

GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE
(INLAND REVENUE POLICY WING)

C. No. 1/2-STB/2019

Islamabad, the 26th July, 2019

CIRCULAR NO. 01 OF 2019

SUBJECT: **FINANCE ACT, 2019 – EXPLANATION OF IMPORTANT AMENDMENTS IN SALES TAX ACT, 1990, FEDERAL EXCISE ACT, 2005 AND ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001**

A. **SALES TAX ACT, 1990**

1. **Rescission of Special Procedures and Sales Tax General Orders (STGOs):**

In order to move towards standard sales tax regime, all special procedures have been abolished by rescinding the Sales Tax Special Procedures Rules, 2007 and the Sales Tax Special Procedure (Withholding) Rules, 2007. Further, most of the sales tax general orders have also been rescinded. The provisions from the repealed instruments which were considered important have been made part of either the Sales Tax Act, 1990, or the Sales Tax Rules, 2006. Separate SROs have been issued in this regard.

2. **Change in the definition for cottage industry:**

The definition of cottage industry in section 2(5AB) has been modified. The annual turnover threshold has been reduced from 10 million to 3 million and three new criteria have been added in the said section. To qualify as cottage industry, all the four conditions will have to be fulfilled. The conditions are as under:

- (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 three million Rupees;

3. **Definition of Tier-1 retailer:**

A new condition (e) has been added to the existing definition of 'Tier-1 retailer' under section 2(43A) of the Sales Tax Act, 1990. Now, a retail shop having area more than 1000 square feet shall also fall under tier-1 and shall be liable to discharge its liability under standard regime.

4. **Value of supply:**

Definition of value of supply has been amended to provide for application of retail price taxation to imported goods, and also to incorporate provisions from rescinded rules and STGOs. These modifications are enumerated below:

- (i) Amendment in clause (d) in section 2(46) to exclude imported Third Schedule items from purview of application of 'customs value' determined under section 25 of the Customs Act, 1969. These items are to be assessed on the basis of **declared retail price**. Further such price is also required to be printed on imported goods as stipulated in clause (a) of section 3(2) of the Sales Tax Act, 1990.
- (ii) Substitution of clause (f) in section 2(46) pertains to value of supply in case of toll manufacturing, which defines it as actual consideration received by manufacturers for the value addition carried out in relation to goods;
- (iii) Newly added clause (h) defines value to be energy purchase price in case of supply by IPPs; and
- (iv) Another new clause (i) transposes the provisions relating to exclusion of late payment surcharge from value, in case of supply of electricity and gas by the distribution companies, from the rescinded Sales Tax Special Procedures Rules, 2007.

5. **Fixed tax on brick kilns**

In the Tenth Schedule, bricks Kiln are required to pay fixed monthly tax based on their location as under:

S. No.	Region or area	Tax payable per month
(1)	(2)	(3)
1.	Lahore, Rawalpindi and Islamabad districts	Rs. 12,500
2.	Attock, Chakwal, Jehlum, Mandi Bahauddin, Sargodha, Gujrat, Sialkot, Narowal, Gujranwala, Hafizabad, Sheikhpura, 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, Pakpattan, Bahawalnagar, Rahim Yar Khan districts; and Sindh, Khyber-Pakhtunkhwa and Baluchistan provinces	Rs. 7,500

6. **Application of retail price on imported goods:**

The locally manufactured goods specified in Third Schedule are already chargeable to sales tax on the basis of retail price. Now, through amendment in section 3(2)(a), retail price taxation has also been made applicable to imported goods. The importers are required to print the retail price in the manner prescribed in the aforesaid clause and such goods shall be assessed on the basis of declared retail price and not on the basis of customs value under section 25 of the Customs Act, 1969. However, in view of difficulties at import stage,

customs authorities have been asked to let the consignments cleared for the month of July, 2019 without retail price stickers through STGO 102/2019, dated 15.07.2019. However, from 1st August, 2019, the imported items under the Third Schedule shall be cleared provided that the retail price alongwith amount of sales tax is legibly, prominently and indelibly printed or embossed on each article, packet, container, package, cover or label as the case may be.

