



TARIQ ABDUL GHANI & CO.
Chartered Accountants

TAX BRIEFING 2006

SECTION 1

**BUDGET 2006 -
SALIENT
FEATURES**

SECTION 2

INCOME TAX

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**SALES TAX &
FEDERAL EXCISE**

SECTION I

BUDGET 2006 – SAUCENT FEATURES

INCOME
TAX

1. Methodological simplification of **salary taxation** proposed by applying effective rate on gross salary. Basic exemption limit proposed to be raised to Rs. 150,000/- with tax rates ranging from 0.25% to 20% on the gross salary.
2. Tax rates for **non-salaried persons** proposed to be rationalized. Rates proposed to range from 0.5% to 25%.
3. Special tax concession proposed for **women taxpayers**. Basic exemption limit proposed to be raised to Rs. 200,000/- for salaried and to Rs. 125,000/- for non-salaried women taxpayers.
4. Removal of limit/ restriction on expenses incurred by an employer on **provision of perquisites to employees** proposed.
5. Rebate for **teachers and researchers** proposed to be extended to officers posted in government training institutions.
6. Tax rebate for **senior citizens** - age limit proposed to be reduced from 65 to 60 years.
7. Proposal for extending lower rates of 5% for **inter-corporate dividends** to all resident companies.
8. Exemption on **corporatization of individual stock exchange membership** proposed up to 30th June, 2007 along with exemption for room in the stock exchange.
9. **Advance tax estimate regime** on the basis of current year income proposed.
10. **Depreciation @ 30%** for the machinery producing IT products proposed.
11. **Withholding tax**
 - a. Withholding tax rate proposed to be enhanced in cases where NTN/ CNIC is not disclosed.
 - b. Withholding tax on import of motor cars and fertilizer by related manufacturers and import of parts by manufacturers proposed to be made adjustable.
 - c. Reduction of the exemption of tax at import stage from 100% to 75% in the case of imports by manufacturers is proposed.
 - d. Fresh insertions in the list of items subjected to 1% and 2% tax at import stage.
 - e. Rate on commission and brokerage proposed to be made uniform.
 - f. Increase in withholding tax rate on stock market transactions proposed.
 - g. Increase in withholding tax rate on cash withdrawals from banks proposed.
12. Minimum tax on turnover on **Murabaha financing** proposed to be withdrawn.
13. **Tax credit for investment in listed shares** proposed to be enhanced from Rs.150,000 to Rs.200,000.
14. **Real Estate Investment Trust** income proposed to be exempt.
15. Minimum tax in the cases of **trading houses** proposed to be suspended

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for first 10 years.

16. Tax exemption to **export of locally developed television programs** proposed.
17. **Presumptive Tax Regime (PTR)**
 - a. PTR proposed to be extended to services.
 - b. PTR proposed to be extended to profit on debt.
 - c. Fixed tax on income from property proposed.
18. Taxation of **carryover trade (COT), (Badla)** in Stock Exchanges - exemption available to Mutual Funds proposed to be withdrawn.
19. Commissioner proposed to be authorized to allow extension of time for **filing periodical statements**.
20. Filing of return by **Non-profit Organizations** proposed to be made mandatory.
21. Scope of **minimum (fixed) tax on retailers** proposed to be extended to all retailers having turnover exceeding 5 Million.

SECTION I**BUDGET 2006 – SAUCENT FEATURES****SALES
TAX &
FEDERAL
EXCISE****Relief Measures**

1. **Withdrawal of excise duty and exemption from sales tax**
 - a. Proposal for withdrawing excise duty on travel by train.
 - b. Sales tax exemption on aircrafts of all types.
2. **Zero-rating of sales tax**
 - a. On dairy products and certain stationery items.
 - b. Import and supply of trucks and dumpers of GVW. of 5 tonnes and above.
 - c. On Compost (Non-chemical fertilizer)
3. **Single stage tax**
 - a. Levying upfront single stage sales tax on 30% value addition on import of pesticides.
 - b. Levying single stage tax @ 3% for retailers having annual turnover of more than 5 million rupees per annum
4. **Others**
 - a. Abolishing the condition of depositing 15% of the principal amount at the time of filing appeal under the Sales Tax law.
 - b. Commercial importers to file sales tax return on quarterly basis.

Revenue Measures

1. **Increase in rates**
 - a. Enhancing the rate of excise duty from 3% to 5% on Insurance Service.
 - b. Increasing retail price of cigarettes by 7%.
2. **Broadening in scope of incidence**
 - a. Inclusion of financial & operating leases in the definition of supply.
 - b. Withdrawing exemption of sales tax on computer hardware.
 - c. Levying 15% excise duty on international air travel.
 - d. Levy of excise duty @ 5% on non-fund services provided by financial services sector.
 - e. Levying 5% excise duty on commission and brokerage of foreign exchange dealers, exchange companies and money changers.
 - f. Levying 5% excise duty on 'franchise' services.
 - g. Cable TV operators to pay Rs.25/- per connection per month as excise duty.
 - h. Broadening the scope of Third Schedule to the Sales Tax Act, 1990. The items being included are snacks including potato chips, shoe polish/ creams, spices, bulbs and tube lights.
3. **Others**
 - a. Excise duty on lubricating oil to be levied on retail price.
 - b. Explicitly identifying telecommunication services in the First Schedule to the Excise Act.

SECTION I**BUDGET 2006 – SAUCENT FEATURES****Procedural Changes**

1. Introducing a consolidated return for sales tax and excise and prescribing annual return for corporate sector.
2. Introducing the concept of electronic filing of return and other documents through e-intermediaries.
3. Refund Rules - The new rules envisage minimum documentation, simplified procedures based on automated risk based processing, centralized disbursement and online payment of refund, provision for online submission of refund claims thereby minimizing taxpayer interface and no manual scrutiny in respect of verifiable inputs.
4. Simplifying and expediting the processing of sales tax refunds through authorized Chartered Accountants.
5. Clarifying the scope of plant, machinery and equipment for sales tax zero-rating.

Measures for Improvement in Tax Compliance.

1. Proposal for incorporating the enabling provisions in the Federal Excise Act, 2005 to monitor production through CCTV and technical experts.
2. Proposal for adopting legal provisions in the Sales Tax law to introduce the concept of joint and several liabilities of all partners in the supply chain.
3. It is proposed that input tax credit/ refund be disallowed in case the tax is not deposited.
4. Proposal for prescription of a time limit of ninety days for filing of revised return, which would now be done with the prior approval of the concerned Collector.
5. Imposing higher penalties for repeated offences.
6. Proposal for inclusion of double-entry accounts in the list of records maintained by a registered person, which would now also be subjected to sales tax audit.
7. Requiring the Cigarette manufacturers to print their name on the cigarette packets.

