

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

C. No. 1/35-STB-II/2020/96477-R

Islamabad, the 01st July, 2021

CIRCULAR NO. 02 OF 2021

**SUBJECT: FINANCE ACT, 2021 - EXPLANATION OF IMPORTANT AMENDMENTS
IN SALES TAX ACT, 1990 AND FEDERAL EXCISE ACT, 2005**

(A) CORRECTIVE AND STREAMLINING MEASURES:

There are certain provisions in the Sales Tax Act, 1990 (hereinafter referred to as "STA") and Federal Excise Act, 2005 (hereinafter referred to as "FEA"), which required some corrections or streamlining, while some changes have been made for the purpose of "ease of doing business" for registered persons. Further, some drafting errors have also been corrected. All such measures are listed below:

S. No.	Section	Amendments with Rationale
1.	2(4AA) of STA	A new definition has been inserted to define Commissioner (Appeals).
2.	2(5AB) of STA	Annual threshold for the cottage industry has been increased from Rs. 3 (M) to Rs. 10 (M) by amending section 2(5AB).
3.	2(18A) of STA	For the purpose of defining online market place, new clause (18A) has been inserted under section 2.
4.	2(37) of STA	Drafting error has been corrected in clause (37) of section 2.

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5.	2(43A) of STA	Definition of tier-1 retailer has been streamlined through insertion of a new clause, whereby a retailer who has acquired point of sale is also included therein.
6.	2(44) of STA	Advance receipt of payment has been excluded from the purview of definition of time of supply.
7.	3 of STA	Besides correcting drafting error and deleting proviso regarding cash back, new sub-section (9AA) has been inserted in section 3 for fixation of minimum production as per criteria specified in newly added Thirteenth Schedule.
8.	8B of STA	In order to encourage listed corporate sector, Public limited Companies listed on Pakistan Stock Exchange have been excluded from the purview of section 8B of the Sales Tax Act, 1990. Moreover, in order to enhance cost of retailers not integrated with the FBR's online system, disallowance of input tax adjustment by such retailers has been further enhanced to 60%.
9.	11 of STA	Sales tax returns are filed on monthly basis, while audit is carried out on annual basis. Hence, in order to streamline section 11, the words "relevant date" have been substituted with the words "end of the financial year in which the relevant date falls".
10.	22 of STA	Section 22 has been amended by inserting cash book and electronic version of record to strengthen and streamline the requirement of record keeping.
11.	25AA of STA	A new sub-section has been added in section 25AA to provide enabling provision for prescribing rules for determining transfer pricing of taxable supplies between associates to reflect fair market value in arm's length transactions.
12.	26AB of STA	For the purpose of facilitation of the registered persons and in order to streamline the procedure for extension of time

		for furnishing of sales tax returns, new section 26AB has been inserted.
13.	40D of STA	Border Sustenance Markets have been included in the tax exempt areas and accordingly supplies made from such areas to the taxable areas shall be chargeable to sales tax.
14.	40E of STA & 45AA of FEA	New section has been added in both STA and FEA making it mandatory for manufacturers of the specified goods to obtain brand license for each separate brand or stock keeping unit (SKU) produced by them.
15.	48 of STA & 14 of FEA	Enabling provision has been inserted in both STA and FEA regarding assistance in collection and recovery of taxes with other countries on mutual basis.
16.	50 of STA	Procedure for publishing and placing the rules has been streamlined.
17.	56A of STA & 47A of FEA	Enabling provisions regarding sharing of data with other ministries or divisions of Federal Government or Provincial Governments besides providing for mechanism for assistance in recovery of taxes with foreign countries on reciprocal basis have been inserted in section 56A of STA and 47A of FEA.
18.	56C of STA	Enabling provision has been inserted in section 56C to monitor and regulate the invoices issued by tier-1 retailers by way of mystery shopping.
19.	67 of STA	Benefit of additional payment has also been extended to those persons in whose case any order is passed under section 66 and refund is not issued within forty-five days of date of refund order.
20.	73 of STA	For the purpose of promoting ease of doing business, the concept of constructive payment (setting off payables against receivables from the same registered person) has