7. **Addition of new items to Third Schedule:**

Twelve new serial numbers have been added to Third Schedule as under

38.	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.
39.	Household gas appliances, including cooking range, ovens, geysers and gas heaters.
40.	Foam or spring mattresses and other foam products for household use.
41.	Paints, distempers, enamels, pigments, colours, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
42.	Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids sold in retail packing.
43.	Storage batteries excluding those sold to automotive manufacturers or assemblers
44.	Tyres and tubes excluding those sold to automotive manufacturers or assemblers
45.	Motorcycles
46.	Auto rickshaws
47.	Biscuits in retail packing with brand name
48.	Tiles
49.	Auto-parts, in retail packing, excluding those sold to automotive manufacturers or assemblers

8. **Rates of Withholding sales tax:**

As Sales Tax Special Procedure (Withholding) Rules, 2007, have been rescinded, the rates of withholding and exclusions for the same have been provided in newly inserted Eleventh Schedule, as provided in amended section 3(7) of ST Act as under:

The rates for withholding or deduction by the withholding agent shall not be applicable to goods and supplies specified after the end of this Table:

S No.	Withholding agent	Supplier category	Rate or extent of deduction
(1)	(2)	(3)	(4)
1.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Registered persons	1/5 th of Sales Tax as shown on invoice
2.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Person registered as a wholesaler, dealer or distributor	1/10 th of Sales Tax as shown on invoice
3.	Federal and provincial government departments; autonomous bodies; and public sector organizations	Unregistered persons	Whole of the tax involved or as applicable to supplies on the basis of gross value of supplies
4.	Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Unregistered persons	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.	Unregistered persons	Whole of sales tax applicable
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- (i) Electrical energy;
- (ii) Natural gas;
- (iii) Petroleum products as supplied by petroleum production and exploration companies, oil refineries, oil marketing companies and dealers of motor spirit and high speed diesel;
- (iv) Vegetable ghee and cooking oil;
- (v) Telecommunication services;
- (vi) Goods specified in the Third Schedule to the Sales Tax Act, 1990;
- (vii) Supplies made by importers who paid value addition tax on such goods at the time of import; and
- (viii) Supplies made by an Active Taxpayer as defined in the Sales Tax Act, 1990 to another registered persons with exception of advertisement services.

9. **Taxation of retailers not falling in Tier-1:**

Taxation of such retailers was already provided in section 3(9) of ST Act. The procedure for exclusion of persons from such taxation by the Commissioner concerned has been transposed from rescinded rules to this sub-section.

10. **Changes in regime of Tier-1 retailers:**

Sub-section (9A), relating to tier retailers, has been substituted, providing as under:

- (i) Option to pay 2% turnover tax has been withdrawn.
- (ii) Provisions relating to SRO 1125(I)/2011 have been omitted, thus subjecting textile and leather items to normal rate except for the integrated retail outlets for which the rate shall be 14% as per amendment in Eighth Schedule.

- (iii) A new proviso has been added wherein customers of Tier-1 retailers are entitled for pay-back up to 5% of sales tax involved in the sales tax invoice. This shall encourage the customers to demand sales tax invoice from registered retailers. However, these provisions shall be applicable when the Board so notifies.
- (iv) Another new proviso aims at expanding the scope of real-time integration beyond textile and leather. These provisions shall become effective when the Board so notifies. After such notification, the input tax shall be reduced by 15% for retailers failing to integrate POSs in the prescribed manner, as provided in the **newly inserted sub-section (6) in section 8B.**

11. **Powers of Federal Government to grant zero-rating curtailed and Board's similar powers withdrawn:**

Section 4(c) has been amended to limit the powers of Federal Government to grant zero-rating to emergency conditions. The powers of the Board to grant zero-rating through general orders have been withdrawn by omitting clause (d) of section 4.

12. **Minimum value-addition tax @ 3%:**

The provisions relating to 3% value addition tax on imported goods have been transposed from the special procedure rules to the newly inserted Twelfth Schedule and necessary enabling amendments have been made to sub-section (2) of section 7A. Earlier exclusions from 3% tax have been maintained with following differences:

- (i) Earlier manufacturers importing goods for in-house consumption were excluded from this levy. Now, all raw materials and intermediary goods meant for use in an industrial process which are subject to customs duty at a rate less than 16% ad valorem under First Schedule to the Customs Act have been excluded, whether imported by manufacturers or commercial importers.