Miscellaneous Legal & Procedural Changes

1. It is proposed that searches would now only be made only after obtaining a search warrant from the Magistrate.
2. Amending section 10 of the Sales Tax Act, 1990 to cover cases where the input tax exceeds output tax.
3. Amending section 26 of the Sales Tax Act, 1990 to give coverage to e-filing.
4. Providing the powers to the Board to fix the value of imported goods for sales tax purposes.

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SECTION 2

INCOME TAX

1. SALARY

Methodological Simplification The implicit technicalities are proposed to be simplified by bringing in conceptual changes in the salary taxation framework by changing the related rules as per Income Tax Rules, 2002.

Now the gross amount of salary has to taken into account in addition to consideration of conveyance and accommodation perquisites.

Prominent features include:

- a. Full amount of all **cash allowances** made taxable unless specifically exempted under the Second Schedule to the Income Tax Ordinance, 2001.
- b. Introduction of the concept of implied cost in case of **accommodation** that would have been otherwise incurred if the employee would have been granted house rent allowance.
- c. **Motor vehicle**

<i>Usage</i>	<i>Taxable Amount</i>
i. Partly for personal and partly for private purpose	5% of the cost of motor vehicle to the employer for acquiring motor vehicle.
ii. For personal use only	10% of the cost of motor vehicle to the employer for acquiring motor vehicle.
- d. Abolishment of the discriminating **threshold of Rs. 600,000** for taxability of perquisites.
- e. Applicability of straight rates at the taxable amount method instead of the conventional amount plus applicable percentage approach.

Basic Exemption Threshold To give effect to the concept of grossing-up of salary for the purpose of taxability, the basic exemption threshold is proposed to be raised to Rs. 150,000 as against the existing amount of Rs. 100,000.

Exemptions Withdrawn In line with the proposed conceptual changes, exemptions related to **house rent, utilities, and conveyance allowance** are intended to be withdrawn.

The effect of the above, together with the proposal for removal of limit on allowances and perquisites, will be that the burden of excessive allowances will be shifted to the employees from the shoulders of the employers.

Senior Citizens The age bracket for availability of reduction in tax for senior citizens is proposed to be reduced from existing threshold of 65 years to 60 years.

Women Taxpayers The bill proposes to re-adopt the previous methodology of additional tax relief to women taxpayers.

Basic exemption limit proposed to be adopted at Rs. 200,000/- for salaried cases as against the normal of Rs. 150,000.

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Availability of Benefits under Voluntary Pension Rules, 2005

The bill proposes to extend the eligibility criteria for benefits under Voluntary Pension Rules, 2005 to persons who are already availing benefits under any other approved employment benefit schemes. This eligibility would, however, be conditional to being a Pakistani individual who holds a valid NTN.

Tax Rates

Taxable Income (Rupees)		Rate of Tax (%)
From	To	
Up to 150,000		N/A
150,001	200,000	0.25
200,001	250,000	0.50
250,001	300,000	0.75
300,001	350,000	1.50
350,001	400,000	2.50
400,001	500,000	3.50
500,001	600,000	4.50
600,001	700,000	6.00
700,001	850,000	7.50
850,001	950,000	9.00
950,001	1,050,000	10.00
1,050,001	1,200,000	11.00
1,200,001	1,500,000	12.50
1,500,001	1,700,000	14.00
1,700,001	2,000,000	15.00
2,000,001	3,150,000	16.00
3,150,001	3,700,000	17.50
3,700,001	4,450,000	18.50
4,450,001	8,400,000	19.00
Above 8,400,000		20.00

2. BUSINESS INCOME

Removal of Limit on Perquisites to Employees

The bill seeks to withdraw the existing limit of 50% of salary on perquisites paid to employees.

With related changes in provisions for taxing salaries, the above is expected to shift the burden of excess perks from the employers to the burden of employees who receive the same against the customary formula of allowances and perks restricted at 1/3rd of gross salary.

Depreciation on Machinery & Equipment Manufacturing IT Products

It appears that the bill seeks to include an incentive for the small-sized IT hardware manufacturing industry, which generally is not based on technology transfer but assembling imported hardware components and often selling the same under their own names/brands.

The amendment will enhance the normal depreciation rate on such machinery and equipment from prevailing rate of 15% to the proposed 30%.

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Tax rates for non-salaried individuals and AOPs

The bill proposes to adopt the following rates for individuals and association of persons not in a legal binding to convert to or adopt corporate status:

<i>Taxable Income (Rupees)</i>		<i>Rate of Tax (%)</i>
<i>From</i>	<i>To</i>	
Up to 100,000		N/A
100,001	110,000	0.50
110,001	125,000	1.00
125,001	150,000	2.00
150,001	175,000	3.00
175,001	200,000	4.00
200,001	300,000	5.00
300,001	400,000	7.50
400,001	500,000	10.00
500,001	600,000	12.50
600,001	800,000	15.00
800,001	1,000,000	17.50
1,000,001	1,300,000	21.00
Above 1,300,000		25.00

Basic exemption limit proposed to be adopted at Rs. 125,000/- for

Tax Rates for companies

Scheme for reduction of tax rates introduced during 2002, proposed to continue. Accordingly the inconsistent corporate tax rates will be evened-out during the tax year 2007.

<i>Tax Year</i>	<i>Rate of Tax</i>		
	<i>Banking Companies</i>	<i>Other Listed Companies</i>	<i>Private Companies</i>
2006	38%	35%	37%
2007	35%	35%	35%

Permanent Establishment (PE)

The Bill seeks to modify the definition of PE of a non-resident to restrict the scope of the term "place of business" in the definition of PE to "fixed place of business".

Payments through Non-Banking Channel

With an effort to clarify the ambit of banking channels approved for admissibility of payments, the following have been included under the admissibility criteria:

- pay-orders;
- other crossed banking instruments; and
- online transfers;
- transactions through credit cards verifiable through banks accounts of payer and payee.

Moreover, the existing cash payment limit of Rs. 10,000 on utility bills, freight charges, travel fare, postage, and payment of taxes, duties, fee, fines or any other statutory obligation has been removed.

Residential Status of Individuals

The present aggregate period of 182 days for residential status is proposed to be increased to 183 days.

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Import of Cars and Fertilizers The finance bill seeks to exclude the imports of cars in CBU condition and fertilizers by their respective manufacturers from the ambit of final tax regime.

This brings the said activities out of the ambit of Presumptive Tax Regime and, accordingly, the tax paid at import stage by these manufacturers will be adjustable from the tax liabilities based on normal provision of the Ordinance.

Real Estate Investment Trust (REIT) Based on the increasing trend and drive in local investment activity towards the real estate, and pursuant to the promulgation of Real Estate Investment Trust Rules, 2006 for managing cumulative investment schemes in this sector, it is proposed to allow certain related relaxations, which include:

- a. REITs will be exempt from incidence of taxation if it distributes 90% or more of its income for the year; and
- b. REITs will be immune from minimum tax levy and deduction of tax from profit on debt and brokerage & commission.

