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

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C. No. 4/22-STB/2017 (Pt)

Islamabad, the 20<sup>th</sup> September, 2017

To:

All Chief Commissioners Inland Revenue

All Chief Collectors of Customs

SUBJECT: **SALES TAX, FEDERAL EXCISE DUTY AND ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001 – BUDGETARY INSTRUCTIONS (BUDGET 2017-18)**

I am directed to refer to the subject cited above and to say that budgetary measures relating to sales tax, federal excise duty and Islamabad Capital Territory (Tax on Services) Ordinance, 2001 have been notified through Finance Act, 2017 and also through various SROs issued in exercise of powers conferred under the three 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, 2017 and notifications/SROs for proper appraisal of the provisions. Summary of the measures under the three tax laws i.e. Sales Tax Act, 1990, Federal Excise Act, 2005 and Islamabad Capital Territory (Tax on Services) Ordinance, 2001 is given hereunder:

**Sales Tax Act, 1990 and Federal Excise Act, 2005:**

1. **Tier-1 Retailers.**

Definition of tier-1 retailers has been introduced through insertion of clause (43A) in section 2 of the Sales Tax Act, 1990. Under the provisions of newly inserted sub-section (9A) of section 3 of the Sales Tax Act, 1990, tier-1 retailers are required to pay sales tax

under the normal regime at standard rate of sales tax @ 17% under sub-section (1) of section 3 of the Sales Tax Act, 1990 save sales tax on goods covered under SRO 1125(I)/2011, dated 31.12.2011 on which sales tax has to be paid at the rate prescribed in the notification.

Tier-1 retailers also have the option to pay sales tax @ 2% of total turnover provided option for payment of sales tax on the basis of turnover to be exercised by 15<sup>th</sup> of July. Field formations are requested to enforce the provisions in letter and spirit to broaden narrow tax base of sales tax and for collection of due tax from tier-1 retailers.

2. **All imports are subject to sales tax:**

Under clause (b) of sub-section (1) of section 3 of the Sales Tax Act, 1990 and the Federal Excise Act, 2005, goods imported into Pakistan are subject to sales tax and federal excise duty. However, there has been a confusion prevailing as to whether sales tax/federal excise duty at import stage was applicable on import of goods which were meant for ultimate consumption in non-tariff areas where Sales Tax Act, 1990 and Federal Excise Act, 2005 have not been extended. To remove this confusion, the words "irrespective of their final destination in territories of Pakistan" have been inserted in clause (b) of sub-section (1) of section 3 of the Sales Tax Act, 1990 and Federal Excise Act, 2005 which inter-alia means that all goods imported into Pakistan are subject to sales tax and federal excise duty. Exception of course is available to those goods which are specifically exempt/zero-rated under the provisions of the Acts or SROs issued thereunder.

3. **Subjection of goods zero-rated under section 4 to further tax under section 3(1A) of the Sales Tax Act, 1990:**

Section 4 of the Sales Tax Act, 1990 providing for zero-rating had an overriding effect over the provision of section 3 including its sub-sections. Further tax is chargeable under sub-section (1A) of section 3 of the Sales Tax Act, 1990. Sub-section (1A) of section 3 and section 4 of the Sales Tax Act, 1990 have been amended to provide for charging of further tax on goods which are zero-rated under section 4 of the Sales Tax Act, 1990. However, such further tax shall not be applicable to goods and supplies covered under Fifth Schedule, as provided by amendment in SRO 648(I)/2013 vide SRO 585(I)/2/107 dated 01.07.2017.



4. **Automatic stay against recovery:**

Proviso has been inserted after section 48 of the Sales Tax Act, 1990 and section 37 of the Federal Excise Act, 2005 to provide for automatic stay against recovery till the decision of Commission-IR (Appeals) subject to condition that 25% of the amount of sales tax/ federal excise duty determined as payable under the order has been paid by the taxpayer.

5. **Electronic service of notices, orders, decisions etc:**

Section 56 of the Sales Tax Act, 1990 and section 47 of the Federal Excise Act, 2005 have been amended to provide for validity of notices, orders, decisions etc. sent electronically through email or to the e-folder maintained for e-filing of sales tax-cum-federal excise return by public and private limited companies.

6. **Validation of SROs/Orders issued in exercise of powers conferred upon the Federal Government:**

Section 74A of the Sales Tax Act, 1990 and section 47C of the Federal Excise Act, 2005 have been introduced to provide for validation of all notifications/orders which have been issued before commencement of Finance Act, 2017 in exercise of powers conferred upon the Federal Government under various provisions of the two statutes.