Description	Customs Duty	Minimum value addition tax

Importers	Less than 16%	0
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- (ii) Earlier only those petroleum products, imported by OMCs, were excluded whose prices were regulated. Now, all petroleum products imported by OMCs are excluded.
- (iii) Cellular mobile phones or satellite phones have been added to exclusions;
- (iv) In view of withdrawal of exemption on gold and silver, in unworked condition, the exclusion from 3% tax has been provided to these items.

13. **Further curtailment of powers of Federal Government to exempt under section 13:**

The conditions / situations under which Federal Government can grant exemptions through a notification have been reduced by omitting conditions relating to protection of national economic interests in situations arising out of abnormal fluctuation in international commodity prices, removal of anomalies in taxes, and development of backward areas.

14. **Requirement of mentioning buyer NIC for sale to un-registered person:**

Section 23, relating to issuance of invoices and particulars to be specified therein, has been amended to provide that in case of supplies to un-registered persons, their NIC or NTN number shall be specified in invoice. The caveats, provided therein, are as under:

- (i) NIC or NTN shall not be required in case of supplies made by a retailer where the transaction value inclusive of sales tax amount does not exceed rupees fifty thousand and the sale is being made to an ordinary consumer buying goods for his own consumption and not for the purpose of resale or processing;
- (ii) If it is subsequently proved that NIC provided by the purchaser was not correct, liability of tax or penalty shall not arise against the seller, in case of sale made in good faith; and
- (iii) The condition of providing NIC or NTN shall be effective from 1st August, 2019.

15. **Approval requirement for revising return waived in certain cases:**

A proviso has been added to section 26(3), whereby the approval of Commissioner shall not be required for revising return if revised return is filed within sixty days of the filing of return subject to the conditions that tax payment is enhanced or refund claimed is reduced compared to that in the original return.

16. **Penalty for non-filing or late-filing of Sales Tax return increased:**

Penalty for non-filing or late filing of sales tax return, excluding cases where delay is less than ten days, under serial number 1 of Table in section 33 has been enhanced to Rs. 10,000. The penalty for late filing return within ten days of due date has been enhanced to Rs. 200 per day.

17. **Change in section 58 enabling director / partner to recover from company**

Section 58 enabled the department to recover arrears of a company / firm from its directors or partner. The amendment now made provides that if such recovery is made, the director or partner shall be able to recover the dues from the company / firm or other directors / partners.

18. **Changes in exemption regime under the Sixth Schedule:**

Following changes have been made in **Table-1**:

- (i) Exemptions at the existing serial numbers 2, 3, and 72, relating to meat, fish, poultry meat etc have been amended to clearly provide that these exemptions also apply to products specified thereunder even if these products are **packed**.
- (ii) Under serial number 19, the products of milling industry, as sold in retail packing bearing brand names, have been excluded from purview of exemption, however, wheat and meslin flour shall remain exempt even if so packed or sold under a brand name. Redundant PCT Heading 1102.1000 has also been omitted.

- (iii) Serial numbers 36 and 37 pertaining to Gold and Silver, in unworked condition, have been omitted. Gold and Silver have been placed in the 8th schedule and chargeable to sales tax at the reduced rate of 1%. Gold and Silver have also been excluded from the purview of minimum value-addition tax of @ 3% at import stage under Twelfth Schedule.
- (iv) The expression “excluding electricity and natural gas” has been added in serial number 52A relating to exemption on goods supplied to specified hospitals. Now, such hospitals are no more eligible for exemption on supplies of electricity and gas.
- (v) The exemption at serial number 85, as available to fat filled milk, has been restricted to such milk as is not sold in retail packing under a brand name or a trademark. Such packed and branded fat filled milk now shall be subject to 10% sales tax under Eighth Schedule.
- (vi) In view of doing away with the special procedure for steel industry, the exemption available to vessels / ships for breaking at serial number 95 has been omitted. Vessels imported for breaking up are now taxable at 17%. Field formations of Customs should ensure chargeability of sales tax on import of vessels since 1st July, 2019.
- (vii) New serial number 151 has been added. This is a transposition of exemption under SRO 1212(I)/2018 which now has been rescinded and which provided exemption on supplies made within the tribal areas. In the transposed form, it allows further exemption on imports of industrial input including plant and machinery imported by industrial units located within tribal areas. These exemptions on imported inputs / plant and machinery shall be available subject to security mechanism specified under this serial.
- (viii) Newly added serial 152 provides exemption on supplies of electricity as made to all consumers in tribal areas. However, this exemption shall neither be available to industries established after 31st May, 2018, nor to any steel and ghee /oil industries.

