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GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE
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C. No. 1/81-STB/2014 EDOX NO= 100270-R Islamabad, the 1st July, 2014.

Subject: **SALES TAX AND FEDERAL EXCISE DUTY BUDGET INSTRUCTIONS.**

The Sales Tax and Federal Excise Duty (FED) measures taken in the Budget 2014-15 are summarized below for proper implementation in letter and spirit.

2. The basic principles underlying the taxation proposals for the Budget 2014-15 are as follows:

(i) enhancing the ratio of direct taxes to indirect taxes;
(ii) increasing the cost of non-compliance with a view to bring the non-compliant sectors into the tax net;
(iii) removal of distortions, inequities and anomalies in the taxation system;
(iv) reduction in the number of SROs in a phased manner;
(v) reducing discretion and contact between tax payers and tax collectors, by increasing the use of automation.

3. A brief summary of the measures is given below, along with actions required to be taken by the field formations. The measures at S. No. 1 to 4 were made effective w.e.f. **04.06.2014**, those relating to section 3 and the Schedules of the Sales Tax Act, 1990 were made effective from **26.06.2014** (the day following the date of assent to the Finance Act, 2014 by the President of Pakistan), while the remaining measures are effective from **01.07.2014**.

## A. REVENUE MEASURES

### 4. RATIONALIZATION OF SALES TAX RATES ON STEEL SECTOR

Under Rule 58H of Chapter XI of the Sales Tax Special Procedure Rules, 2007, steel melters and re-rollers were required to pay sales tax @ Rs. 4 per unit of electricity, while ship-breakers were required to pay sales tax @ Rs. 5,862 per MT in terms of sub-rule (4) of the said Rule. Both of these rates were much less than the standard rate of sales tax. Import of re-meltable scrap was subject to sales tax @ Rs. 1,600 per MT or 5% of its import value (whichever is higher), which was fully adjustable against the sales tax payable by a steel melter through his electricity bill. In order to rationalize the tax structure for the steel sector, the following amendments have been made in Chapter XI of the Sales Tax Special Procedure Rules, 2007, vide SRO 421(I)/2014, dated 04.06.2014:-

(i) the rate of sales tax payable by steel melters and re-rollers through their electricity bills has been brought back to **Rs. 7 per unit** of electricity;

(ii) the rate of sales tax payable by ship-breakers has been enhanced to **Rs. 6,700** per MT;

(iii) the rate of sales tax on import of re-meltable scrap has been enhanced to Rs. **5,600 per MT** with adjustment allowed only to extent of the quantity used in manufacturing.

In addition, steel melters and re-rollers have been allowed to submit an irrevocable option, by the 25th of June of each year, to pay sales tax on *ad valorem* basis for the coming financial year. The option so exercised shall remain in force till the end of such financial year. Further, the Commissioners have been given the authority to directly collect the sales tax from steel re-melters and re-rollers wherever considered expedient in the interest of revenue.

Actions: Concerned RTOs/LTUs to ensure that the electricity distribution companies (including M/s. K-Electric Limited) start charging sales tax @ Rs. 7 per unit from steel melters and re-rollers w.e.f. 04.06.2014.

RTOs/LTUs to obtain options from steel melters/re-rollers for payment of sales tax on *ad valorem* basis. List of all such optees may be furnished to the Board by 15th July, 2014.

Customs authorities to ensure collection of sales tax from ship-breakers and on re-meltable scrap at the new rates w.e.f. 04.06.2014.

Director WeBOC to create a facility in the system for auto-intimation of sales tax adjustment to be allowed to manufacturer steel melters.

## 5. STEEL UNITS OPERATED BY SUGAR MILLS AND OTHER PERSONS.

Steel melting and re-rolling units are being set up by sugar mills and other persons. Since these consume self-generated electricity using bagasse and other means, sales tax on their products cannot be recovered under special procedure through electricity bills issued by electricity distribution companies. It has therefore, been specified in the newly inserted rule 58Mb of Chapter XI of the Sales Tax Special Procedure Rules, 2007 that such units shall pay sales tax **in the normal sales tax regime at standard rate**. To ensure proper declaration of production and supplies, benchmarking on the basis of installed transformer capacity and installation of tamper-proof electricity meters has been prescribed.

