Government of Pakistan
Revenue Division
Federal Board of Revenue
Inland Revenue
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C.No. 3(1)ST-L&P/2019 Islamabad, the 21st July, 2022

Circular No. 09 of 2022-23
Sales Tax, Federal Excise and ICT (Tax on Services)

Subject: Finance Act, 2022 – Explanation of Important Amendments in Sales Tax Act 1990, Federal Excise Act, 2005 and ICT (Tax on Services) Ordinance, 2001

In order to achieve economic stability and revenue maximization as well as for simplification of revenue laws for the taxpayers, certain amendments/insertions/additions have been made in Sales Tax Act, 1990 (hereinafter referred to as "STA"), Federal Excise Act, 2005 (hereinafter referred to as "FEA") and Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (hereinafter referred as 'ICTO") through the Finance Act, 2022.

1. Fixed Tax Regime for Retailers and Specific Sectors:

The fixed tax regime for the retailers has been rationalized and now instead of percentage of the amount of monthly electricity bill, tax shall be charged on their monthly electricity bills as; Rs. 3000 for monthly bill upto Rs. 30,000, Rs. 5,000 if the monthly bill exceeds Rs. 30,000 but does not exceed Rs. 50,000 and Rs. 10,000 for monthly bill over Rs. 50,000. This shall constitute full and final discharge of tax liability of such persons under both Income Tax Ordinance, 2001, and STA.

However, these tax amounts shall be doubled if the name of the retailer is not appearing on the Active Taxpayers List (ATL) issued by the Board under section 181A of the Income Tax Ordinance, 2001 on the date of issuance of monthly electricity bill.

In addition to the above, the Board has been empowered to notify through an STGO persons or class of persons required to discharge their sales tax liability through payment of a fixed amount along with their monthly electricity bills.

2. Revamping of Alternate Dispute Resolution Mechanism

Through the Finance Act, 2022, the mechanism of alternate dispute resolution has been revamped. Major departure points from previous regime are highlighted as under:

(a) Disputes involving tax liability of one hundred million or above only can now be brought for settlement. Previously, there was no such bar for filing of application under this mechanism.

(b) Disputes involving question of facts and law both can now be brought by a taxpayer for settlement by the committee subject to the condition that decision by the committee will not be cited or taken as a precedent in any other case or in the same case for a different tax year. Previously, disputes involving interpretation of question of law having effect on other cases were specifically excluded from the purview of dispute resolution committee.

(c) The scope of initial proposition has been expanded which now includes proposal from the taxpayer to settle the matter, including an offer for payment of tax which cannot be withdrawn.

(d) The choice available to a taxpayer to appoint a member of dispute resolution committee has been enhanced. Now a taxpayer can nominate a member from a panel notified by the Board in this regard or an Officer of Inland Revenue Service who has retired in BS21 or above or a reputable business person as nominated by a Chamber of Commerce and Industry. The third member of the committee will be selected through consensus by Chief Commissioner Inland Revenue (being other member of the committee) having jurisdiction over the case and taxpayer's nominee member jointly from the panel notified by the Board in this regard.

(e) Taxpayer and the Chief Commissioner Inland Revenue having jurisdiction over the case either individually or both as the case may be, will withdraw their appeal pending before a court of law or appellate authority after the constitution of committee but before commencement of proceeding by the committee. Previously, there was no requirement of withdrawal of appeal and the taxpayer could choose to pursue his appeals in case he did not accept the committee's decision.

(f) The committee members will decide the dispute pending before the committee through majority. Earlier, consensus decision by committee members was required for dispute resolution.

(g) The decision by committee will be binding on both the taxpayer and Chief Commissioner Inland Revenue having jurisdiction over the case. Previously, it was binding on Chief Commissioner only after it had been accepted by the taxpayer through withdrawal of appeal.

The changed procedure of dispute resolution will ensure that it is focused on high revenue yielding cases and does not result in wastage of time and resources for the taxpayer as well as field formations by being an effective alternative and not a parallel mechanism to the appeal process.