- (ix) Through new serial number 153, imports and supplies by manufacturers of steel billets, ingots, ship plates, bars and other long re-rolled profiles, have been exempted. In lieu of this exemption, federal excise duty has been imposed on these items in sales tax mode.

In Table-2, relating to local supplies, two changes have been made:

- (i) Exemption under serial number 16 shall not be available to ginned cotton, as the same has been subjected reduced rate of 10% in Eighth Schedule, at newly inserted serial number 65 in Table 1.
- (ii) The exemption to cottonseed oil has been provided at serial number 25.

19. **Changes in Eighth Schedule relating to reduced rates:**

Following changes have been made in Table 1 of Eighth Schedule:

- (i) Serial number 14 has been substituted, enlarging its scope to include concentrated milk (including powdered milk), unsweetened and unflavoured, which will be subject to 10% rate if sold in retail packing under a brand name. Previously, it was subjected to standard rate.
- (ii) Two serial numbers 18 and 21 relevant to reclaimed lead and rapeseed, sunflower seed and canola seed have been omitted. These products are now chargeable to sales tax @ 17% ad val.
- (iii) Sales tax on "soya bean seed" at serial number 22 has been enhanced from 6% to 10%, so as to equate the rate with that on soya bean meal.
- (iv) The new description has been provided at clause (xx) at serial number 26 i.e. "Laser land leveller comprising of laser transmitter, laser receiver, control box, rigid mast pack, with or without scrapper" so as to clarify the scope of exemption in detail.
- (v) Serial number 32 relating to 8% rate on "white crystalline sugar" has been omitted. White crystalline sugar is now chargeable to sales tax @ 17% ad val.

- (vi) Potassium chlorate was subject to 17% plus Rs. 65 per kg at import and supply stage. The rate has been enhanced to 17% plus Rs. 70 per kg.
- (vii) New serial number 59 has been added whereby the products of milling industry, sold in retail packing bearing brand names, have been subjected to reduced rate of 10%. However, this serial excludes wheat and meslin flour even if in retail packing or bearing brand name.
- (viii) New serial number 60 for fat filled milk, in retail packing and bearing brand name, has been added. The same shall be charged to sales tax @ 10%.
- (ix) New entries i.e. serial numbers 61 and 62 for Gold and Silver, in un-worked form, have been added in the 8th schedule and made chargeable to sales tax at the reduced rate of 1%. Gold and Silver have also been excluded from the purview of minimum value-addition tax of @ 3% at import stage under Twelfth Schedule.
- (x) Previously under special procedure, jewellery supplied by local jewellers was taxed at 17% of making charges only. Now, under serial number 63, articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal, will be subject to sales tax at 1.5% of value of gold, plus 0.5% of value of diamond used therein, plus 3% of making charges. No input tax adjustment shall be available except that of sales tax paid on gold.
- (xi) At serial number 84, prepared food, foodstuff and sweetmeats supplied by restaurants, bakeries, caterers and sweetmeat shops is added with sales tax rate @7.5% with no input tax adjustment.
- (xii) Under rescinded SRO 1125(I)/2011, reduced rate of 6% was available for textile and leather items if sold from a retail outlet integrated with FBR's system for real-time reporting. Similar, treatment is now continued for retail sales at new serial number 65, with reduced rate of 14%, subject to the condition that 4% value addition is maintained during last six months.