Action: Concerned RTOs/LTUs, in whose jurisdiction such units are established, to obtain information regarding installed transformer capacity used for operating each such unit, and to ensure installation of tamper-proof electricity meters as prescribed in the amended Rules.

6. **ENHANCEMENT OF FED RATES ON CIGARETTES**

The rates of FED on cigarettes were enhanced from 4th June, 2014 through SRO 422(I)/2014, dated 04.06.2014, as follows:

| Retail price | Rate of Federal Excise Duty |
|---|---|
| Locally produced cigarettes if their on-pack printed retail price exceeds Rs. 2706 per thousand cigarettes | Rs. 2632 per thousand cigarettes |
| Locally produced cigarettes if their on-pack printed retail price does not exceed Rs. 2706 per thousand cigarettes | Rs. 1085 per thousand cigarettes |

The same rates have now been incorporated in the relevant serial numbers of Table I of the First Schedule to the Federal Excise Act, 2005, with effect from the 1st of July, 2014, while SRO 422(I)/2014 has been rescinded vide SRO 574(I)/2014, dated 01.07.2014.

Action: Concerned LTUs/RTOs to ensure that all supplies of cigarettes are made on the revised rates w.e.f. 04.06.2014.

7. **AMENDMENT IN SRO 1125(I)/2011 TO CHARGE SALES TAX @ 17% ON IMPORT OF FINISHED ARTICLES OF TEXTILE AND LEATHER**

Since SRO 1125(I)/2011 dated 31.12.2011 is only meant for the five export-oriented sectors, import of finished articles of leather and textiles (excluding used and worn clothing) have been made chargeable to sales tax @ 17% vide SRO 420(I)/2014 dated 04.06.2014. The amendment made vide SRO 575(I)/2014 dated 26.06.2014 clarifies that subsequent supplies of such imported goods are also chargeable to sales tax @ 17%.

Action: Customs authorities to ensure that sales tax is charged at standard rate on all imports of finished articles falling under SRO 1125(I)/2011 w.e.f. 04.06.2014, excluding used and worn clothing, which remain chargeable to sales tax @ 5% under SRO 657(I)/2013 dated 11.07.2013.

RTOs/LTUs to ensure that subsequent supplies of such imported finished goods are made @ 17%.

8. **WITHDRAWAL OF CAPACITY TAX REGIME ON AERATED WATERS**

The Federal Excise Duty and Sales Tax on Production Capacity (Aerated Waters) Rules, 2013 have been repealed vide SRO 569(I)/2014 dated 26.06.2014. Thus, **from 01.07.2014**, aerated waters manufacturer shall revert to the normal tax regime, where FED is chargeable on beverages concentrate @ 50% of its value, and FED @ 9% and sales tax @ 17% is chargeable on aerated waters.

Actions: Immediately on withdrawal of the scheme, concerned RTOs/LTUs to conduct stock taking, and properly monitor the production and sales of aerated waters manufacturers. The already available information regarding production capacity and major input materials should be used as benchmark to prevent under-reporting of production and sales suppression, if any.

## 9. FED ON CEMENT CHANGED FROM SPECIFIC TO AD VALOREM BASIS

Effective from 1st July, 2014, FED on cement has been converted from the specific rate of Rs. 400 per MT to **5% of the retail price**, by amendment in S. No. 13 of Table I to the First Schedule to the Federal Excise Act 2005. For the purpose of FED, the meaning of "retail price" is given in section 12(4) of the Federal Excise Act, 2005.

Action: Concerned LTUs/RTOs to ensure that retail prices are printed on the cement bags, FED is properly charged on the retail price, and no under-reporting/sales suppression takes place.