3. PRESUMPTIVE (FINAL) TAX

Services Rendered by Resident persons Services of all types brought under the presumptive tax regime. Hence the tax deducted at increased rate of 6% as against the existing general rate of 5% from collections will be the final tax in the hands of the service providers.

A noticeable increase in case of transport service providers operating premises-bound specialized vehicles whose income are not under final tax with reference to the vehicle capacity will face a significant increase in tax burden from existing rate of 2% to the proposed 6%.

Payments for Certain Services by Exporters Payments by exporters against availing services on account of stitching, dyeing, printing, embroidery, washing, sizing and weaving brought under the Presumptive Tax Regime (PTR) with respective rates as applicable to exports.

Profit on Debt received by Residents While adopting a uniform rate of 10% for deduction of tax on profit on debt, it is proposed to bring the profit on debt received by resident taxpayers under the ambit of PTR.

Commission of Indenting Agents Tax deducted at the time of realization of foreign exchange proceeds on account of the commission due to an indenting commission agent proposed to be brought under PTR.

Brokerage & Commission of Non-residents Tax deducted on brokerage and commission proposed to be brought under PTR being in line with the treatment currently applicable to residents.

Retailers The single stage tax of 3%, including 1% being discharge of income tax liability, made applicable to all retailers irrespective of the nature of articles they deal-in. The turnover limit of Rs. 5 Million is however proposed to remain unchanged.

Income from property The overall changes proposed to be brought to the provisions for taxation of income from property are structured to bring this head under the fixed/ final tax regime.

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Significant changes include:

- a. The conventions of computation of income from property liable to tax after deduction of certain expenses to be omitted.
- b. Omission of the threshold of Rs. 300,000 for deduction of withholding tax.
- c. It is inferred that in case where the rent has not suffered tax deduction, tax has to be paid along with statement of final tax under section 115 at 5%.

4. WITHHOLDING TAX

Withholding Tax for not Disclosing NTN and CNIC Number

The bill seeks to propose the applicability of 2% higher withholding rates than those applicable to normal rates for deductions from payments for *supply of goods and rendering of services*.

Cash Withdrawals

While increasing the rate of deduction of withholding tax from 0.1% to 0.2%, the bill seeks to substitute the existing provision of law so that the deduction will be attracted where cash withdrawal singly or collectively increase Rs. 25,000 in a day.

5. RETURN OF INCOME

Filing of return of income proposed to be made compulsory for Non-profit Organizations and Approved Welfare Institutions.

6. ESTIMATION OF ADVANCE TAX IN CASE OF COMPANIES

Although there was a mechanism in case of companies which are tax payable lower than that of the latest tax year, the statute did not require any additional payment in case where the estimate involved a comparatively higher tax payout.

The Bill now proposes to recognize the effect of comparatively higher tax estimates, requiring companies to furnish estimate to the Commissioner by the due date of payment of the last installment and pay the excess and pay the excess amount after adjusting the installments paid.

7. REDUCTION IN LIMIT FROM PAYMENT OF TAX ON IMPORTS - In Case of Manufacturers

Presently, the Commissioner is empowered to relax the collection of tax on imports by manufacturers for its own use up to an extent of 100% of the amount of tax.

It is proposed that the above powers be restricted up to an extent of 75%.

8. REVISION BY REGIONAL COMMISSIONER - In Case of Exemption or Lower Rate Certificate

A new section (122B) is proposed to be inserted that empowers the Regional Commissioner to open the proceedings of cases on

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which orders have been passed by his subordinate authorities related to issuance of exemption certificates and lower rate certificates.

The RCIT can exercise this authority either on his own motion or based on an application made by the taxpayer in this regard.

9. ALTERNATIVE DISPUTE RESOLUTION (ADR)

Previously, a taxpayer could have applied to the CBR for recourse to ADR on matters related to pertaining to liability of income tax, admissibility of refund, waiver or fixation of penalty or fine, relaxation of any time period or procedural and technical condition.

It appears that the bill now not only intends to restrict the scope of matters to the tune of appeal-able issues but also to impose a condition that the matter should already be under the appeal process before an Appellate Authority.

10. EXEMPTIONS FROM TOTAL INCOME

Inclusions	Income of a Real Estate Investment Trust if it distributes 90% or more of its annual income among unit-holders. Tax holiday for Oil-fired Power Plants set-up after July 1, 2006. Export of locally produced television programs .
Extensions	Tax holiday period of Venture Capital Companies and Venture Capital Funds extended up to June 2014. Extension in the period up to June 2007 for taxability of income derived by an individual from transfer of membership rights or shares of a stock exchange in Pakistan to a company.
Deletions/ Withdrawals	Income of Mutual Funds and Investment Companies attributable to mark-up on investment in COT (Badla) transactions on stock exchanges being subjected to tax. Withdrawal of exemption on utility allowance , which was available up to 10% of basic salary.

11. REDUCTION IN TAX RATES

Inclusions	Numerous items have been included in clause 13G of Part II of the Second Schedule, on which 1% tax at import stage will be collected. Significant items include <i>certain capital goods, cement, mobile telephones, sugar, wheat, dump trucks, certain equipment related call centers</i> , etc. It appears that previously total exemption from the provisions of tax at import stage were available to almost all of the specified items. 2% tax at import stage proposed for raw material for steel industry, raw material for manufacturer of poultry feed and stationery items. Tax rates for services on account of sizing and weaving availed by exporters linked with rates applicable to exports.
Deletions/ Withdrawals	Income of O&M Contractors from maintenance of private sector

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power projects and transmission line projects, presently taxable at 5%, withdrawn.

12. EXEMPTION FROM SPECIFIC PROVISIONS

Inclusions

Exemption from applicability of minimum tax granted to:

- a. Real Estate Investment Trust and Murahaba Banks & approved Financial Institutions in respect of turnover from Murahaba arrangements.
- b. Companies operating trading houses have been granted exemption from minimum tax for a period of ten years from the year of commencement of business. However, only those companies fulfilling all of the following conditions will be eligible for this exemption:
 - i. paid up capital of exceeding Rs.250 million;
 - ii. own fixed assets exceeding Rs.300 million at the close of the Tax Year;
 - iii. maintain computerized records of imports and sales of goods
 - iv. maintain a system for issuance of 100% cash receipts on sales;
 - v. present accounts for tax audit every year; and
 - vi. is registered with Sales Tax Department.