- (xiii) At serial number 68, frozen prepared or preserved sausages and similar products of poultry meat or meat offal, sold in retail packing with brand name, have been added with reduced rate of 8%. Similar entry for meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish has been added at serial number 69. Both entries attract reduced rate of 8%. These items if not sold in retail packing or not under a brand name, shall be exempt under serial number 82 and 83 of Table-1 to the Sixth Schedule.
- (xiv) New entry at serial 67 has been added for LNG imported for servicing CNG sector and local supplies thereof with rate at 5%. This entry is transposition of SRO 398(I)/2015 dated 08.05.2015 which has now been rescinded.

20. **Amendments in the Ninth Schedule – change in sales tax rate on mobile phones:**

Fixed sales tax rates levied on mobile and satellite phones under Ninth Schedule have been rationalized as under:

“2.	Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category:--		
	A. Not exceeding US\$ 30	Rs. 135	Rs. 135
	B. Exceeding US\$ 30 but not exceeding US\$ 100	Rs. 1,320	Rs. 1,320
	C. Exceeding US\$ 100 but not exceeding US\$ 200	Rs. 1,680	Rs. 1,680
	D. Exceeding US\$ 200 but not exceeding US\$ 350	Rs. 1,740	Rs. 1,740
	E. Exceeding US\$ 350 but not exceeding US\$ 500	Rs. 5,400	Rs. 5,400
	F. Exceeding US\$ 500	Rs. 9,270	Rs. 9,270

21. **New schedules added:**

As stated above, the new schedules added to the Sales Tax Act, 1990, are:

The Tenth Schedule: Prescribes rates of fixed sales tax for brick kilns.

The Eleventh schedule: Different categories of withholding agents and rates for withholding for various categories of supplies have been prescribed. Supplies / services excluded from purview of withholding have also been provided at the end of Schedule. Detailed procedure has been transposed from rescinded the Sales Tax Special Procedure (Withholding) Rules, 2007 to the Chapter XIV-D of the Sales Tax Rules, 2006.

The Twelfth schedule: Minimum value-addition of 3% sales tax at import stage has been prescribed along with relevant provisions and exclusions from value addition tax.

Amendments introduced through SROs:

(i) **SRO 1125(I)/2011, dated 31.12.2011 rescinded:**

SRO 1125(I)/2011 dated 31.12.2011, relating to zero-rating of five export-oriented sectors, has been rescinded since 1st July, 2019 vide rescinding SRO 694(I)/2019 dated 29.06.2019. From 1st July, 2019, the items listed in the said SRO shall be charged to sales tax @ 17% at import and local supply. Only in case of integrated retail outlets, sales tax on finished textile and leather item shall be charged at 14%.

All STGOs granting zero-rating on supply of electricity, gas, diesel, furnace oil and coal have been rescinded vide STGO 100/2019 dated 29.06.2019.

In order to resolve the issue of increased sales tax refunds of exporters due to withdrawal of zero-rating on inputs, the scope of Expeditious Refund System is proposed to be extended with automated payment on generated RPOs. Main features of the newly proposed Chapter V-A are as under:

“Filing and Processing of refund claims.— The data provided in the monthly return shall be treated as data in support of refund claim and no separate electronic data shall be required to be provided. The amount specified in column 29 of the return, as prescribed in the form STR-7, shall be considered as amount claimed, once the return has been submitted along with all prescribed annexes thereof:

Provided that the claimant will be able to submit his return without Annex-H and the same may be filed separately at any time but not later than one hundred and twenty days of submission of the return without Annex-H. The date of submission of Annex-H shall be considered as the date of filing of refund claim.

Provided further that the period of one hundred and twenty days, as aforesaid, may be extended for a period not exceeding sixty days, by the Commissioner having jurisdiction, for reasons to be recorded in writing on the basis of an application made by the claimant.

