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GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE
(INLAND REVENUE POLICY WING)
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C. No. 5/93-STB/2018/89721-R

Islamabad, the 23rd July, 2018

All Chief Commissioners Inland Revenue

All Chief Collectors of Customs

SUBJECT: **SALES TAX AND FEDERAL EXCISE DUTY MEASURES INTRODUCED THROUGH FINANCE ACT, 2018 AND BUDGETARY SROs – INSTRUCTION REGARDING**

I am directed to refer to the subject cited above and to say that budgetary measures relating to sales tax and federal excise duty have been notified through Finance Act, 2018 and also through various SROs issued in exercise of powers conferred under the relevant laws. A brief summary of the measures is given below for ease of understanding and necessary action by the field formations. At the same time, field formations are requested to consult the provisions of Finance Act, 2018 and notifications/SROs for proper appraisal of the provisions. Summary of the measures under these tax laws i.e. Sales Tax Act, 1990 and Federal Excise Act, 2005 is given hereunder:

A. SALES TAX ACT, 1990

1. Increase in rate of further tax:

Rate of further tax chargeable under section 3(1A) of the Sales Tax Act, 1990 has been enhanced from 2% to 3% by making necessary amendments in the said section vide Finance Act, 2018. Field formations are requested to enforce the said provision.

2. Disallowance of input tax adjustment on import of compressor scrap:

Input tax adjustment on import of compressor scrap (PCT heading 7204.4940) has been disallowed through insertion of clause (m) in sub-section (1) of section 8 of the Sales Tax Act, 1990. Field formations are requested to examine the cases wherein such input tax adjustment has been claimed and take necessary action thereon.

3. **Assessment giving effect to an order:**

A new section 11B has been introduced in the Sales Tax Act, 1990 to provide for giving appeal effect to the order of an Appellate Authority. Such an appeal effect order has to be issued within one year from the end of the Financial Year in which the order of the Appellate Authority is received. Field formations are requested to comply with the provisions of section 11B of the Sales Tax Act, 1990.

4. **Restriction imposed on conduct of audit:**

A new proviso has been added after sub-section (2) of section 25 of the Sales Tax Act, 1990 stipulating conduct of audit only once in every three years.

5. **Posting of Inland Revenue Officers under 40B of the Sales Tax Act, 1990:**

Section 40B of the Sales Tax Act, 1990 has been amended to withdraw powers from the Chief Commissioners to post officers of Inland Revenue to the business premises of registered persons and these powers will henceforth rest with the Board. Likewise, proviso and explanation to section 40B have also been omitted meaning thereby that powers of Commissioners Inland Revenue to post officers to the business premises to monitor production or sale of goods and stock position have also been withdrawn.

6. **Payment of tax to qualify for automatic stay:**

Condition of payment of 25% of the amount of tax involved to qualify for automatic stay against recovery till disposal of appeal by the Commissioner (Appeals) has been reduced to 10% through amendment made in section 48 of the Sales Tax Act, 1990. Field formations are requested to adhere to this provision and do not initiate recovery proceedings till disposal of appeal by the Commissioner (Appeals) in those cases where 10% of the amount of tax involved has been paid.

7. **Validation section:**

Section 74A of the Sales Tax Act, 1990 inserted through Finance Act, 2017 pertaining to validation of notifications, orders suffering from any procedural infirmity has been amended to provide validation to all notifications and orders issued in exercise of powers conferred upon the Federal Government under various provisions of the Sales Tax Act, 1990. Through amendment made in section 74A of the Sales Tax Act, 1990, validation has been granted to all notifications and orders issued before the commencement of Finance Bill, 2018. Likewise, validation has also been granted to all the actions taken by the Director General Intelligence and Investigation-IR or authorities specified in section 30.

8. **Restoration of zero-rating for stationery:**

Zero-rating available to stationery items withdrawn through Finance Act, 2016 has been restored through necessary amendments in the Fifth Schedule to the Sales Tax Act, 1990.

9. **Exemption from sales tax under Table-1 of the Sales Tax Act, 1990:**

Exemption from sales tax has been granted to the following:

(i) Paper for printing of Holy Quran
(ii) Fish feed
(iii) Fans for dairy farms
(iv) Bovine semen
(v) Preparations for making animal feed
(vi) Promotional and advertisement material of no commercial value
(vii) Hearing aids
(viii) LNG imported by fertilizer manufacturers for use as feed stock
(ix) Plant, machinery, equipment etc. for certain CPEC projects which were earlier available under SROs

(x) Goods supplied to GIZ (earlier available under SRO)

10. **Exemption from sales tax under Table-2 of the Sales Tax Act, 1990:**

Exemption from sales tax on local sale/supply of match boxes has been granted through necessary insertion in Table-2 of the Sales Tax Act, 1990. However, to compensate for loss of revenue resulting from this exemption, sales tax @ Rs. 40 per kg alongwith 17% standard rate has been imposed on import and supply of chief raw material of match boxes i.e. potassium chlorate.

