (24A)** – In case of non-filing of return by a registered person, a PRA tax official is now empowered to determine "**Minimum Tax Liability**" of a registered person subject to such conditions as specified by PRA. This amendment is in line with the similar provisions available under federal & other provincial laws.

# Other Key Amendments

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- **Appeal to Appellate Tribunal** - Presently only an order passed by the **Commissioner (Appeals)** is appealable before the Appellate Tribunal. Now through the amendment is Section 66 of the Punjab STS, 2012, an order passed **by the Commissioner through adjudication** under Section 60 or 61 and an order **passed by the Authority** under Section 62 is appealable before the Appellate Tribunal. Furthermore, the **time period for preferring appeal** before Tribunal is **reduced to 30 days** from 60 days.
- **Electronic Invoicing** - PRA is authorized to prescribe manner, devise, implement and declare as mandatory, an electronic invoicing system for issuance of tax invoices for any registered person/ class of registered persons or services/class of services.

# Other Key Amendments

## Penalties

- New penalties have been proposed for certain other offences, which are tabulated as follows:

S. No	Offence	Penalty
17.	Where any person fails or refuses to issue a tax invoice.	Such person shall be liable to pay a penalty of Rs20,000 on first default and Rs50,000 for each subsequent default. In case of three acts of such default, the business premises shall be liable to be sealed for a period which may extend to one month.
18.	Where any person fails to intimate any change in particulars of registration Including the particulars relating to business address, /branches etc. within fourteen days.	Such person shall be liable to pay a minimum penalty of Rs50,000.
19.	Where any person fails to declare, conceals any of business bank accounts or gives misleading declaration or fails to intimate any change in business bank account within 14 days of such change	Such person shall be liable to pay a penalty which may range from Rs100,000 to Rs500,000.
20.	Where any person either avoids, defies, fails to comply with electronic invoicing system or issues invoices bypassing the electronic invoicing system.	Such person shall be liable to pay a penalty of upto Rs100,000 but not less than Rs25,000. In case of three Consecutive defaults, the business premises of such person may further be liable to sealing for a period which may extend to one month.



# KEY AMENDMENTS IN THE ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

# Introduction of New Taxable Services in the Schedule through the Finance Act, 2019

- The following new services/ entries have been added in the Schedule, such services are already subject to sales tax in Provinces:

S. No.	Description	Rate of Tax
43	Advertisement on hoarding boards, pole signs and signboards, and websites or internet	16%
44	Services provided by landscape designers	16%
45	Sponsorship services	16%
46	Services provided or rendered by legal practitioners and consultants	16%
47	Services provided by accountants and auditors	16%
48	Service provided or rendered by Stockbrokers, future brokers and commodity brokers, money exchanger, surveyors, outdoor photographers, event photographers, videographers, art painters, auctioneers (excluding value of goods) and registrar to an issue	16%
49	Services provided by race clubs: Entry/ admission and other services	16%
50	Services provided or rendered by corporate law consultants	16%

# Introduction of New Taxable Services in Schedule – Cont.

S. No.	Description	Rate of Tax
51	Visa processing services, including advisory or consultancy services for migration or visa application filing services	16%
52	Debt collection services and other debt recovery services	16%
53	Supply chain management or distribution (including delivery) services	16%
54	Services provided or rendered by persons engaged in inter- city transportation or carriage of goods by road or through pipeline or conduit	16%
55	Ready mix concrete services	16%
56	Public relations services	16%
57	Training or coaching services other than education services	16%
58	Cleaning services including janitorial services, collection of waste and processing of domestic waste	16%
The rate of services provided or rendered by Call Centers has been reduced to 17% from 18.5%.		