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		been introduced in section 73 by inserting a new proviso in sub-section (1).
21.	76 of STA & 49 of FEA	Enabling provision has been inserted in in both STA and FEA for authorizing and prescribing the manner for utilizing the fees and service charges collected by the Board from taxpayers.
22.	S. Nos. 18, 19 & 20 of Table-II of the Sixth Schedule to STA	S. No. 18 of Table-II of Sixth Schedule to STA, which grants exemption to marble and granite manufacturers having annual turnover less than Rs. 5 million, has been omitted, as the said exemption is already available under section 2(5AB) of STA. Moreover, exemptions on bricks and crush stones have already expired on 30 th June, 2018; hence these serial numbers have been omitted, being redundant.
23.	4 of FEA	Provision for revision of return without seeking approval from the Commissioner has been incorporated in section 4 of the FEA.
24.	S. No. 56 of Table-1 of the First Schedule to FEA	To correct drafting error, PCT heading for filter rod has been substituted.

(B) REVENUE & RELIEF MEASURES:

1. INCLUSION OF SUGAR IN THE THIRD SCHEDULE TO THE STA:

Currently, the price of white crystalline sugar is fixed at Rs.60/- per kg in terms of SRO 812(I)/2016, dated 02.09.2016, which is considerably below the actual market price of the commodity. In order to address this anomaly, sugar is proposed to be included in Third Schedule to the STA, so that sales tax is charged and collected on actual retail price of the product at the manufacturing stage. This measure would not only ensure due

payment of tax but also help in putting a more effective price control mechanism in place for sugar.

2. WITHDRAWAL OF ZERO-RATING UNDER FIFTH SCHEDULE TO THE STA:

In order to capture the supply chain in a better manner, following entries in the Fifth Schedule to the STA, which grant zero-rating to different items, have been withdrawn. This measure will plug the revenue leakage, if any in the supply chain.

Serial No of Fifth Schedule	description
1	Supply, repair or maintenance of aircraft subject to certain conditions
6	Plant and machinery to petroleum and gas sectors
10	Petroleum Crude Oil
11	Inputs of zero-rated plant and machinery

3. GRANT OF ZERO-RATING ON CERTAIN ITEMS:

Zero-rating on local supply of raw material, components, parts and plant and machinery to registered exporters under Export Facilitation Scheme, 2021 has been granted. Moreover, milk and fat filled milk have also been included in zero-rated regime.

4. WITHDRAWAL OF EXEMPTIONS UNDER SIXTH SCHEDULE TO THE STA:

In pursuance of rationalizing and streamlining policy, certain exemptions under Table 1 of Sixth Schedule have either been withdrawn or shifted to Table 2 for the purpose of broadening of tax base and enhancing revenue, while retaining only those exemptions which are related to basic food items, health and education.

5. EXEMPTION OF SALES TAX ON WHITE SPIRIT AND SOLVENT OIL:

In order to support agriculture sector, exemption has been granted on white spirit and solvent oil for manufacture of pesticides and their ingredients registered under the Agriculture Pesticides Ordinance, 1971.

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6. EXEMPTION OF SALES TAX ON PRINTING PAPERS FOR HOLY QURAN:

Currently art and printing papers are chargeable to sales tax at standard rate of 17%. The said products have been granted exemption from sales tax, if used for printing and publication of Holy Quran. Resultantly, art and printing paper alongwith relevant PCT headings have been inserted in S. No. 137 of Table-1 of the Sixth Schedule to the STA.

7. EXEMPTION OF SALES TAX ON CKD KITS FOR ELECTRIC VEHICLES:

Exemption on import of CKD kits for electric vehicles has been granted to facilitate local manufacturing to introduce environment friendly and cheaper source of transportation to the general public. Accordingly, S. No. 157 has been inserted in the Sixth Schedule to the STA.