## 10. FED ON INTERNATIONAL TRAVEL BY AIR

Effective from 1st July, 2014, the rates of FED on domestic and international travel by air have been revised as follows:

| Category | Previous Rate | Revised Rate (per passenger) |
|---|---|---|
| Travel by air within Pakistan | | |
| Long routes (over 500 km) | 16% + Rs. 60 | Rs. 2,500 |
| Short routes (upto 500 km, excluding socio-economic routes) | | Rs. 1,250 |
| Socio-economic routes (along Balochistan coastal belt) | | Rs. 500 |
| Travel by air of passengers embarking on international journeys from Pakistan | | |
| Economy & economy plus | Rs. 3,840 | 5,000 |
| Club, business & first class | Rs. 6,840 | 10,000 |

Action: Concerned LTUs/RTOs to ensure that the amounts are properly charged, collected and paid by the airlines w.e.f. 01.07.2014.

## 11. FEDERAL EXCISE DUTY ON CHARTERED FLIGHTS

Although FED was chargeable on chartered flights, due to ambiguity in the First Schedule, it was not being properly collected. By virtue of the new entry in Table II of the First Schedule to the Federal Excise Act, 2005, it has been made explicit that FED on chartered flights shall be charged @ 16% of the total charges.

Action: Concerned RTOs/LTUs to coordinate with the Civil Aviation Authority to ensure that FED on chartered flights is properly charged and paid.

## 12. NEW REGIME FOR RETAILERS

Most of the retailers have remained outside the sales tax regime so far. In order to bring retailers into the tax net, a two tier regime for sales tax has been introduced by inserting a new sub-section (9) in section 3 and replacing Chapter II of the Sales Tax Special Procedure Rules, 2007, as follows:

(a) The **first tier** comprises of retailers who are part of national or international chains, or are located in air-conditioned shopping malls, or have credit or debit card machines, or have cumulative electricity bill exceeding Rs. 600,000 for the past 12 months (average Rs. 50,000 per month). These retailers shall be registered and pay sales tax under the normal regime and standard rate of sales tax. They shall also install Fiscal Electronic Cash Registers (FECRs), as per specifications to be approved by FBR. An incentive scheme shall be announced to encourage customers to demand proper receipts from such retailers. The exemption threshold for retailers has been omitted from Table II of the Sixth Schedule.

(b) The remaining retailers shall fall in the **second tier**, who shall pay sales tax through their electricity bills at the following rates:

(i) 5% of monthly electricity bill upto Rs. 20,000.
(ii) 7.5% of monthly electricity bill above Rs. 20,000.

Action: Concerned LTUs/RTOs to identify retailers falling in first tier, ensure their registration and payment of sales tax in normal regime.

For the second tier, concerned RTOs/LTUs to coordinate with the electricity distribution companies in their respective jurisidictions to enable charging of sales tax through the electricity bills at the prescribed rates.

## 13. RESTRICTION ON UNDUE CLAIMS OF INPUT TAX

To disallow undue input tax adjustments and to strengthen legal support to SRO 490(I)/2004 dated 12.06.2004, amendments have been made in sections 7 and 8 of the Sales Tax Act, 1990, to restrict input tax adjustment.

Action: CREST team to enable this provision in the system for uniform implementation.

All LTUs/RTOs to put in place a system of monthly return analysis with a view to identifying cases in which inadmissible input tax has been claimed by taxpayers, and take legal action to disallow/recover such amounts.

## 14. ELECTRONIC SCRUTINY AND INTIMATIONS

To reduce interaction between taxpayers and tax collectors, minimize discretion, and enhance efficiency of scrutiny of returns and other data, a computerized e-Scrutiny system is being developed. This system will carry out all types of checks and analyses objectively, and will issue electronic intimation to taxpayers so that they can correct their mistakes prior to initiation of legal action by the department. The system will also track taxpayers response and actions taken by officers. Section 50B has been inserted in the Sales Tax Act, 1990 for this purpose.