11. **Non-availability of exemption to bricks and crushed stone:**

Exemption from sales tax on local supply of bricks and crushed stone was available upto 30th June, 2018 under S. No. 19 and 20 of Table-2 of the Sales Tax Act, 1990. By virtue of this sunset clause, exemption from sales tax is no more available to bricks and crushed stone with effect from 01.07.2018. Field formations are requested to proceed under the law to bring units of bricks and stone crushing in the tax net and for recovery of sales tax due.

12. **Exemption from sales tax under Table-3 of the Sales Tax Act, 1990:**

Exemption from sales tax has been granted to the following:

(i) Machinery, equipment, raw material etc. imported by Karachi Shipyard and Engineering Works

(ii) 21 types of parts for manufacturing and assembling of computers and laptops subject to certain conditions.

(iii) Plant and machinery for setting up of Special Economic Zones.

13. **Reduced rate under Eighth Schedule to the Sales Tax Act, 1990:**

(i) Reduced sales tax rate of 7% on agricultural machineries specified under S. Nos. 26, 27, 28, 29 and 30 of Table-1 of the Eighth Schedule to the Sales Tax Act, 1990 has been further reduced to 5%.

(ii) Ad valorem rate of 5% on urea and specific sales tax rates on other fertilizers i.e. DAP, NP (22-20), NP (18-18), NPK-I, NPK-II, NPK-III, SSP and CAN have been omitted and instead uniform ad valorem rate of 2% has been prescribed for all types of fertilizers.

(iii) Rate of sales tax @ 10% on supply of natural gas to fertilizer plant for use as feed stock has been further reduced to 5% in view of reduction in rate of sales tax to 2% on fertilizers across the board. Likewise, rate of sales tax on import of rock phosphate for fertilizer industry has been reduced to 10%.

(iv) Rate of sales tax on import of LNG/RLNG and on supply of RLNG has been reduced to 12%.

(v) Reduced sales tax rate of 5% has been provided for 21 types of cinematographic equipment subject to certain conditions.

(vi) Reduced sales tax rate of 12% on Lithium Iron Phosphate Batteries (Li-Fe-PO4) and rate of 5% on fish babies has been provided.

(vii) Reduced sales tax rate of 5% has been provided on capital goods not otherwise exempted for transmission line projects subject to certain conditions.

14. **Amendments introduced through SROs:**

(i) **Amendments in Sales Tax Special Procedure Rules, 2007:**

Amendments in Sales Tax Special Procedure Rules, 2007 have been introduced through SRO 775(I)/2018, dated 21.06.2018 which include:

(a) Exclusion has been provided from minimum value addition tax chargeable under Rule-58B on import of LNG/RLNG and second hand and worn clothing

(b) Sub-rule (1), first and second provisos to sub-rule (2) of rule-58H have been amended to provide for payment of sales tax @ Rs. 13 per unit of electricity instead of previous rate of Rs. 10.5 per unit of electricity by steel sector who qualify for payment of sales tax under Sales Tax Special Procedure Rules, 2007. Field formations are requested to coordinate with DISCOs under their respective jurisdiction for incorporation of above changes in electricity bills of steel sector and ensure payment of sales tax at the revised rates.

(c) Sub-rule (2A) of rule-58H has been amended to provide for levy of sales tax @ Rs. 10,400 PMT instead of previous rate of Rs. 8,400 PMT on import of remeltable iron and steel scrap by importers not eligible for discharge of sales tax liability under Sales Tax Special Procedure Rules, 2007. Customs Authorities are requested to enforce new rates. Similar changes have been made in sub-rule (2B) of Rule-58H with respect to revision in rate of sales tax on local supplies of remeltable iron and steel scrap.

(d) Sub-rule (2) of rule-58Ha has been amended to provide for rate of sales tax @ Rs. 3,088 against the previous rate of Rs. 2,494 provided in the formula of the said sub-rule for calculation of sales tax liability of steel sector producing electricity with the help of gas generator.

(e) Rate of sales tax under sub-rule (3) of rule-58H for steel sector operating on self-generating electricity has been enhanced from Rs. 68,687 to Rs. 84,422 for calculation of sales tax liability on the basis of mill size

(f) Corresponding changes have been made in rule-58I to provide for revised rates of sales tax to be shown on invoices of various categories of steel products.