8. EXEMPTION OF SALES TAX ON TEMPORARY IMPORT BY INTERNATIONAL ATHLETES:

For the purpose of facilitation of international athletes, goods temporarily imported into Pakistan by international athletes or sportsmen which would be subsequently taken back by them within 120 days have been exempted from levy of sales tax. For this purpose, S. No. 158 has been inserted in the Sixth Schedule to the STA.

9. EXEMPTION OF SALES TAX ON IMPORTS OF AUTO-DISABLED SYRINGES AND RAW MATERIALS:

To promote usage of auto disabled syringes during COVID situation in the country, tax exemption on import of auto disposable syringes and their raw material was granted till 30th June, 2021 vide Tax Laws (Second Amendment) Ordinance, 2021. Accordingly, this exemption has been incorporated at S. No. 159 and 160 of Table-1 of Sixth Schedule to the STA.

10. EXEMPTION OF SALES TAX ON PLANT, MACHINERY, EQUIPMENT AND RAW MATERIAL FOR SPECIAL TECHNOLOGY ZONES:

To provide incentive to the IT industry in the country, import of plant, machinery, equipment and raw materials by Special Technology Zone Authority, developers and

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enterprises has been granted exemption by adding S. No. 161 of Table-1 of the Sixth Schedule to the STA.

11. EXEMPTION OF SALES TAX AND FED ON IMPORT UNDER EXPORT FACILITATION SCHEME, 2021:

For the purpose of facilitation of exporters, exemption has been granted on import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021. Similarly exemption from federal excise has also been granted on import and supply of certain items by registered persons authorized under Export Facilitation Scheme, 2021.

12. EXEMPTION OF SALES TAX ON LOCALLY PRODUCED SILOS:

To facilitate the farmers and encourage storage of grain and agricultural activity in the rural areas, tax exemption on locally produced silos has been granted by adding S. No. 26 in the Table-2 of the Sixth Schedule to the STA.

13. EXEMPTION OF SALES TAX ON SUPPLY OF WHEAT BRAN

Exemption has been granted on local supply of wheat bran, which will result in facilitation of poultry industry by reduction in manufacturing cost of poultry feed.

14. EXEMPTION OF SALES TAX ON IMPORT OF POS MACHINES:

In order to facilitate and encourage integration of teir-1 retailers, POS machines imported for installation on retail outlets as are integrated with the Board's Computerized System have been granted exemption from sales tax. Moreover, sales tax rate on textile and leather items through POS integrated retailers has been reduced from 12% to 10%.

15. EXEMPTION OF SALES TAX AND FED TO BORDER SUSTENANCE MARKETS:

In order to mitigate the problems faced by people residing in border areas of Baluchistan and Khyber Pakhtunkhwa due to fencing and counter smuggling measures, Border Sustenance Markets are being established on the border with Iran and Afghanistan. To facilitate the said markets, exemption on certain specified items has been



granted by inserting new Table-4 in the the Sixth Schedule to the STA. Similarly exemption from federal excise has also been granted on specified items meant for such markets.

16. WITHDRAWAL OF EXEMPTION OF NON-ESSENTIAL ITEMS, RAW MATERIALS UNDER EIGHTH SCHEDULE:

In pursuance of rationalizing and streamlining policy, certain reduced rates under Eighth Schedule have been enhanced to standard sales tax rate for the purpose of broadening tax base and increasing revenue, while retaining only those concessionary rates which are related to basic food items, health and education.

17. REDUCTION OF SALES TAX ON LOCALLY MANUFACTURED ELECTRIC VEHICLES:

To encourage and promote the local manufacturing of electric vehicles, reduced rate of 1% of sales tax has been provided for these vehicles.

18. REDUCTION IN SALES TAX RATE ON LOCALLY MANUFACTURED MOTOR-CARS UPTO 1000cc:

In order to provide relief to the general body of consumers, rate of sales tax has been reduced from 17% to 12.5% on locally manufactured cars upto 1000cc.