Action: CREST team to develop and deploy the system in coordination with IR Operations Wing.

## 15. EXCLUSION OF FURTHER TAX FROM OUTPUT TAX

Further tax @ 1% is charged under section 3(1A) of the Sales Tax Act, 1990 on supplies made to unregistered persons. It is actually the amount payable by the unregistered persons with the objective of incentivizing them to get registered. However, it has been noticed that some registered persons making supplies to unregistered persons are claiming further tax as part of their output tax, to reduce their net tax payment. Amendment has been made in section 7 of the Sales Tax Act, 1990 to prevent this trend.

Action: RTOs/LTUs to ensure that the further tax charged from unregistered persons is fully deposited in the treasury.

CREST team to build this check in the system.

## B. PHASING OUT OF EXEMPTION SROs

In accordance with the policy to phase out exemption notifications, the following measures have been taken (effective from 26th June, 2014):

## 16. SRO 575(I)/2006, DATED 13.06.2006 – PLANT, MACHINERY & EQUIPMENT

Exemption of sales tax on nine sectors (Sr. No. 8, 16, 17, 24, 25, 32, 33, 37 and 38 of the SRO) has been withdrawn and these have been made liable to sales tax at standard rate.

Serial Nos. 2, 3, 4, 9, 15, 20 and 30 of this SRO have been transferred to the newly inserted Eighth Schedule to the Sales Tax Act, 1990, for charging reduced rate of 5% sales tax, subject to the same conditions as existed under the SRO.

Sixteen socially sensitive serial numbers (No. 6, 7, 10, 10A, 11, 12, 13, 14, 18, 19, 26, 27, 31, 35, 35A and 39) have been transferred to the Sixth Schedule of the Sales Tax Act, 1990 along with the corresponding conditions, for continuing the exemption.

It may be noted that in case of some of the above-mentioned serial numbers, some entries have been omitted. Thus, while the serial number may have been transposed to the Sixth or Eighth Schedule, the exemption stands withdrawn from the goods falling under the omitted entries of those serial numbers.

## 17. SRO 727(I)/2011, DATED 01.08.2011 – PLANT & MACHINERY

The sales tax exemption under this SRO on import and supply of plant and machinery, not manufactured locally, has been withdrawn. Now sales tax at reduced rate of 5% shall be charged, subject to similar conditions/procedure as in the SRO, by entry in the newly created Eight Schedule of the Sales Tax Act, 1990.

## 18. SRO 549(I)/2008, DATED 11.06.2008 - ZERO-RATING ON CERTAIN ITEMS

Zero-rating on the three items remaining in this notification (petroleum crude oil, etc.), has been continued by transferring them to the Fifth Schedule of the Sales Tax Act, 1990.

## 19. SRO 551(I)/2008, DATED 11.06.2008 – EXEMPTION ON CERTAIN ITEMS

This notification granted exemption of sales tax on import and local supply to a number of goods such as raw material for pharmaceutical industry, iodized salt, medical equipment, components of energy saver lamps, renewable energy items, raw cotton and oil seeds for sowing etc. In view of their essential nature, exemption has been continued on the goods listed at Sr. No. 3, 4, 5, 7, 11, 13, 14, 16, 27 and 29 by transferring them to the Sixth Schedule of the Sales Tax Act, 1990.

Import of oilseed for sowing, and raw and ginned cotton (S. No. 10 and 33) shall be charged to reduced rate of sales tax of 5%, by transferring these entries to the newly introduced Eighth Schedule to the Sales Tax Act, 1990. However, local supply of raw and ginned cotton shall remain exempt by transferring it to the Sixth Schedule.

Sales tax exemption on import of re-meltable scrap (S. No. 31) under this SRO has been withdrawn.

20. **SRO 501(I)/2013, DATED 12.06.2013 – EXEMPTION ON DAIRY, STATIONERY AND CERTAIN OTHER ITEMS**

This notification granted exemption of sales tax on the import and local supply to a number of items, including dairy products, stationary items, etc.