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13. APPLICABLE RATES FOR WITHHOLDING/ ADVANCE/ FINAL TAX

	Nature of Payment	Tax Rate	Advance Tax/ Final Tax	
Cases of Residents	Dividend paid to: <input type="checkbox"/> Resident companies <input type="checkbox"/> Other persons	5% 10%	Advance Tax Final Tax for individuals	
	Imports <input type="checkbox"/> Specified Items <input type="checkbox"/> Other items (Normal rate)	1% & 2% 6%	Advance Tax for Manufacturers	
	Profit on debt paid to: <input type="checkbox"/> Individuals <input type="checkbox"/> Companies and AOPs	10% 10%	Final Tax Advance Tax	
	Payments for goods other than imported goods in the case of: <input type="checkbox"/> sale of rice, cotton, cotton seed or edible oils <input type="checkbox"/> sale of any other goods	1.5% 3.5%	Advance Tax for Manufacturers	
	Payments for services	6%	Final Tax	
	Payment on account of execution of contract	6%	Final Tax	
	Exports	0.75% to 1.50%	Final Tax	
	Indenting commission	5%	Final Tax	
	Rental of property income	5%	Final Tax	
	Prizes and winnings: <input type="checkbox"/> Prize on prize bonds <input type="checkbox"/> Winnings from a raffle, lottery, prize on winning a quiz, cross-word puzzle or prizes related to companies' sales promotion schemes	10% 20%	Final Tax	
	Brokerage and commission	10%	Final Tax	
	Tax on vehicles (to be collected with motor vehicle tax)	Various rates	Final Tax in case of Commercial Vehicles	
	Electricity & telephone bills	Various rates	Advance Tax	
	Mobile phone bills and prepaid telephone cards	10%	Advance Tax	
	Cash Withdrawal from a bank above exceeding cumulative sum of Rs.25,000	0.2%	Advance Tax	
	Cases of Non-residents	Salary, supply of goods and services, income from property and prizes and winnings	Same as residents	Final Tax
		Profit on debt	30%	Advance Tax
		Dividends paid by: - a company which purchases a power project privatized by WAPDA, OR which is exclusively engaged in mining operations other than petroleum, OR which is engaged in power generation projects - other cases	7.5% 10%	Final Tax
Contracts		6%	Advance Tax (With Option for PTR)	
Royalty or fee for technical services		15%	Final Tax	
Shipping income of non-residents		8%	Final Tax	
Air transport income of non-residents		3%	Final Tax	
Any other receipts		30%	Advance Tax	

SECTION 3**SALES TAX & FEDERAL EXCISE**

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SECTION 3

SALES TAX & FEDERAL EXCISE

1. SALES TAX ACT

Sales tax account

The Bill seeks to include double-entry system accounts in the list of records maintained by a registered person, which would now also be subjected to sales tax audit and, accordingly, defines this as an account representing the double entry recording of sales tax transactions in the books of account.

Supply and value of supply

The Bills seeks to bring finance and operating lease under the scope and meaning of **supply**, which would result in increasing the financial burden in case of lease arrangements adding yet another nail to the coffin of already crumbling leasing sector.

It is sought to empower the CBR to fix **value of imported goods** in addition to the existing powers to fix value of taxable supplies. However, in case the value of import is higher by that fixed by the CBR, the value to be considered will be the import value.

Tax credit

The Bill seeks to extend the scope of inadmissibility of input tax credit by including the goods in respect of which sales tax has not been deposited by the respective supplier.

Liability of registered persons in supply chain where tax unpaid

A new section (8A) is proposed to be introduced which stipulates that where a registered person receiving a taxable supply from another registered person knows or suspects that some or all of the tax payable in respect of that all such supplies would go unpaid, the buyer and the supplier shall be jointly and severally liable for payment of the unpaid tax.

Refunds

A deletion for processing of refunds within 30 days, which was restricted to zero-rated supplies only is sought to be made enabling efficient process for cases of other refund claims falling under section 10 of the Act.

Short-paid amounts recoverable without notice

The Bill seeks to institute additional measures for recoverability of short payments of sales tax and default surcharge of tax without notice by way of:

- a. stopping removal of any goods from his business premises; &
- b. attachment of his business bank accounts.

Returns

Amendments proposed include the submission of quarterly and annual returns, e.g. being made applicable in the case of importers vide revised Special Procedure Rules.

It is also sought to include necessary enabling provisions related to electronic filing and for determining eligibility of the data of such returns and e-intermediaries.

A time limit of ninety days and requirement of approval of the Collector of Sales Tax is also proposed to be introduced for filing revised returns.

Special audit of refunds

Provision extending the powers CBR to appoint Chartered Accountants' firms to conduct audit of refund claims is sought to be included.

Search without warrant

The Bill seeks to withdraw the existing powers of sales tax authorities to search premises without recourse to warrants in certain conditions.

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Appeals	The existing requirement of payment of 15% of the tax amount at the time of preferring an appeal before Collector of Sales Tax and balance within six months in certain cases is sought to be withdrawn.
Exemptions	<p>List of exempt items being covered under the ambit of Sixth Schedule:</p> <p>Inclusions The existing exemption in case of aircrafts was restricted for larger aircrafts with weight of above 8,000 Kg. the bill seeks to withdraw this limit and make the exemption unconditional as to aircraft weight.</p> <p>Withdrawals Dairy products covered under serial numbers 4 to 10 are proposed to be omitted and milk, yogurt, cheese, flavored milk, pencils & pens and Trucks & dumpers with g.v.w. exceeding 5 tonnes are being zero-rated.</p> <p>Exemption available to computer hardware is being withdrawn; thereby bringing the same under the normal rate of 15%.</p>
Third schedule	<p>Goods subject to sales tax on the basis of retail price printed on packing:</p> <p>Inclusions a. Toilet paper and tissue paper; b. Spices sold in retail packing bearing brand names and trade marks; c. Electric bulbs including energy saving lamps and fluorescent tube lights; d. Snacks including potato chips sold in retail packing; and e. Shoe polish & shoe cream.</p> <p>Withdrawals Foot-wears</p>

2. RULES

Sales Tax Rules, 2006

Sales Tax Rules, 2006 to suppress Sales Tax Rules, 2005. Prominent feature include the requirement of filing of annual sales tax return. Chapter index with significant issues as per the Rules follow:

Chapter I

Registration, compulsory registration and de-registration

Registration compulsory for:

- | | |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. <u>Retailer</u> : | If value of supplies, in any period during the last 12 months exceeds Rs. 5Million. |
| b. <u>Importer</u> : | Unconditional. |
| c. <u>Wholesaler</u> : | Including dealer and distributor - Unconditional |
| d. <u>Other person</u> : | If required, under any other law, to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Act. |

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SALES TAX & FEDERAL EXCISE

Chapter II

Filing of returns

- a. Separate return is required to be filed separately in respect of Third Schedule items.
- b. Corporate registered persons required to file returns on annually by 30th of next September in addition to routine returns.
- c. Mandatory requirement for corporate and LTU-based registered persons to file returns electronically.
- d. Non-corporate registered persons may also opt for electronic filing of sales tax return.