19. INCREASE IN SALES TAX RATE ON IMPORT OF POTASSIUM CHLORATE:

For encouraging organized sector of matches manufacturing industry, rate of sales tax at Rs.80/- per kg has been enhanced to Rs.90/- per kg. The said increase may result in discouraging the unregistered persons, who procure potassium chlorate from commercial importers.

20. GOODS SUPPLIED FROM EXEMPT AREA TO TAXABLE AREAS:

In order to check misuse of exemption to tax exempt areas, reduced sales tax rate of 16% has been provided for goods supplied from erstwhile FATA/PATA to the taxable areas.

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21. WITHDRAWAL OF FIXED SALES TAX ON SIM CARD:

Sales tax on Subscriber Identification Module (SIM) cards charged at Rs.250/- per SIM card under the provision of Table-I of the Ninth Schedule to the STA has been abolished with effect from 1st July, 2020.

22. WITHHOLDING REGIME FOR SUPPLIERS OF LEAD:

At present, lead and used lead batteries sector contributes very little to the revenue, as most of the suppliers are unregistered persons. To plug revenue leakage and ensure due payment of sales tax, a new S. No. 7 has been added in the Eleventh Schedule to the STA.

23. WITHHOLDING REGIME FOR ONLINE MARKET PLACES:

Online market places facilitating the supply of goods owned by third party suppliers are required to withhold sales tax at the rate of 2% of gross value of supplies made by persons other than active taxpayers.

24. EXEMPTION FROM VALUE ADDITION TAX TO ELECTRIC VEHICLES:

To promote environment friendly transportation facility and to encourage cheaper source of transportation, minimum value addition tax under Twelfth Schedule is withdrawn from electric vehicles (4-wheelers) upto 50 Kwh battery in CKD/CBU condition and electric vehicle LCV upto 150 kwh batter in CKD/CBU till 30th June, 2026.

Furthermore, electric vehicles 2-3 wheelers and heavy commercial vehicles in CBU condition is also excluded from the purview of value addition tax under Twelfth Schedule till 30th June, 2025.

25. WITHDRAWAL OF VALUE ADDED TAX ON MOTOR VEHICLES UPTO 850CC:

In order to provide relief to the general body of consumers, small cars upto engine capacity of 850cc have been exempted from value added tax at import stage.



26. EXEMPTION FROM FEDERAL EXCISE TO INDUSTRIAL UNITS LOCATED IN FATA AND PATA:

In order to facilitate the people of tribal area and encourage investment and economic growth in these areas, levy of federal excise has been withdrawn on to the industrial units located in erstwhile FATA and PATA by omitting corresponding serial numbers in First Schedule and Second Schedule besides omitting Fourth Schedule of FEA. Corresponding amendments have also been made in the relevant provisions of the STA.

27. WITHDRAWAL OF FED ON JUICES:

In order to provide relief to this sector, federal excise duty on juices has been withdrawn.

28. IMPOSITION OF FED ON ELECTRICALLY HEATED TOBACCO PRODUCTS

In order to discourage tobacco usage, electronically heated tobacco products have been brought under the federal excise regime by inserting new S. No. 8c of Table-1 of the First Schedule to the FEA.

29. REDUCTION IN FED ON LOCALLY MANUFACTURED CARS:

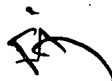
In order to cause reduction in prices of locally manufactured vehicles, federal excise duty has been reduced by 2.5% for each category, as prescribed under S. No. 55B of Table-1 of the First Schedule to the FEA.

30. REDUCTION OF FED ON TELECOMMUNICATION SERVICES:

Federal excise has been reduced from 17% to 16% on telecommunication services.

31. IMPOSITION OF FED ON MOBILE CALLS:

Federal excise on mobile phone calls exceeding five minutes has been imposed at 75 paisa per call.



32. **EXEMPTION FROM FED ON MERCHANT DISCOUNT RATE (MDR):**

To provide relief to businesses and promote digitization of economy, payment on account of Merchant Discount Rate has been excluded from the ambit of federal excise duty.


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