# Sales Tax Withholding on Services in Islamabad and Amendments in Services Subject to FED

## Sales Tax Withholding

- Provisions of sales tax withholding as provided in newly inserted Eleventh Schedule to the Sales Tax Act, 1990 and newly inserted Chapter XIV-D of the Sales Tax Rules, 2006 will also apply on:
  - Services liable to Federal excise duty in sales tax mode; and
  - Services listed under in the Schedule to the Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

## Amendment on services subject to Federal Excise Duty

- Rate of FED on domestic air travel is reduced from:
  - PKR 2,000 to PKR 1,500 for long routes; and
  - PKR 1,250 to PKR 900 for short routes.
- Exemption from levy of FED on international leased line or bandwidth services provided by foreign satellite companies is withdrawn. Such services are now liable to FED in sales tax mode @17%.
- Exemption from levy of FED available to internet services whether dialup or broadband including email services, Data Communication Network services (DCNS) and Value added data services is withdrawn. Such services are now liable to FED in sales tax mode @17%.

# **KEY AMENDMENTS IN THE KHYBER PAKHTUNKHWA SALES TAX ON SERVICES ACT, 2013**

# Change in Rates of Tax

## Second Schedule Revamped

- Second Schedule has been revamped whereby similar nature of services have been brought into one entry as well as all exemptions and reduced rates has been provided in Second Schedule.
- Following **major new services** have been taxed by added in Second Schedule-

Entry. No.	Description	Rate of Tax
9.	Auto-workshops including aircrafts, helicopters and other flying objects	15%
18.	Dry port services including operations of a dry port	15%
22.	Exhibition, convention or carnival services and allied services	15%
27.	Storage and warehousing services	15%
42.	Online market place	5%
47.	<b>All allied, ancillary, auxiliary, related, substitutive, comparable or matchable services not specifically, directly or indirectly mentioned anywhere in this Schedule but fall in or are linked in any manner to the category or categories of services covered in any of the class or classes of services mentioned or included in the Schedule provided that no argument as to variation in description shall be relevant or permissible for the application of this entry.</b>	<b>Rate of tax as per respective entry or entries</b>

# Change in Rates of Tax

## Second Schedule Revamped

- In addition, rate of tax has been reduced on many service with **bar on claim of input tax**.  
**Major changes in rate of tax** on services are as under:

Entry No.	Description	Previous Rates	New Rates
2.	Health care centers, health clubs, physical fitness centers, beauty parlors etc.	15%	8%
9.	Workshops for industrial, construction, earth-moving or special purpose machinery.	15%	5%
11.	Credit rating or similar evaluation or revaluation agencies	15%	10%
12.	Toll manufacturing services (main or major input owned by others)	10%	5%
19.	Medical, dental or allied health fields, Human resource management services	15%	5%
15.	IT based services (including web designing, mobile app development, social media marketing, call centers)	15%	5%
20.	Telecasting and broadcasting services (other than TV cable operators)	15%	10%
23.	TV cable operators	10%	2%
40.	Rent-a-cab services	15%	5%
41.	<b>Ride-hailing or ride-hail services</b> (no tax demand for previous years, provided regular compliance from 01 July 2019)	15%	2%

# Other Key Amendments

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- ▶ The definition of **place of business** has been changed to include **economic activity carried out through virtual presence / online business**
- ▶ A new sub-section has been inserted at Section 26 which requires registered person to make invoice payment exceeding rupees fifty thousand to service provider upon receipt of taxable services through banking channel in order to legitimize its input tax claim on such purchases.
- ▶ Similar to other Provinces, officer of KPRA is now authorized to recover short sales withholding from withholding agent alongwith penalty and default surcharge.



# Other Key Amendments

## Penalties

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### Failure Or Delay in Attaching Bank Account

In case bank fails to attach or delay in attaching bank account of a person then penalty shall be imposed on bank at higher of:

- ▶ one hundred thousand rupees; or
- ▶ five percent of tax amount

In addition to above, concerned officer of the bank shall further be liable to imprisonment upto one year or above financial liability or both.

### Failure In Tax Withholding or Deposit in Withheld Amount

In case withholding agent fails to withhold or withhold but not deposited tax then penalty shall be imposed at higher of:

- ▶ Twenty five thousand rupees; or
- ▶ five percent of tax amount

**THANKS**