“Risk management in refund processing.— *After submission of refund claim, in the aforesaid manner, the same shall be processed by Risk Management System (RMS). Based on the parameters in RMS, a refund claim shall be routed to the processing module referred to as Fully Automated Sales Tax e-Refund (FASTER). The claims that do not fulfil RMS parameters for processing through FASTER module shall be routed for processing under Chapter V.*

Processing in FASTER module.— *The claims routed to FASTER module shall be electronically processed. The data in the refund claim shall be scrutinized and verified by the system and the payable refund amount shall be determined on the basis of input consumed in exports or supplies. The refund payment order (RPO) of the amount found admissible shall be generated and the same shall be electronically communicated direct to the State Bank of Pakistan, within seventy-two hours of submission of claim, for onward advice to the respective banks for credit into the notified account of the claimant:*

Provided that in case of refund claim of a commercial exporter, the payment of such refund shall be made after the realization of export proceeds:

Provided further that the part of the refund claim that is not verified or not found admissible shall be subjected to system validation checks every week and RPO shall be generated for the amount found valid during each validation check.

After every validation process, the information regarding RPO generated, if any, as well as the objections shall be communicated by the system to the refund claimant and also to the concerned RTO or LTU for information. RPO so generated shall be communicated to the State Bank of Pakistan for payment in the aforesaid manner. After eight validation checks, including the initial one, if any amount still remains un-cleared, the same shall then be processed under STARR module as referred to in Chapter V”.

(ii) **Rescission of SRO 480(I)/2007, dated 9.06.2007:**

The Sales Tax Special Procedure Rules, 2007, issued vide SRO 480(I)/2007 dated 09.06.2007 have been rescinded through SRO 694(I)/2019, dated 29.06.2019. All special procedures provided therein have been thus discontinued. The desirable provisions from these rules have either been transposed to the Sales Tax Act, 1990, or are being transposed to the Sales Tax Rules, 2006. Necessary amendments to the Sales Tax Rules, 2006, shall follow in few days.

(iii) **Rescission of SRO 660(I)/2007, dated 30.06.2007:**

The Sales Tax Special Procedure (Withholding) Rules, 2007, issued vide SRO 660(I)/2007 have also been rescinded. The withholding requirements and rates, and the exclusions therefrom have been transposed to the new Eleventh schedule. Other procedural provisions have been re-enacted in Chapter XIV-D of the Sales Tax Rules, 2006, through SRO 698(I)/2019 dated 29.06.2019.

(iv) **Amendment in SRO 509(I)/2013 dated 12.06.2013:**

SRO 693(I)/2019 dated 29.06.2019 amends SRO 509(I)/2013 pertaining to 5% extra tax on supplies of gas and electricity. The Government, semi-government and statutory regulatory bodies have been excluded from levy of said 5% extra tax.

(v) **Amendment in SRO 648(I)/2013 dated 09.07.2013:**

SRO 692(I)/2019 dated 29.06.2019 amends SRO 648(I)/2013 which prescribes exclusions from chargeability of further tax. Two new serial numbers 12 and 13 have been added which provide exclusion from further tax to supplies to the Government, semi government and statutory regulatory bodies and supplies of white crystalline sugar. The further tax under Section 3(1A) of the Sales Tax Act, 1990, shall not be charged in the aforesaid two cases.

(vi) **Amendment in SRO 190(I)/2002 dated 02.04.2002:**

SRO 190(I)/2002, issued in exercise of powers under clause (iii) of the first proviso to section 4 of the Sales Tax Act, 1990, provides that zero-rating shall not apply to exports of goods specified in SRO as made by air or via land route to Afghanistan and through Afghanistan to Central Asian Republics (CARs). The 2002-notification has now been amended vide SRO 691(I)/2019 dated 29.06.2019 to exclude PVC and PMC materials from purview of SRO 190(I)/2002, meaning thereby that zero-rating on export of these items shall be available on exports to Afghanistan or to CARs through Afghanistan.

(vii) **Rescission of notifications issued by Federal Board of Revenue:**

Some notifications issued by the Board in exercise of its powers have also been rescinded by SRO 699(I)/2019 dated 29.06.2019 as they have become either redundant or lost their validity, the details are given below:

S. No.	SRO No. and Date
1	SRO 697(I)/1996, Dated 22 nd August, 1996
2	SRO26(I)/2006, Dated 09 th January, 2006
3	SRO 524(I)/2006, Dated 05 th June, 2006
4	SRO 751(I)/2006, Dated 21 st July, 2006
5	SRO 993(I)/2006, Dated 21 st September, 2006
6	SRO 1211(I)/2006, Dated 04 th December, 2006
7	SRO 1260(I)/2006, Dated 16 th December, 2006

8	SRO 170(I)/2008, Dated 22 nd February, 2008
9	SRO 282(I)/2010, Dated 29 th April, 2010
10	SRO 345(I)/2010, Dated 24 th May, 2010

Many of aforesaid SROs are rescinded for being redundant. As regards SROs pertaining to refund / drawback, the refund to exporters of fan and ghee / oil sector shall now be paid under normal regime based on excess of input tax over output tax.