7. **Fixation of rate of sales tax on certain fertilizers:**

Subsidy granted on various fertilizers by the Federal Government has been translated into reduced rates of sales tax and rate of sales tax on 50 kg bag of various fertilizers, on the basis of their chemicals compositions, under the Eighth Schedule to the Sales Tax Act, 1990 are as under:

Fertilizer	Contents	Rate of Sales Tax Per 50 kg Bag
DAP	Nitrogen 18%, phosphate 46%	Rs. 100
NP (22-20)	Nitrogen 22%, Phosphate 20%	Rs. 168
NP (18-18)	Nitrogen 18%, Phosphate 18%	Rs. 165
NPK-I	Nitrogen 17%, Phosphate 17%, Potassium 17%	Rs. 251

NPK-II	Nitrogen 8%, Phosphate 23%, Potassium 18%	Rs. 222
NPK-III	Nitrogen 15%, Phosphate 15%, Potassium 15%	Rs. 341
SSP	Phosphate 18%	Rs. 31
CAN	Calcium Ammonium Nitrate	Rs. 98

The above rates are for fertilizers which are produced from gas other than imported LNG as reduced sales tax rate of 5% is already applicable on fertilizers produced from imported LNG under SRO 398(I)/2015, dated 8<sup>th</sup> May, 2015. In view of reduced rate of sales tax on fertilizers, rate of supply of natural gas to fertilizer plants for use as feed stock in manufacturing of fertilizer has also been reduced to 10% so that capital of fertilizer companies is not stuck up in refunds. Under the same rationale, rate of sales tax on phosphoric acid has also been reduced to 5%. Supplies of fertilizers have been exempted from further tax chargeable under sub-section (1A) of section 3 of the Sales Tax Act, 1990 by amending SRO 648(I)/2013 through SRO 585(I)/2017, dated 01.07.2017.

8. **Sales tax on mobile phones:**

To promote information and communication technology, rate of sales tax on law priced mobile phones and medium priced cellular mobile phones have been merged to prescribe single sales tax rate of Rs. 650 per set for both the categories.

9. **Introduction of third tier of Federal Excise Duty on cigarettes:**

Cigarettes were subject to federal excise duty on two-tier basis. For tier-1, federal excise duty was chargeable @ Rs. 3,705 per thousand cigarettes whereas for tier-2, it was Rs. 1,649 per thousand cigarettes. Rate of federal excise duty for tier-1 has been enhanced to Rs. 3,740 per thousand cigarettes whereas for tier-2, it has been fixed at Rs. 1,670 per thousand cigarettes. A new tier-3 has been introduced whereunder if on-pack printed retail price of cigarettes does not exceed Rs. 2,925 per thousand cigarettes, federal excise duty is chargeable @ Rs. 800 per thousand cigarettes.



10. **Increase in rate of Federal Excise Duty on cement:**

Cement was subjected to federal excise duty @ Rs. 1.00 per kilogram which has been fixed at Rs. 1.25 per kilogram.

11. **Reduction in rate of Federal Excise Duty on telecommunications services:**

Rate of Federal Excise Duty on telecommunication services under S. No. 6 of Table-II of First Schedule to the Federal Excise Act, 2005 has been reduced from 18.5% to 17%.

12. **Penal provision for manufacturing, possessing, transporting, distributing, storing or selling cigarette packs with counterfeited tax stamps, banderoles, stickers, labels or barcodes or without tax stamps, banderoles, stickers, labels or barcodes:**

Strict penal provision have been prescribed for manufacturing, possessing, transporting, distributing, storing or selling cigarette packs with counterfeited tax stamps, banderoles, stickers, labels or barcodes or without tax stamps, banderoles, stickers, labels or barcodes under section 33 of the Sales Tax Act, 1990 and section 19 of the Federal Excise Act, 2005. These provisions, however, will come into force from the date with effect from which selling of cigarettes with tax stamps, banderoles, stickers, labels or barcodes is made mandatory.

13. **Amendments in Sales Tax Special Procedure Rules, 2007:**

**Steel Sector:**

- (i) Amendments in Sales Tax Special Procedure Rules, 2007 have been notified through SRO 583(I)/2017, dated 01.07.2017. Steel sector operating under Sales Tax Special Procedure Rules, 2007 is now required to pay sales tax @ Rs. 10.50 of the units of electricity consumed subject to adjustment of sales tax paid on the import of remelttable scrap. Payment of sales tax @ Rs. 10.50 per Kwh shall be final discharge of liability by steel melters and re-rollers operating under Sales Tax Special Procedure Rules, 2007 including their pre-heating sections operated through fuels other than electricity.
- (ii) Rate of sales tax on import of scrap by melters and re-rollers operating under Sales Tax Special Procedure Rules, 2007 continues to remain at Rs. 5,600 per metric tonne whereas for melters, re-rollers and others not operating under Sales Tax Special Procedure Rules, 2007 are required to pay sales tax at Rs. 8,400 PMT

on import of scrap. Automated adjustment of sales tax paid on import of scrap has been provided through STGO 119 of 2017 dated 02.08.2017.

- (iii) Ship breakers were required to pay sales tax on the import of ships for breaking @ Rs. 8,000 PMT calculated @ 70.5% of Least Displacement Tonnage (LDT) of the ships imported for breaking. This sales tax was payable in lieu of local supply of re-rollable scrap, Through amendments in Sales Tax Special Procedure Rules, 2007 ship breakers are now required to pay sales tax @ Rs.8,500 PMT which is to be calculated @ 80% of LDT of oil tankers and gas carriers imported for breaking and @72.5% of LDT in case of other ships. This payment of sales tax shall be final discharge of liability of ship breakers in lieu of local supply of re-rollable scrap as well as other supplies of materials obtained during ship breaking. Steel melters, re-rollers and ship breakers operating under Sales Tax Special Procedure Rules, 2007 have also been granted exemption from further tax chargeable under sub-section (1A) of section 3 of the Sales Tax Act, 1990 by amending SRO 648(I)/2013 through SRO 585(I)/2017, dated 01.07.2017.