Chapter III

Credit and debit note and destruction of goods

Event	Debit Note	Credit Note
	<i>Authority to Issue</i>	
Whole/ part cancellation or return of supply	<i>Buyer</i>	
Cancellation or return of supply to un-registered persons		<i>Supplier</i>
Increase in value of supply or amount of sales tax	<i>Supplier</i>	
Decrease in value of supply or the amount of sales tax		<i>Supplier</i>

Chapter IV

Apportionment of input tax

Input tax paid on raw materials relating wholly to the taxable supplies is admissible, while that relating wholly to exempt supplies is inadmissible. Formula for apportionment of input tax incurred for making both exempt and taxable supplies:

$$\begin{array}{ccc}
 \text{Admissible amount of tax} & \text{EQUALS} & \frac{\text{Value of taxable supplies}}{\text{Value of taxable supplies PLUS Value of exempt supplies}} \times \text{Input tax related to both exempt \& taxable supplies} \\
 & & \text{DIVIDE BY} \\
 & & \text{MULTIPLY BY}
 \end{array}$$

Chapter V

Refund

Covers the following cases related to:

- a. Export of goods.
- b. Zero-rated supplies.
- c. Refund of the excess input tax which could not be consumed/ adjusted within 3 months.
- d. Refunds under section 66 of the Act.

Export of goods (a) & Zero-rated supplies (b)

Filing of return to be treated as application for refund if either of the following is filed along-with the supportive documents within 60 days (extendable to another 30 days) of the return:

- a. data in the prescribed format; or
- b. data in the software (RCPS).

Refunds shall be restricted to the extent of the input tax paid on purchases or imports that are actually:

- a. consumed in the manufacture of goods which have been exported; or
- b. supplied at zero percent rate.

Cases where excess input tax could not be consumed/ adjusted within 3 months (c) Refunds under section 66 of the Act (d)

The claims applications will be processed on automated analysis system (RRAS).

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- Chapter VI** Special audit
Covers special audit of the records, tax invoices and monthly returns of a registered persons falling under sections 22, 23 and 26 of the Act.
The scope of the special audit shall be the expression of professional opinion with respect to the following:
- a. whether the records have been maintained, issued or furnished correctly; and
 - b. whether the monthly returns furnished correctly reflect that:
 - (i) all taxable supplies in the tax period as revealed by the records and tax invoices; and
 - (ii) all input tax, output tax and the net amount of sales tax payable or refundable comply with requirements of the Act and are duly substantiated by prescribed records.
- Chapter VII** Zero-rating of supplies against international tender for Afghan refugees
Requirement for separate maintenance of records for this activity and supply of additional prescribed documents for processing of refunds.
- Chapter VIII** Supply of zero-rated goods to diplomats, diplomatic missions, privileged persons and privileged organizations
- Chapter IX** Taxpayer's authorized representatives
- a. A full-time employee holding any Bachelors degree from HEC recognized university;
 - b. A practicing advocate under the Legal Practitioners and Bar Councils Act, 1973;
 - c. A person holding a Bachelor or Masters degree in Commerce;
 - d. A person retired or resigned after serving in the Sales Tax/ Customs/ Federal Excise Departments for a period of at least 10 years in posts of an Assistant Collector or above;
 - e. An accountant, being a CA, CMA or member of recognized association of accountants.
- Chapter X** Alternative dispute resolution (ADR)
- Chapter XI** Recovery
Related authorities [termed as referring authority(ies) in the Rules] have been vested with the following *progressive remedies* for recovery before issuing a Demand Note to the Recovery Officer for attachment and sale of property:
- a. Deduct the amount from any money owing to the defaulter which may be at the disposal/ control of the related authority.
 - b. Serve prescribed notice to the Sales Tax, Customs, Federal Excise & Income Tax officers to deduct the dues from any money owing to the defaulter which may be under their control.
 - c. Serve written notice to any person or organization who holds, or may subsequently hold, any money for or on account of the defaulter.

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- d. Serve written notice to customs officers to stop clearance of any goods imported by the defaulter.
- e. Attach the bank accounts of the defaulter.
- f. Seal the business premises of the defaulter after lapse of time period as per notice served to defaulter informing him of such an action if dues are not cleared within the given time-frame as per the notice.

However, recourse to attachment as per para "f" may be taken by the authority if the authority is satisfied that the defaulter is likely to conceal/ remove/ dispose-off whole or any part of such of his attachable property.

It is also noticeable that, in case a registered person pays the amount of tax less than the amount as per return, the authority may directly proceed to recover the short-payment by attachment of the bank accounts of the defaulter (para "e") or through stoppage of clearances from the business premises (para "f"), after serving a notice for payment of the short-paid amount in 3 days.

Sales Tax Special Procedures Rules, 2006

Sales Tax Special Procedures Rules, 2006 to suppress Sales Tax Rules Special Procedures, 2005. Chapter index and related highlights are as under:

Chapter I [Special procedure for filing of nil returns](#)

Nil returns may also be filed in related Collectorates.

Chapter II [Special procedure for payment of sales tax by commercial importers.](#)

The chapter applies to registered persons who import goods for supply in the same state.

Minimum value additions

<i>Activity</i>	<i>Value Addition</i>
On import of goods other than Third Schedule items	10%
On import of Third Schedule items	15%
Locally manufactured goods, excluding goods for which value-addition is fixed by any other SRO	5%

Serially-numbered invoices are required to be issued for each supply in addition to maintenance of other records under section 22 of the Act.

Offsetting of higher and lower value additions is not allowed and the effect of higher value additions is required to be paid along with return with no option in any case for a refund.

Returns to be filed on quarterly basis by the 15th day of succeeding month.

Details of imports and supplies made to registered persons to be filed through prescribed **quarterly statements** by the 15th day of succeeding month.

A prescribed **annual statement** is also required to be filed (by the 15th day of the month following the last quarter).

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Cases of commercial importers will be subjected to evaluations as to compliances under these Rules and will be subject to **audit** on the ground of determined non-compliances.

Chapter III

Special procedure for payment of sales tax by retailers

Single stage tax at 3% of the value of taxable supplies is required to be charged and collected by retailers.

The **single stage tax comprises sales tax at 2%** and **income tax at 1%** and represents the final discharge of both the liabilities by retailers not being companies. This 1% will be treated as advance tax in corporate cases.

Returns are required to be filed along with payment of the single stage tax on monthly basis by 15th day of the following month.

Issuance of **serially numbered invoices or cash-memos for each supply** is a must. There is a choice for generating invoices or cash-memos manually or through Fiscal Electronic Cash Register (FECR).

Chapter IV

Special procedure for payment of sales tax by wholesale-cum-retail outlets

Applicability restricted to *chains of wholesale-cum-retail outlets*, engaged in *bulk import of consumer goods and wholesale supply of the same*:

- a. to the retailers; and/ or
- b. on retail basis to the general body of consumers.