B. FEDERAL EXCISE ACT, 2005

1. Levy of FED on Steel Products and related provisions:

As stated above, supplies by manufacturers and imports of steel billets, ingots, ship-plates, bars and other long re-rolled profiles have been exempted from sales tax. In lieu thereof, FED has been imposed on these products by inserting serial number 58 in Table-I of First Schedule to the Act, whereby these products have been subjected to federal excise duty at 17%. An entry pertaining to these products has also been made in the Second Schedule, thus making the federal excise duty on these products chargeable in sales tax mode. Accordingly, input sales tax can be adjusted against this FED and this FED shall also be adjustable against sales tax. The objective was to extend the levy in relation to steel products to tribal areas which enjoy exemption from sales tax, earlier under SRO 1212(I)/2018, and now under Sixth Schedule.

Further, a new sub-section (5A) has been added to section 3 of the Federal Excise Act, 2005, providing for minimum production criterion for items listed in Fourth Schedule. Presently, only aforesaid steel items are listed in this schedule. Minimum criteria based on kwh of electricity have been specified and it has also been stipulated that in case minimum production exceeds actual supplies in a tax period, the FED shall be paid on the basis of minimum production. In case of ship plates and other re-rollable scrap produced from ship-breaking, the minimum production has been prescribed as 85% of the weight of the vessel imported for breaking.

2. **Further curtailment of powers of Federal Government to exempt under section 16:**

Sub-section (2) of section 16 has been substituted and powers of the Federal Government to grant exemption have been curtailed on similar lines as done for sales tax in section 13 of the Sales Tax Act, 1990.

3. **Penalty in case cigarettes are sold below the retail price:**

In order to discourage sale of duty-not-paid cigarettes, a new clause (d) has been inserted in section 19(2). The sale of cigarette below the printed retail price is now an offence and shall be penalized under sub-section (2) of section 19. Field formations are advised to take necessary action without causing harassment.

4. **Decrease in rate of federal excise duty on tobacco:**

Rupees 300 per kg of Federal Excise Duty on un-manufactured tobacco has been reduced to Rs. 10 per kg. However, the supervision of GLTs as prescribed under the Federal Excise Rules, 2005, as amended vide SRO 1149(I)/2018 dated 18.09.2018 shall continue.

5. **Change in regime of FED on ghee and cooking / edible oils:**

FED on ghee and edible oils was payable at 16% in sales tax mode. However, payment of Rs. 1 / kg on input oils spared the manufacturers of any further payment against value addition. In case of input seeds, payment of Rs. 40 per kg discharged the manufacturer's liability on value addition. In case of solvent extraction units, need to apportion input taxes was also done away with. This regime has been abolished. SRO 24(I)/2006 dated 07.01.2006, SRO 507(I)/2013 dated 12.06.2013, SRO 508(I)/2013 dated 12.06.2013, and SRO 68(I)/2006 dated 28.01.2006 have been rescinded. FED of Rs. 0.40 per kg of oilseeds, as at Serial number 54 of First Schedule has also been withdrawn by omitting this serial. Other salient features of the change are:

- (i) The rate of FED on ghee and cooking / edible oils has been enhanced to 17%.

- (ii) In case of products in retail packing FED shall be payable on the basis of retail price.
- (iii) The refund on export of these items, as made on or after 1st July, 2019, shall be paid on the basis of actual excess of input tax under the Sales Tax Rules, 2006 and not the basis of fixed rate notification.

6. **FED on aerated waters enhanced:**

FED on aerated waters has been enhanced from eleven and half percent to 13% of retail price.