Sales tax at reduced rate of 5% shall be charged on soyabean meal, oil cake and directly reduced iron (S. No. 15, 16 and 21) by transferring them to the newly created Eighth Schedule of the Sales Tax Act, 1990. The entry for purpose-built taxis (S. No. 25) has been deleted, thus rendering them liable to sales tax at standard rate.

Exemption on all remaining socially or economically sensitive goods has been retained by transferring them to the Sixth Schedule to the Sales Tax Act, 1990.

Action: RTOs/LTUs to carry out necessary survey of oil mills and ensure payment of due sales tax on supply of oil cake.

21. **SRO 670(I)/2013, DATED 18.07.2013 – SURVEY-BASED ZERO-RATING ON DAIRY, STATIONARY AND BICYCLES**

Under this notification, finished goods and input materials of dairy, stationery and bicycle industry were zero-rated subject to specified conditions. The facility has been continued by incorporating the items in the Fifth Schedule to the Sales Tax Act, 1990 and the conditions, limitations and restrictions transposed into the new Chapter XIV of the Sales Tax Special Procedure Rules, 2007.

*Note:* It is clarified that the continuation of both zero-rating and exemption on dairy and stationery items is a conscious policy decision, as the survey-based zero-rating is meant only for manufacturers who fulfill the conditions. In order to prevent levy of sales tax on supplies made by other manufacturers (who do not fulfil the survey conditions), wholesalers and retailers, the exemption has been continued.

22. **SRO 69(I)/2006, DATED 28.01.2006 – RAPESEED AND OTHER OIL SEEDS**

This notification granted reduced rate of 14% sales tax on import of rapeseed, sunflower seed and canola seed. Now the rate has been enhanced from 14% to 16%, by amendment made vide SRO 571(I)/2014, dated 26.07.2014.

23. **SRO 460(I)/2013 DATED 30.05.2013 – ST ON MOBILE PHONES**

This notification provides specific rates of sales tax on mobile phones and satellite phones, payable at import stage by importers and at SIM activation stage by cellular mobile operators. In order to strengthen the legal support and protect the revenue, the rates and collection mechanism have been specified in a newly added Ninth Schedule to the Sales Tax Act, 1990, with enabling provisions in sub-section (3B) of section 3 of the Act.

## RELIEF MEASURES:

### 24. EXEMPTION ON IMPORT OF PLANT, MACHINERY AND EQUIPMENT FOR GILGIT-BALTISTAN, BALOCHISTAN PROVINCE AND MALAKAND DIVISION, AND FOR FATA

In order to promote industrialization, job creation and economic uplift of the less developed regions, exemption of sales tax has been allowed on the import of plant, machinery and equipment for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Divisions. Sales tax exemption on the import of plant, machinery and equipment imported for setting up industries in FATA has also been allowed. Both these concessions are subject to the same conditions and procedure as are applicable for exemption from customs duty. Relevant entries have been added in the Sixth Schedule to the Sales Tax Act, 1990 for this purpose.

### 25. EXEMPTION ON HIGH EFFICIENCY IRRIGATION EQUIPMENT AND GREEN HOUSE FARMING EQUIPMENT FOR AGRICULTURE SECTOR

In order to promote agriculture, exemption has been granted on import of High Efficiency Irrigation Equipment including submersible pumps, sprinklers and air release valves (PCT headings 8413.7010, 8424.8100, 8424.2010, 8481.1000, 8481.3000, 9026.2000 and 9032.8990) and Green House Farming Equipment (PCT headings 8430.3100, 8430.3900 and 9406.0010) for agriculture sector through inclusion in the Sixth Schedule to the Sales Tax Act, 1990.

### 26. REDUCTION IN RATE OF SALES TAX ON TRACTORS

In order to promote farm mechanization and the local tractor industry, sales tax on import and local supply of tractors has been reduced to 10% vide SRO 572(I)/2014 dated 26th June, 2014.