(g) Amendments have been made in rule-58K to provide for rate of sales tax @ Rs. 55,883 instead of previous rate of Rs. 50,000 on supply of re-rollable scrap by ship breakers. Value of imported re-rollable scrap for the purpose of levy of sales tax has been fixed at Rs. 52,000 PMT instead of previous rate of US$ 480 PMT. Customs Authorities are requested to charge sales tax on import of re-rollable scrap at the revised rate in Pak Rupees.

(h) S. No. 3 of Table to Rule-58S has been omitted meaning thereby that *"foam or spring mattresses and other foam products for household use"* shall not be subject to 2% extra tax chargeable under Rule-58T. It may be noted that under Rule-58T(5), goods on which extra tax @ 2% has been paid shall be exempt from sales tax on subsequent supplies including those made by a retailer. In view of exclusion from extra tax under Rule-58T provided to foam industry, it is requested that payment of sales tax from subsequent supply chain including wholesalers, dealers and retailers of foam products may be ensured.

(ii) **Zero-rating of sales tax on import of potato**

Zero-rating of sales tax on import of potato had already been granted in the year 2014. However, to remove the anomaly created out of inadvertent rescission of zero-rating SRO retrospective zero-rating has been granted on import of 200,000 metric tonnes of potatoes already imported during 5th May, 2014 to 31st July, 2014 vide SRO 776(I)/2018, dated 21.06.2018. Customs Authorities are requested to allow benefit of the said SRO to the importers.

(iii) **Amendments in SRO 1125(I)/2011, dated 31.12.2011:**

Following further amendments have been made in SRO 1125(I)/2011, dated 31.12.2011 through SRO 777(I)/2018, dated 21.06.2018:

(a) Rate of sales tax on supplies of finished fabric to and by retailers, supplies of finished fabric to end consumers and other supplies of finished fabric covered under S. No. 1 (vii) of Table-2 of the SRO has been enhanced from 6% to 9%. Likewise, rate of sales tax on commercial import of fabric covered under S. No. 1(viii) of Table-2 of the SRO has been enhanced from 6% to 9% alongwith 2% value addition tax already attracted on such imports.

(b) Rate of sales tax on locally manufactured of finished articles of textile and textile made-ups (including carpets and leather and artificial leather) covered under S. No. 3 of Table-2 has also been enhanced from 6% to 9%.

(c) Rate of sales tax on import of finished goods of textile and leather sector ready to use for general public provided @ 6% alongwith 2% value addition tax under SRO 1070(I)/2017, dated 23.10.2017 (an amending SRO 1125(I)/2011, dated 31.12.2011) has been enhanced to 9% alongwith 2% value addition tax already attracted. The benefit of reduced rate of 9% has also been extended to finished goods of artificial leather alongwith leather. For the sake of clarity, descriptions and PCT headings of finished goods of leather and artificial leather have also been provided through insertion of Table in SRO 777(I)/2018, dated 21.06.2018. Rate of sales tax on supply of such imported finished goods has also been provided @ 9%.

(d) Proviso to condition (x) of SRO 1125(I)/2011, dated 31.12.2011 inserted through SRO 491(I)/2016, dated 30.06.2016 has been omitted meaning thereby that input tax credit or refund on packing materials shall be admissible to sectors covered by SRO 1125(I)/2011, dated 31.12.2011.

(e) A new condition (xv) has been inserted to provide rate of sales tax @ 6% instead of 9% on supplies covered under sub-serial (vii) of S. No. 1 and S. No. 3 of Table-2 for those registered persons who are integrated with FBR online system and data is transmitted to FBR Central Database in near real time from such date, mode and manner as to be prescribed by the Board.

(f) Rate of further tax has been prescribed @ 1% on supplies of finished fabrics by amending condition (xiv) of SRO 1125(I)/2011, dated 31.12.2011.

(iv) **Rescission of SRO 962(I)/2015, dated 30.09.2015:**

SRO 962(I)/2015, dated 30.09.2015 prescribing sales tax @ 20% on import and supply of furnace oil (PCT heading 2710.1941) has been rescinded with effect from 01.07.2018 meaning thereby that import and supply of furnace oil shall be subject to sales tax at the standard rate of 17% with effect from the said date.

(v) **Rescission of certain exemption SROs:**

The following SROs granting exemption from sales tax on plant, machinery, equipment, materials etc. in respect of CPEC projects and granting exemption from sales tax to goods supplied to GIZ have been rescinded for the reason that the exemptions have been transposed to Sixth Schedule to the Sales Tax Act, 1990 and Third Schedule to the Federal Excise Act, 2005:

(a) No. S.R.O. 499(I)/2016, dated the 27th July, 2016;
(b) No. S.R.O. 721(I)/2016, dated the 8th August, 2016;
(c) No. S.R.O. 42(I)/2017, dated the 26th January, 2017;
(d) No. S.R.O. 139(I)/2017, dated the 6th March, 2017; and
(e) No. S.R.O. 47(I)/2018, dated the 23rd January, 2018.