7. **Federal Excise Duty on locally produced Cigarettes:**

Three-tiered structure of FED on cigarettes has been replaced with two-tiered one, given as under:

Tier	Retail price per 1000 cigarettes	FED rate per 1000 cigarettes
Upper Tier	> Rs. 5,960	Rs. 5,200
Lower Tier	=< Rs. 5,960	Rs. 1,650

The aforesaid rates were made effective from 12.06.2019 vide SRO 608(I)/2019 dated 11.06.2019, and continued with effect from 1st July, 2019, through amendment by the Finance Act, 2019.

8. **Increase of Federal Excise Duty on Cement:**

FED of Rs. 1.50 per kg levied on cement under serial number 13 of the 1st schedule to the Act has been enhanced to Rs. 2 per kg.

9. **Federal Excise Duty on Imported Motor Cars:**

FED on imported and local cars has been rationalized and cars below engine capacity 1700 cc have also been subjected to FED. However, auto-rickshaws have been excluded from this levy. Rates of both are as under:

Imported motor cars, SUVs and other motor vehicles, excluding auto rickshaws, principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars	87.03	
(a) of cylinder capacity up to 1000cc		2.5% <i>ad val</i>
(b) of cylinder capacity from 1001cc to 1799cc		5% <i>ad val.</i>
(c) of cylinder capacity 1800cc to 3000cc		25% <i>ad val.</i>
(d) of cylinder capacity exceeding 3001cc		30% <i>ad val.</i> ”;

Locally manufactured or assembled motor cars, SUVs and other motor vehicles, excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02), including station wagons and racing cars:	87.03	
(a) of cylinder capacity up to 1000cc		2.5% <i>ad val.</i>
(b) of cylinder capacity from 1001cc to 2000cc		5% <i>ad val.</i>
(c) of cylinder capacity 2001cc and above		7.5% <i>ad val.</i>

10. **Withdrawal of exemption on internet services and bandwidth services provided by foreign satellites:**

Entries at serial number 2 of Table-II of Third Schedule have been amended to provide as under:

- (i) Clause (i) has been omitted, thus withdrawing exemption on internet service in Islamabad Capital Territory (ICT).
- (ii) Clause (ii) has been amended to take out bandwidth services provided by foreign satellites from purview of exemption under this clause. Again, this change is also applicable to ICT.

C. **Islamabad Capital Territory (Tax on Services) Ordinance, 2001:**

1. **Reduction of rate on services provided by call centres:**

The rate of sales tax on services by call centres was 18.5% at serial number 41 of the Schedule. This rate was at par with rate of federal excise duty on telecom services. Since rate of FED on telecom services has already been reduced to 17%, the rate for call centre services has also been reduced to 17%.

2. **Addition of new services to the Schedule**

Serial numbers 43 to 58 have been added to the Schedule, thus subjecting new range of services to sales tax at 16%.

D. **First Schedule to the Customs Act, 1969:**

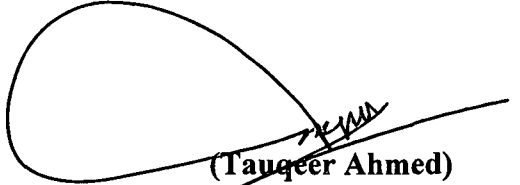
Changes in Chapter 98 relating to classification of services:

Chapter 98 of First Schedule to the Customs Act, 1969, pertains to classification of services. The services are subjected to FED and sales tax based on this classification. Some of entries in this chapter pertained to activities which essentially comprised of supplying goods, such

as restaurants, caterers, contracts of furnishing supplies and ship chandlers. Such entries have either been omitted or amended to omit references to such activities. The details are as under:

PCT heading	Nature of change
98.01	Reference to 'restaurants' omitted
9801.2000	Related to restaurants. Omitted
9801.5000	Related to caterers and suppliers of food and drinks. Omitted
9805.8000	Related to Ship chandlers. Omitted
9809.0000	Relates to contractual execution of work. Reference to "furnishing of supplies" omitted

It is also added that recently Peshawar High Court in a judgement dated 12.04.2018 had held that the supply of food is taxable under section 3 of the Sales Tax Act, 1990. The Supreme Court refused appeal against this judgement and review petition was also dismissed.


(Tauqeer Ahmed)
Secretary (ST&FE-Budget)