Value of imported re-rollable scrap has been fixed at US\$ 480 PMT for the purposes of charging sales tax to correspond with value of steel products.

#### **Exemption from Extra Tax under Rule 58T**

Exemption from extra tax leviable @ 2% under Rule 58T of Sales Tax Special Procedure Rules, 2007 has been provided on supplies of lubricating oils made to registered oil marketing companies (OMCs) and those made by OMCs to registered manufacturers for in-house consumption.

#### **14. Amendments in SRO 1125(I)/2011 Dated 31.12.2011**

Import of raw and ginned cotton had been zero-rated through amendments made in SRO 1125(I)/2011 dated 31.12.2011 vide SRO 36(I)/2017 dated 23.01.2017. This facility of zero-rating on the import of cotton has been withdrawn with effect from 15<sup>th</sup> July, 2017 through amendments made in SRO 1125(I)/2011 vide SRO 584(I)/2017, dated 01.07.2017 by specifically inserting the words “ imported raw and ginned cotton” as sub-serial number (g) in column 2 of S. No. 2 of Table-I of SRO 1125(I)/2011 which provides for exclusions not entitled for zero-rating. Import of raw cotton and ginned cotton is chargeable to sales tax @ 5% with effect from 15<sup>th</sup> July, 2017 under S.No.5 of Table-I of the Eighth Schedule to the Sales Tax Act, 1990.



To ensure parity between rate of sales tax on commercial import of finished fabric and locally produced/supplied fabric, rate of sales tax on import of finished fabric has been fixed @ 6% alongwith 2% value addition tax. For the sake of clarification, PCT headings of finished fabric for the purpose of charging sales tax at import stage have been provided for through amending SRO 868(I)/2017, dated 31.08.2017. Rate of sales tax on supplies of finished fabric to and by retailers, to end consumers, other supplies of finished fabric, locally manufactured finished articles of textiles and textile made-ups, carpets, leather and artificial leather has also been enhanced from 5% to 6%.

To remove ambiguity with respect to charging of further tax under section 3(1A) on items covered under SRO 1125(I)/2011, rate of further tax has been specifically provided for through SRO 584(I)/2017, dated 01.07.2017 but at reduced rate of 1%. However, finished items covered under SRO 1125(I)/2011 shall continue to be subjected to further tax @ 2%.

15. **Amendment in Sales Tax Special Procedure (Withholding) Rules, 2007:**

Exclusion from sales tax withholding has been provided vide Rule-5 of Sales Tax Special Procedure (Withholding) Rules, 2007. The scope of exclusion has been extended vide SRO 586(I)/2107, dated 01.07.2017 to exclude supplies made by an active taxpayer as defined in Sales Tax Act, 1990 to another registered person, with the exception of advertisement services, from the purview of sales tax withholding.

16. **Exemption from sales tax to goods supplied under Islamic Mode of Financing:**

Goods delivered under Islamic Mode of Financing “*Murabaha*” to or by a bank or a financial institution approved by State Bank of Pakistan or SECP were outside the scope of definition of supply as contained under clause (33) of section 2 of the Sales Tax Act, 1990 under SRO 445(I)/2004, dated 12.06.2004. Through SRO 588(I)/2017, dated 01.07.2017, SRO 445(I)/2004 has been amended to include goods supplied by banks or financial institutions under other Islamic mode of financing i.e. “*Musawamah, Bai Muajjal, Bai Salam, Istisna, Tijarah and Istijrar*” in the scope of exceptions, meaning thereby that goods supplied under these Islamic mode of financing by banks will not be chargeable to sales tax.

17. **Admissibility of input tax against supply of locally produced coal:**

Minimum value of locally produced coal has been fixed at Rs. 2,500 PMT vide SRO 491(I)/2015, dated 13.06.2015. No input tax adjustment is admissible against supply of locally produced coal as stipulated by SRO 549(I)/2006, dated 05.06.2006. However, this


restriction regarding admissibility of input tax to persons making supplies of locally produced coal has been relaxed vide SRO 592(I)/2017, dated 01.07.2017 subject to the conditions that value of supply exceeds Rs. 5,000 PMT.

18. **Sales tax on certain services under Islamabad Capital Territory (Tax on Services) Ordinance, 2001:**

Certain services under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 are chargeable to sales tax @ 5% without any input tax adjustment. Scope of such services has been extended to include *"services provided or rendered by marriage halls and lawns, by whatever name called, including "pandal" and "shamiana" services and caterers"* without any input tax adjustment or refund.

19. **Exemption from sales tax on export of IT services and IT-enabled services:**

Through SRO 590(I)/2017, dated 01.07.2017, exemption from sales tax chargeable under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 has been provided on export of IT services and IT-enabled services.

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