The requisite arrangement for installation and use of Fiscal Electronic Cash Register (FECR) is a must for **registration** as wholesale-cum-retailers.

These cases will be covered under the ambit of normal procedures of the Act for **determination of tax liability** and disallowances of **input tax credit** other than related to cash received against supplies made.

Returns are required to be submitted on monthly basis up to 15th day of the next month.

Serially numbered sales tax invoice or bill required to be generated *through and only through FECR*, indicating the description of goods supplied along with value and sales tax chargeable thereon.

In addition to maintain **records** prescribed under section 22 of the Act electronically, maintenance of a record of daily transactions at the end of each business day is also a requisite.

Chapter V

Special procedure for payment of sales tax by Jewellers

Applicability:

- a. jewelers;
- b. goldsmiths and other persons engaged in the manufacture or supply of ornaments whether on ownership basis or on labor or service charges basis; and
- c. persons engaged in the supply of ready-made ornaments.

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The related **registration** thresholds for manufactures and retailers apply to the cases of jewelers; however, a zargar not engaged in the sale of ornaments to the general body of consumers is not required to be registered.

Jewelers are entitled to an **exemption** to the extent of the amount of sales tax as is in excess of the sales tax chargeable on the *differential amount** between sale price of ornaments, excluding the amount of sales tax, and the value of exempt gold or silver used therein, in case of the following two conditions:

- a. the *differential amount** is more than 10% of the sale price excluding the amount of tax; and
- b. labor charges and the price of precious or semi-precious stones and gems, if used, is included in the sale price for the purpose of assessment of tax.

Jeweler are **not entitled to:**

- a. adjustment of any input tax;
- b. or claim any refund of sales tax

Manner of computation of sales tax liability (at 15%):

Jewelers working on labour (making) charges basis	On the amount of labor/ making charges received.
Jewelers making or supplying ornaments wholly or partly from exempt un-worked gold or silver purchased or owned by him	On the <i>differential amount*</i> .

* The *Differential amount* would be calculated as under:

Sale price of ornaments	Rs. XXX
Less: Amount of sales tax	(X)
	XXX
Less: Value of exempt gold or silver used	XX
	Rs. XX

Invoices can be issued on prescribed format either in English or Urdu language, **returns** are required to be filed on monthly basis and certain **mandatory records** are to be kept.

Case of Jewelers will be subjected to **annual audits**; however, the auditors shall not require furnishing of any document or record other than mandatory records.

Jewelers' Associations and **Trade Bodies** shall be responsible to ensure that all members having turnover above the exemption threshold are registered. **Concerned office-bearers** shall be personally responsible if it is found that the turnover of any jeweler certified by him as less than the aforesaid threshold was actually above such threshold.

Chapter VI

Special procedure for collection and payment of sales tax on electric power

Apply to persons dealing in importation, generation, production, transmission, distribution and supply of electric power.

Unconditional and compulsory **registration** for

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related persons.

Rate of tax is 15%, for being covered under section 3(1) of the Act.

Collection and levy:

<i>Case</i>	<i>Responsibility</i>	<i>Value</i>
Importation	Importer	As determined u/s 25 or 25B of the Customs Act, 1969, including the amount of customs-duties and excise duties levied thereon
Generation, transmission, distribution and supply of electric power by public or private sector projects or other persons	Person making the supply	The price of electric power including all charges, surcharges excluding the amount of late payment surcharge, rents, commissions and all duties & taxes, but excluding the amount of sales tax, as per section 2(46) of the Act
Generation, transmission, distribution and supply of electric power by IPP, HUBCO or KAPCO	Person making the supply (i.e. IPP, HUBCO or KAPCO, as the case be)	The amount received by such IPP, HUBCO or KAPCO, on account of Energy Purchase Price only*

* i.e. amount in excess of Energy Purchase Price received on account of Capacity Purchase Price, Energy Price Premium, Excess Bonus, Supplemental Charges, etc., shall not be deemed as a component of the value of supply.

Disputes: In case of a dispute, WAPDA/ KESE, as the case may be, shall issue a certificate showing such amount and the tax involved therein and such certificate shall be deemed to be a Credit Note for the IPP for the purposes of section 9 of the Act, and shall be accounted for in the return for the tax period in which such Credit Note is issued.

Filing of returns and deposit of sales tax

<i>Supplier</i>	<i>Basis</i>	<i>Timing</i>
WAPDA & KESC	Delayed (Accrual)	21st day of the month following the month in which the electric bill/ invoice has been raised
IPP	Normal	25th day of the month following the month to which the sales tax invoice relates
Others	Normal	15 th day of the month following the tax period (month)

Chapter VII

Special procedure for collection and payment of sales tax on natural gas

Sales Tax is **chargeable and collectable at 15%** on Natural Gas including Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) imported, produced, transmitted and supplied by gas well-head companies and gas transmission and distribution companies licensed under the Natural Gas Rules, 1960, including their distributors, dealers, sales agents, retailers or by any other persons and dealing in importation, production or distribution and supply of Natural

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Gas including Compressed Natural Gas and Liquefied Petroleum Gas.

Returns are required to be filed on monthly basis by the 15th day of the month following the month in which the gas has been supplied.

However, in case of gas supplied by gas companies to its consumers directly, and charges are billed on a monthly basis, the date shall be the 15th day of the second month following the month in which supplies were made.

Chapter VIII [Special procedure for supply of sugar to Trading Corporation of Pakistan \(TCP\)](#)

Chapter IX [Special procedure for payment of sales tax on supply of food](#)

Applies to collection and payment of sales tax on food, drinks, and other eatables supplied by hotels, restaurants, clubs, caterers, parlors, kitchens and other such similar establishments (persons), whether for consumption inside the premises of such establishments or for supply for outside consumption including consumption in the canteens and messes, etc.

Cases where total annual turnover from the supply of food exceeds five million rupees during the last twelve months are **required to be registered**.

The **charge of sales tax** will be 15% irrespective of the fact that the food is consumed in that premises or supplied or catered outside or supplied as 'take-aways'.

Calculation of sales tax

Amount of Sales Tax	EQUALS	Total value of supply as per Menu Card or Price List	MULTIPLY BY	15
		DIVIDE BY		
		115		

Claim of input tax, subject to normal in-admissibilities, is allowable, i.e. input tax paid is deductible from output tax to be deposited along with return to be submitted up to 15th day of next month.

Serially numbered **invoices/ cash memos** have to be issued which should only indicate the amount as per menu card/ price list and need not to identify the amount of sale tax separately. Invoice/ bill numbers need to be re-numbered annually

FECR/ Computer may also be used for billing, in which case records are required to be kept electronically.

In addition of routine records under section 22 of the Act, a **record of Daily Gross Take (DGT)** showing zero-rated or exempt supplies separately.