3. Provision of Zero-Rating Under the Fifth Schedule to STA:

Majority of the export facilitation schemes being operated under Customs Rules are going to be merged in the Export Facilitation Scheme (EFS) 2021 by August, 2023. Therefore, in order to make EFS attractive for the exporters local supplies of raw material, machinery and components to the registered exporters authorized under this scheme have been made zero rated.

4. Grant of Exemptions from Sales Tax under the Sixth Schedule to STA:

The following goods have been exempted from sales tax:

(i) Import and supply of Photovoltaic cells and modules.

(ii) Goods imported by or donated to hospitals run by the non-profit making institutions and local supplies of goods (other than electricity and natural gas) to hospitals run by the charitable hospitals of fifty beds or more.

(iii) Goods temporarily imported into Pakistan, meant for subsequent exportation.

(iv) Import and local supply of fertilizers, tractors, and seeds for sowing.

(v) Import and supply of oil cake and other solid residues used in the animal feed industry.

(vi) Imports including machinery, equipment and materials for exclusive use within the limits of Export Processing Zone or for making exports. Previously these were made subject to tax at standard rate through the Finance Supplementary Act, 2022.

(vii) Goods temporarily exported which were produced in Pakistan and are subsequently imported within one year of their exportation.

(viii) Art card used in printing of the Holy Quran.

(ix) Goods imported by or supplied to UN Diplomats and Missions w.e.f. 15th January 2022.

(x) Local supplies of raw hides and skins, prepared food stuff by restaurants and caterers, and naan, chappati and all types of breads.

(xi) Plant and machinery imported by the energy projects, including those under CPEC, that have entered into implementation agreement with the Government of Pakistan prior to 15th January 2022.

5. <u>Reduction of Tax Rate on Potassium Chlorate:</u>

GST at Rs. 90 was charged over and above 17% ad valorem on potassium chlorate, the rate has been reduced to Rs. 60 per kg which is to be paid in addition to 17% standard rate.

6. <u>Reduction of Rate for Electric Vehicles (EV) Buses:</u>

In order to encourage use of non-fossil fuels and renewable energy, rate of tax on EV buses of 25 seats or more which will be mostly used by common man has been reduced to 1%.

7. <u>Reduction WHST for Online Market Places:</u>

Online market places are expanding with the growth of technology and digital payment modes. In order to facilitate the economic activity through online market places, the rate of withholding tax on sales of third party goods of persons not appearing in ATL made through their platform has been reduced from 2% to 1%.

8. **Condition of NIC Number:**

The condition of providing of NIC number has now been restricted in case of supplies by importer/manufacturers to un-registered distributors only.

9. **Reduced Rate for Locally Manufactured items of Jewelry:**

A fixed rate of 3% on locally manufactured articles of jewellery has been introduced subject to the condition that no input tax is adjustable. Furthermore, all jewelers have been included in the definition of Tier-1 retailers except those whose shop area is less than 300 sq. ft.

10. **Withdrawal of Zero-Rating on Drugs:**

Drugs registered under the Drugs Act, 1976 have been made chargeable to tax at reduced rate of 1% without input adjustment. Similarly, Active Pharmaceutical Ingredients (APIs) and their raw materials are also chargeable at fixed rate of 1% subject to certification by DRAP.

11. **Normal Tax on Import of Expensive EVs:**

Before Finance Act, 2022, all types of electric vehicles (EVs) in CBU condition were chargeable at reduced rate of 12.5%. This relief has now been limited to small cars of 50 KWh only and large and expensive vehicles have been made chargeable to tax at normal rate.

12. **Public Limited Companies included in Section 8B:**

Public limited companies listed on stock exchange were exempt from the provision of section 8B of STA. This discriminatory exemption has been withdrawn to provide level playing field to the entire corporate sector.

13. **Increase in Rate on Coal:**

Locally produced coal was chargeable at Rs. 425 per metric tonne or 17% ad valorem whichever is higher. This rate has not been revised since 2017. This has now been increased to Rs. 700 per metric tonne or 17% ad valorem whichever is higher.

14. <u>VAT on Scrap:</u>

In order to curb the misuse of certain items of imported scrap, Value Added Tax (VAT) has been imposed at 3% on import of compressor scrap, motor scrap and copper cable cutting scrap by manufacturers as well as commercial importers.

