

Government of Pakistan
Federal Board of Revenue
Revenue Division

Islamabad, the 1st October, 2020.

**NOTIFICATION
(SLES TAX)**

S.R.O. 938(I)/2020.— In exercise of the powers conferred by section 50 of the Sales Tax Act, 1990 read with sub-section (5) of section 7 thereof, the Federal Board of Revenue is pleased to direct that the following further amendments shall be made in the Sales Tax Rules, 2006, namely:—

In the aforesaid Rules, after Chapter IV, the following new chapter IV-A shall be inserted, namely:—

“Chapter IV-A

Sales Tax (Imposition of Restrictions) on Wastages of Inputs Rules, 2020

25A. **Application.**— The provisions of this Chapter shall apply for the purpose of determination of restriction on wastage of material on which input tax has been claimed in respect of goods or class of goods.

25B. **Definitions.**— Unless there is anything repugnant or contrary to the context, the following words and expressions shall have meanings assigned to them as under:—

- (i) **“inputs”** mean inputs whether used as direct or indirect constituent of the corresponding outputs and include electricity, raw materials, processed, semi-finished or finished products countable either numerically, through measurement, or on weight basis or otherwise and useable in any industrial or similar process or processes for the manufacture or production of goods;
- (ii) **“input-output ratios”** mean ratios expressed in any manner or mode at which any particular quantity of input or class of inputs is used or allowed to be used for the manufacture or production of any given or intended quantity of corresponding

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output goods regardless whether or not the allowed quantity of such input or inputs actually or otherwise differ from the quantity claimed to have been used or to be used for the manufacture or production of any particular quantity of output goods provided that nothing will bar the Board to determine or fix such general standards of such ratios as it may deem fit either on the basis of averages or otherwise;

- (iii) **“IOCO”** means Input Output Co-Efficient Organization established by the Board for Inland Revenue purposes and includes the officer in charge thereof;
- (iv) **“Subject Specialist”** means a person either from the employees of IOCO, Board or any field formation of Board or from the academia or from any public sector department or organization or from professionals whose academically-qualified or experience-based specialized services are or can be used for the purposes of these rules; and
- (v) **“wastage”** means part of any given quantity of any input or class of inputs, unfit or unable for use as such for the manufacture or production of the corresponding output goods provided that extent of wastages in any case or class of cases may be determined either through the calculation of input-output ratios or through any other method or manner deemed proper under these rules.

(2) The words and expressions not defined hereinbefore but used in these rules shall have the same meanings as have been assigned to them under the Act or rules made there-under.

25C. **Determination of wastages.**— The purpose of determination of wastages shall be to determine the restriction on inputs on account of wastages and to resolve disputes about the input tax adjustment suspected or believed to be above the actual entitlement by showing use or consumption of inputs higher or more than the inputs actually used in the manufacture or production of any goods, or to fix the extent of wastages of inputs beyond which input tax adjustment shall not be admissible.

25D. **Action for determination of wastages.**— Action for determination of wastages may be initiated either by the Board at its own level or on a reference received from the Chief Commissioner of Inland Revenue or the Director General of Intelligence and Investigation (Inland Revenue) or on the recommendations of any Government agency or organization or industrial or business association.

25E. **Process for determination of wastages.**— (1) Where Board has decided to determine wastages, it shall cause to conduct such preliminary study or analyses through any of its field formations to ascertain the kind and description including specifications of full range of

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the inputs, corresponding output or outputs, details of the manufacturing or production process or processes, type, description, specifications and range of the plant and machinery used in such process or processes, general or special standards of wastages, known input-output ratios and all matters allied or ancillary thereto. Once report of such preliminary study or analyses is available to the Board, it may refer the case or class of cases to the IOCO (Inland Revenue or Customs) for determination of extent of wastages of each input by ascertaining input-output ratios. The Board shall afterwards notify the extent of wastages beyond which no registered person or class of registered person shall be entitled to claim any input tax adjustment on such inputs.

(2) Where any case or class of cases for determination of wastages is intended to be referred to the Board by the Chief Commissioner or the Director General of Intelligence and Investigation-IR, the preliminary study or analyses shall be arranged to be conducted by such Chief Commissioner or as the case may be, such Director General and the outcome of such study or analyses shall be furnished to the Board as part of a reference. On receipt of such reference, the Board shall follow the course of action specified in sub-rule (1) except the step relating to the study or analyses.

25F. **Actions in the IOCO.**—(1) On receipt of reference from the Board, the IOCO shall chalk out a complete plan for the conduct of necessary analyses and complete the exercise of determining the input-output ratios and wastages covering, inter alia, following components within the timeframe given by the Board,—namely, -

- (i) ascertainment of the exact description and specifications of the inputs and outputs;
- (ii) details of the manufacturing and production processes and the plant and machinery (including equipments) used in the manufacturing and production processes;
- (iii) collection of relevant literature required to be consulted before, during or for the assigned work;
- (iv) identification and availability and engagement of the subject specialists including their payable or likely to be payable financial compensation or remuneration;
- (v) identification of industrial units required to be visited to physically examine the manufacturing and production process or processes with a view to ascertain the input-output ratios or wastages;
- (vi) details of the office bearers (or their nominees) of the concerned industrial or business association likely to be consulted during or for the exercise;
- (vii) estimate of the financial and other resources required to be made available for the targeted assignment; and
- (viii) timelines for the completion of the assignment including the preparation of the report of findings.

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(2) The plan prepared under sub-rule (1) shall form a permanent record of IOCO and may be called for by the Board at any stage after its preparation.

25G. **Restriction on extent of wastages and resultant input tax adjustment.**— Where the extent of wastages has been fixed and notified by the Board under these rules, no registered person shall be entitled to take input tax adjustment in respect of wasted inputs over and above the extent so fixed and notified by the Board.

25H. **External expert opinion.**— The Board or IOCO may at any stage of the process of fixation and notification of wastages enlist scientific, technical or other opinion from any expert not in the employment of the Board or IOCO or not engaged as subject specialist under these rules in such manner as may be deemed proper provided that no such opinion shall be treated as conclusive or binding for the purposes of fixation of wastages under these rules.

25I. **Non-relevance of the status of supplies.**— Unless otherwise directed by the Board, the wastages determined and fixed under these rules shall apply to the relevant output goods in respect of which wastages have been so determined and fixed regardless of the status of supplies of such goods as taxable supplies, zero-rated supplies, domestic supplies, exports or otherwise and where goods have been zero-rated, no refund shall be claimed or paid on wastages over and above the limit, scale, extent or level determined and fixed under these rules.

25J. **Fixation to be construed as restriction.**— The wastages over and above the quantum of wastages fixed under these rules shall be treated as having been restricted and not relevant for the purposes of assessment, declaration and payment of sales tax under the Act.

25K. **Review and revision of fixed wastages.**— The Board on its own or on a representation by any aggrieved person may review and revise the extent of wastages fixed under these rules provided that nothing shall restrict the Board from periodically reviewing, revising and re-fixing any such wastages in view new information received or gathered, research conducted or done in the relevant scientific field, technological and scientific developments made, changes or improvements in industrial processes or for any other reasons.”

[C. No. 2/10-STB/2020]


(Fakhryia Anjum)
Secretary (ST&FE-Budget)