Chapter X [Special procedure for persons providing or rendering services subject to sales tax under the provincial laws.](#)

General

Requirement for registration - There is no monetary threshold related to turnover.

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Rate of sales tax is 15%, which has to be deposited along with monthly return up to the 15th day of next month.

Input sales tax on all taxable inputs other mobile phone bills can be deducted from output tax for *determining sales tax liability*.

All *records* under section 22 of the Act are required to be maintained and serially numbered *invoices* are required to be issued.

Scope - Four categories of services fall under the ambit of these rules, being covered under the following four parts:

- Part One* Advertisements on television and radio
- Part Two* Customs agents and ship-chandlers
- Part Three* Services provided by stevedores
- Part Four* Courier services

Chapter XI [Special procedure for payment of sales tax by steel-melters and re-rollers](#)

Chapter XII [Special procedure for the ship-breaking industry](#)

Chapter XIII [Special procedure for zero-rating of hand-knotted carpets](#)

Chapter XIV [Special procedure for collection and payment of sales tax by the advertising agencies](#)

Applicable to

- a. advertising agencies being a member of Pakistan Advertising Association (PAA) who supply or supervise the supply of printed material to their clients; and
- b. registered printers who supply printed material through advertising agencies.

Sales tax is required to be charged on the total value of printed and promotional material inclusive of commission in case printing job is got done by an un-registered printer/ vendor.

Sales tax is to be applied at 15% and returns are required to be filed on monthly basis (15th day of next month).

PAA has been made responsible to ensure that all advertisers engaged in the aforesaid business are registered and paying sales tax in the prescribed manner, and in case of non-compliance by any advertising agency, PAA shall actively assist the concerned Collectorate for enforcement and recovery of sales tax due along with default surcharge.

Chapter XV [Special procedure for collection and payment of sales tax from the oil marketing companies \(sharing of product\)](#)

Chapter XVI [Special procedure for issuance of electronic sales tax invoices between buyers and sellers](#)

Prior written approval from the concerned Collector is required for opting for adoption the electronic invoice issuing system.

Contents of should conform to the information required under section 23 of the Act.

Authenticity of the origin and integrity of the

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invoice data should be guaranteed by means of:

- a. an advanced electronic signature;
- b. electronic data interchange (EDI); or
- c. any other means as approved by the Collector.

Simultaneous **transmission** of a copy of electronically issued invoices is required to be made to the Collector.

Controls over transmission of electronic invoices and electronic storage include:

- a. secure environment, using industry-accepted security technologies;
- b. During the transfer of invoice data between the supplier and the buyer, the registered person shall ensure:
 - i. completeness and accuracy;
 - ii. timeliness of processing;
 - iii. security measures for authenticity and integrity of data; and
 - iv. prevention of duplication of processing by the recipient;
- c. maintenance of a back-up data;
- d. ensuring data authenticity & integrity during and after application processing
- e. usage of all electronic or procedural means to prevent loss and corruption of data during the storage; and
- f. ensuring audit trail for departmental audits.

Storage of hardcopies of electronic invoices received can be made by buyers only after obtaining approval from Collector of Sales Tax.

Chapter XVII

Special procedure for payment of sales tax by manufacturers of biscuits and confectionery

Applies to the manufacturers of biscuits and confectionery who are required to pay sales tax on printed retail price.

Requirement to collect sales tax at 15% on the basis of a value addition of 12% on ex-factory price in addition to the sales tax payable inclusive in the ex-factory price.

Liability to pay sales tax is worked out by deducting claimable input taxes.

The sales tax inclusive **retail price shall be mentioned on each distinct unit of supply.**

The manufacturer cannot have the retail price printed, shall declare to the Collector of Sales Tax the retail price along with the reasons or justification for not printing the retail price.

All **records** prescribed under section 22 of the Act are required to be maintained.

Chapter XVIII

Special procedure for collection and payment of sales tax on vehicles

Applies to:

- a. manufacturers who are engaged in the assembly or manufacture of vehicles for the purpose of supply;
- b. importers who import vehicles in CBU condition for further supply thereof;
- c. dealers in or of:
 - i. new locally manufactured vehicles; and
 - ii. all types of imported vehicles, whether new or old or used.

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Registration is mandatory for every manufacturer, importer and dealer of vehicles.

Manufacturers and importers are required to **declare full particulars of their dealers** mentioning rates of commission payable to dealers for each category, make and model of vehicle. Changes in rates should be communicated within seven days.

The CBR will prescribe a date where-after no vehicles shall be supplied unless **vehicle identification number (VIN)** chip has been affixed to the vehicle.

Booking of vehicles*, other than through a dealer shall not be effected unless the following particulars are clearly mentioned in the relevant booking documents:

- a. particulars of the dealer; and
- b. particulars of concerned buyer.

* Requirement not applicable in case of vehicles imported under Personal Baggage, Transfer of Residence or Gift Scheme.

Supply and invoicing

For supplies to dealers, invoices (consolidated or item-based) should be issued in the name of the dealer and the dealer will issue sales tax invoice in the name of the consumer.

For direct supplies to consumers, sales tax invoice shall be issued in the name of consumers.

For supplies through dealers with invoicing directly to customers, the dealer shall issue a delivery advice-cum-invoice to consumers in the prescribed format along with the invoice issued by the manufacturer or importer.

The manufacturers shall be entitled to **input tax adjustment** against their output tax liability based on routine conditions of the Act.

Dealers are required to pay sales tax on:

- a. Amounts received over and above the amount of commission from manufacturers and importers.
- b. Tax shall also be payable on amounts over and above the said commission in case of non-cash vehicles exchanges between dealers.

Filing of returns and payment of sales tax is required to be made by manufacturers, importers and dealers is required to be made by the 15th day of the following month.

Statements to be furnished by the manufacturers or importers include:

- a. a dealer-wise consolidated statement on the prescribed form by 20th of each month;
- b. a monthly consolidated statement indicating the number & value of vehicles sold directly to the consumers and the amount of sales tax paid thereon.

Records to be maintained by manufacturers, importers and dealers include record of all purchases, sales tax invoices including import documents and routine records as required to be maintained under section 22 of the Act.