15. <u>FED on Locally Manufactured Cigarettes:</u>

To discourage smoking and to tap the true potential of cigarette & tobacco sector as per international best practices, the rate of FED on cigarettes has been increased. FED rates have been enhanced from Rs. 5200 per 1000 cigarettes to Rs. 5900 on Tier-1 and from Rs. 1,650 to Rs 1850 per thousand cigarettes on Tier-2. Furthermore, in order to raise the minimum price of cigarettes, the price threshold has also been enhanced from Rs. 5960 to Rs. 6,660 per 1000 cigarettes.

16. <u>FED on Air Travel:</u>

To raise revenue from the high income earners through indirect taxation on luxury travel, FED on international air travel in business, first and club classes has been increased from Rs. 10,000 to 50,000 per passenger embarking on international journey. This enhanced levy is to be collected at the time of issuance of air tickets after 1st July, 2022.

17. <u>FED on Telecommunication Services:</u>

To bring the rate of FED on telecommunication services in ICT at par with the rates of GST on these services imposed by provincial legislations, it has been enhanced from 16.5% to 19.5%.

18. Certain provisions required corrections or streamlining, while some amendments have been done for saving of the changes brought through the Third Amendment Ordinance, 2021 that have now been made part of the Act. The changes and their rationale is explained as follows;

Sr. No.	Section	Amendment with Rationale
1.	2(12) & 2(33)(e) of STA	The term "production, transmission and distribution of electricity" included in the definition of goods and supply to remove any

		confusion regarding status of these activities attached to the generation and supply of electricity.
2.	2(46)(i) of STA	Subsidy provided by the federal government or provincial governments to the electricity consumers is excluded from the value of supply.
3.	3(1A) of STA	The scope of further tax has been extended to non-active taxpayers.
4.	3(7) of STA	Purchasers of services that are liable to sales tax under a Provincial enactment excluded from requirement of withholding sales tax.
5.	6(5) of STA	The Federal Government has been empowered to grant permission to the Federal & Provincial Governments, and Public Organizations to pay ST in installments both prospectively and retrospectively.
6.	30C of STA	Name of the Director General of Training Inland Revenue changed to Inland Revenue Services Academy
7.	74 of STA & Section 43(2) of FEA	Streamlined for effective application of provision of condonation of time limits
8.	76 of STA and 29(2) of FEA	Uniform has been prescribed for the FBR workforce
9.	Preamble of the Eleventh Schedule to STA	Expressions (i) to (viii) omitted for streamlining
10.	Sr. Nos. 8a & 35 of Table-1 of First Schedule to FEA	Unit of measurement for e-liquids, filter rods, and Liquefied Petroleum Gas brought in line with the trade practice and WeBOC system
11.	Various entries of the Schedules to STA and FEA	PCT Headings are mentioned against each one of the Sr. Nos. for their true identification. Certain PCT Headings have been transposed in the Pakistan Customs Tariff Code. Corrections are accordingly made in the relevant serial numbers in the schedules to bring them in line with the new Pakistan Customs Tariff Code.
12.	Various provisions of STA	Amendments introduced through the Third Law Amendment Ordinance, 2021 incorporated in the statute through this Act

Amendments made in the ICT (Tax on Services) Ordinance, 2001

1. **Food Supplied in Restaurants:**

   Food supplied in restaurants is now subject to sales tax under ICTO. S.No. I of Table-I of ICTO has been amended and "Restaurants" have been inserted in the said S.No.

2. **Harmonization of Tax on Services:**

   Under Table-I: In order to harmonize sales tax on various services falling under Table-I of the Ordinance with provincial revenue authorities, the standard rate has been reduced to fifteen per cent (15%) from the existing sixteen and seventeen per cent. The services under the Table shall, however, continue to enjoy the benefits of value-added tax mode i-e adjustment of input tax shall be admissible.

3. **Export Facilitation of IT & Software:**

   S.No. 11 of Table-2 of ICTO has been substituted to provide for a reduced rate of 5% on services provided by software or IT-based system development consultants. The scope is restricted to the extent of services provided by consultants.

21/7/22

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