(vi) **Exemption from further tax:**

Exemption from further tax chargeable @ 3% with effect from 01.07.2018 has been provided on supplies of foam industry by amending SRO 648(I)/2013, dated 09.07.2013 through SRO 780(I)/2018, dated 21.06.2018.

(vii) **Amendment in SRO 488(I)/2004, dated 12.06.2004:**

Under SRO 488(I)/2004, dated 12.06.2004, a registered person is not entitled for adjustment of input tax in respect of goods listed in the said SRO if they are supplied to unregistered persons. Clause (ba) was inserted in SRO 488(I)/2004, dated 12.06.2004 through SRO 315(I)/2005, dated 15.04.2005 whereunder no input tax adjustment was available to a registered person in respect of sugar supplied to unregistered wholesalers and dealers. The SRO 315(I)/2005, dated

15.04.2005, however, was held in abeyance by the Board immediately after its issuance.

Amendments have been made in SRO 488(I)/2004, dated 12.06.2004 vide SRO 825(I)/2018, dated 29.06.2018. Clause (ba) has been omitted from SRO 488(I)/2004, dated 12.06.2004 and shall be deemed always to have been so made; meaning thereby that input tax adjustment shall be admissible to a registered person in respect of supply of sugar to unregistered wholesalers and dealers. However, this omission is subject to the condition that no refund or adjustment of sales tax recovered under omitted clause (ba) shall be admissible.

B. FEDERAL EXCISE ACT, 2005

1. Assessment giving effect to an order:

A new section 14B has been introduced in the Federal Excise Act, 2005 to provide for giving appeal effect to the order of an Appellate Authority. Such an appeal effect order has to be issued within one year from the end of the Financial Year in which the order of the Appellate Authority is received. Field formations are requested to comply with the provisions of section 14B of the Federal Excise Act, 2005.

2. Payment of duty to qualify for automatic stay:

Condition of payment of 25% of the amount of duty involved to qualify for automatic stay against recovery till disposal of appeal by the Commissioner (Appeals) has been reduced to 10% through amendment made in section 37 of the Federal Excise Act, 2005. Field formations are requested to adhere to this provision and do not initiate recovery proceedings till disposal of appeal by the Commissioner (Appeals) in those cases where 10% of the amount of duty involved has been paid.

3. Posting of Inland Revenue Officers under section 45(2) of the Federal Excise Act, 2005:

Sub-section (2) of section 45 of the Federal Excise Act, 2005 has been amended and proviso thereto has been omitted withdrawing powers from the Chief Commissioners and the Commissioners to post officers of Inland Revenue to the business premises of registered persons and these powers will henceforth rest with the Board only.

4. Restriction imposed on conduct of audit:

A new sub-section (10) of section 46 of the Federal Excise Act, 2005 stipulating conduct of audit only once in every three years.

5. **Increase in rate of federal excise duty on tobacco:**

Federal Excise Duty on three tiers of tobacco has been enhanced through amendments in First Schedule to the Federal Excise Act, 2005. These changes have taken effect on the next date of assent given to the Finance Act, 2018 by the President, Islamic Republic of Pakistan. The President had been pleased to give assent Finance Act, 2018 on 22nd May, 2018 and field formations have already been instructed vide letter C. No. 5/92-STB/2018/66639-R, dated 24th May, 2018 to enforce revised rates of FED on tobacco industry.

6. **Increase in rate of federal excise duty on cement:**

Rate of FED on cement has been increased from Rs. 1.25 per kilogram to Rs. 1.50 per kilogram and this increase has also become effective from 23.05.2018. Field formations have already been instructed to enforce payment of FED by cement industry at the revised rates vide C. No. 5/92-STB/2018/66639-R, dated 24th May, 2018.

7. **Reduction in FED on domestic travel:**

Rate of FED on long routes domestic travel has been reduced from Rs. 2500 per ticket to Rs. 2000 per ticket.

8. **Exemption from FED:**

Exemption from FED has been granted on commission paid by State Bank of Pakistan and its subsidiaries for handling banking services of federal or provincial governments.

9. **Reduction in rate of sales tax on IT and IT enabled services under Islamabad Capital Territory (Tax on Services), Ordinance, 2001:**

Vide SRO 781(I)/2018, dated 21.06.2018, rate of sales tax on IT services and IT enabled services has been reduced to 5%.

(Muhammad Zaheer Qureshi)
Secretary (ST&FE-Budget)

Copy to:

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