### 27. EXEMPTION FROM SALES TAX ON IMPORT AND SUPPLY OF "COCHLEAR IMPLANTS SYSTEM (HEARING AIDS)

To facilitate the handicapped, import and supply of cochlear implants system (hearing aids - PCT heading 99.37) has been exempted through insertion in S. No. 59 of Table I of the Sixth Schedule to the Sales Tax Act, 1990.

### 28. FEDERAL EXCISE DUTY ON TELECOMMUNICATION SERVICES

The following two measures have been taken regarding Federal Excise Duty (FED) on telecommunication services, effective from 1st July, 2014:

(i) In order to avoid double levy, telecommunication services have been excluded from the purview of FED in the provinces where they have imposed and have started collecting provincial sales tax.

(ii) In the remaining areas, FED on telecommunication services has been reduced to 18.5%.

**PROCEDURAL MEASURES:**

29. **AMENDMENT IN CLAUSE (d) OF SECTION 4 OF THE SALES TAX ACT, 1990**

Supplies of electricity and gas to the five export-oriented sectors namely: textile, leather, carpet, sports and surgical goods are zero-rated by issuance of Sales Tax General Orders under section 4(d) of the Sales Tax Act, 1990. Since these sectors are now being charged to reduced rate of sales tax instead of zero-rating, in order to align the law, clause (d) of section 4 has been appropriately amended.

30. **INSERTION OF EXPLANATION IN SECTION 40B OF THE SALES TAX ACT**

Certain authorities have wrongly interpreted that the provisions of section 40B of the Sales Tax Act, 1990 (relating to posting of officers for monitoring of production, clearance and stocks) are dependent section 40 of the Sales Tax Act, 1990. An Explanation has been added in section 40B whereby it is clarified that the provisions of this section are independent from those of section 40.

31. **SALES TAX ON SUPPLY OF GAS TO CNG STATIONS**

The earlier Special Procedure for collection of sales tax from CNG stations through the gas bills, as well as sub-section (8) of section 3 inserted in 2013 were stuck down by the Supreme Court of Pakistan. Sales Tax (Amendment) Ordinance, 2014 was promulgated by the President of Pakistan to address the situation. These amendments have now been introduced through the Finance Act.

Action: RTOs/LTUs to ensure that CNG stations are registered and file quarterly returns, as prescribed in rule 20(2)(c) of the Sales Tax Special Procedure Rules, 2007. Concerned LTUs to ensure that the gas distribution companies properly charge and deposit the sales tax from CNG stations.

32. **CORRECTION OF OMITTED PCT HEADING FOR CRUDE PALM OIL**

Edible oils were exempted from sales tax as they were made chargeable to Federal Excise Duty in sales tax mode. However, despite imposition of FED on crude palm oil (PCT heading 1500.), its PCT was not appearing in the Sixth Schedule, which was causing difficulty in the implementation of WeBOC on this item. This inadvertent omission has been corrected by inserting the PCT heading in the S. No. 24 of Table I of the Sixth Schedule to the Sales Tax Act, 1990.

33. **PROVISION FOR SPECIFYING ZONES FOR THE PURPOSE OF CHARGING SALES TAX AND FEDERAL EXCISE DUTY ON THE BASIS OF PRICES IN RESPECTIVE ZONES**

Previously, in case of sales tax and FED chargeable on retail price, it was assessable on the highest such price for a particular brand or variety of goods. This created difficulty for certain category of goods such as cement, where retail prices are fixed for different zones/areas of the country, owing to various factors. To remove the difficulty arising in such cases, the relevant provisions of the Sales Tax Act, 1990 and Federal Excise Act, 2005 have been amended to allow the Board to for creation of zones for the purpose of charging sales tax and FED on the highest retail price of a particular brand or variety of goods in that zone.

34. It may be emphasized that the above clarifications are only meant for ease of understanding. For the proper understanding and interpretation of the law, the relevant provisions of the Finance Act and notifications may be consulted. In case of any difficulty, guidance/instructions may be sought from the Board.

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