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Chapter XIX	Special procedure for processing of refund claims filed by the persons engaged in making zero-rated supply of ginned cotton
Chapter XX	Special procedure for accessing the computerized system

3. OTHER SROs PROMULGATED

In addition to rescinding numerous SROs, certain fresh promulgations have been made on June 5, 2006 along with the Bill:

<i>SRO No.</i>	<i>Scope/Description</i>
537(I)/2006& 538(I)/2006	Zero-rating of supply of natural gas to specified manufacturing units for electricity generation.
543(I)/2006	Manufacturers of specified goods required to submit a special return for Production, Supplies & Purchases on monthly basis.
544(I)/2006	Fixation of value of supply of coal at Rs. 670/MTon
545(I)/2006	Excise duty on imported cigarettes to be levied on the basis of retail price to be printed on packets.
548(I)/2006	Zero-rating of milk, yogurt, cheese, flavored milk, pens & ball-pens, pencils & color pencils and trucks & dumpers with g.v.w. exceeding 5 tons.
549(I)/2006	Inadmissibility of input tax on supply of locally produced coal.
551(I)/2006	Zero-rating of locally produced compost (non-chemical fertilizer)
552(I)/2006	Sales tax exemption on import supply of dried milk without addition of any sweetening matter.
553(I)/2006	Sales tax leviable on supply of imported pesticides to be charged at import stage at 30% fixed value addition in addition to normal sales tax at import.
555(I)/2006	Sales Tax Rules, 2006
560(I)/2006	Sales Tax Special Procedures Rules, 2006

4. SALES TAX GENERAL ORDER 01 OF 2006

Procedure for Payment of Sales Tax Against Advance Receipts Prescribes procedures for payment of sales tax against advances. Significant issues addressed include:

Payment of Tax	Sales tax has to be charged against advance payments received and that it should be declared as output tax in return of related tax period.
Tax Invoices	A serially numbered Advance Payment Receipt (APR) may be issued in prescribed format, while Sales Tax Invoice mentioning the number of APR may be issued at the time of actual delivery of goods, which will not attract tax at this stage.
Adjustment of Advances	In case supply is wholly or partly cancelled in respect of an APR or its value changed, a credit note may be issued and corresponding

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adjustment be made in the output tax as per the monthly sales tax return.

Where tax on advance is deposited the time limit for issuance of credit note as per Rule 22 of Sales Tax Rules will not apply.

5. FEDERAL EXCISE DUTY

Federal Excise General Order 01 of 2006

Printing of Retail Price on Cigarette Packets

Cigarette manufacturers being granted a time period of one month to clear such quantities of packed cigarettes printed with previous retail price and lying un-cleared. Certain conditions have also been imposed regarding the said clearance.

Significant Changes

- a. Withdrawal excise duty on **travel by train**.
- b. Enhancement in the rate of excise duty from 3% to 5% on **Insurance Service**.
- c. Increase retail price of **cigarettes** by 7%.
- d. Levy of 15% excise duty on **international air travel**.
- e. Levy of 5% excise duty on **non-fund services** (e.g. LCs and LGs) **provided by financial services sector**.
- f. Levy of 5% excise duty on **commission and brokerage** of foreign exchange dealers, exchange companies and money changers.
- g. Levying 5% excise duty on **franchise services**.
- h. **Cable TV operators** to pay Rs.25/- per connection per month as excise duty.
- i. Excise duty on **lubricating oil** to be levied on retail price.
- j. Inclusion of **telecommunication services** in the First Schedule to the Excise Act at 15% FE Duty chargeable under VAT mode under section 3 of the Sales Tax Act, 1990.

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6. PENALTIES UNDER THE SALES TAX ACT, 1990

Sec Ref	Contravention or Offence		Penalty	Relaxation/ Exception	
26		Furnish a return within the due date	Rs. 5,000	If return is filed within 15 days of the due date, penalty of Rs. 100/ day of default	
23	Failure to	Issue an invoice when required under this Act.	Higher of Rs. 5,000 or 3% of the amount of tax	None	
73		Make payment in the manner prescribed under section 73 of the Act			
71 & Gen		fulfill any of the conditions, limitations or restrictions prescribed in a Notification issued under any of the provisions of this Act			
Gen	Contravention of any of the provision of the Act for which no penalty has specifically been provided under section 33 of the Act				
3, 7 & 23		Un-authorized issues an invoice in which an amount of tax is specified	Higher of Rs. 10,000 or 5% of the amount of tax	None	
14		Failure to notify the changes of material nature in the particulars of registration of taxable activity.	Rs. 5,000	None	
3, 6, 7 & 48	Failure to deposit the amount of tax due or any part thereof in the time or manner laid down under the Act or rules or orders made there-under.	Payment made within 15 days from the due date	Rs. 500/ day of default	None	
		Payment made within 60 of payment notice	Higher of Rs. 10,000 or 5% of the amount tax	None	
		Tax due remains unpaid even after the expiry of 60 days of issuance of payment notice	Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
7	Erroneous calculation in the return, due to which amount of tax less than the actual tax due is paid	First event during a year	No penalty	- N/A -	
7 & 26		Repetition of error	Higher of Rs. 5,000 or 3% of the amount of tax		
14	Failure to	Apply for registration when it was required	Before making taxable supplies	Higher of Rs. 10,000 or 5% of the amount tax	Further exposure is subject to conviction by a Special Judge
			Within sixty days of the commencement of taxable activity	Further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	
22 & 24		Maintain records required under the Act or the rules made there-under	Higher of Rs. 10,000 or 5% of the amount tax	None	
25	Failure to produce records without any reasonable cause	On receipt of 1 st notice	Rs. 5,000	None	
		On receipt of 2 nd notice	Rs. 10,000		
		On receipt of 3 rd notice	Rs. 50,000		
26		Failure to furnish information required by CBR through a notification under section 26(5)	Rs. 10,000		
2(37) & Gen		Submission of a false or forged document to any officer of sales tax	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
		Destruction, alteration, mutilation or falsification of records including a sales tax invoice			
		Intentional making of false statement/ declaration/ representation/ personification or gives any false information or issuing or using a document which is forged or false			
25, 38 & 38A		Denial/ obstruction in the access to the business premises, registered office or to any other place where records are kept	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
		Refusal of access to the stocks, accounts or records or fails to present the same when required under section 25, 38 or 38A			

Penalties Already Applicable

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6. PENALTIES UNDER THE SALES TAX ACT, 1990

Sec Ref	Contravention or Offence	Penalty	Relaxation/ Exception		
Penalties Already Applicable	2(37)	Committing, causing or attempting to commit tax fraud, or abetting or conniving in commissioning of tax fraud	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 5 years or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
	48	Violation of any embargo placed on removal of goods in connection with recovery of tax	Higher of Rs. 25,000 or 10% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge	
	31 & Gen	Obstructing the authorized officer in the performance of his official duties	Higher of Rs. 25,000 or 100% of the amount of tax	None	
	Gen	Authorized officer of Sales Tax, who acts/ omits/ attempts to act/ omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act	Exposure for imprisonment for a term up to 3 years or with fine up to the amount of tax involved or with both	Exposure is subject to conviction by a Special Judge	
New Penalties Proposed to be Brought vide Finance Bill	26(5)	Failure to submit summary of sale & purchase invoices required under a notification issued under the Act	Rs. 25,000	None	
	Gen	Repetition of an offence for which a penalty is provided under the Act	Twice the amount of related penalty	None	
	50A	Intentional	access or attempt to gain access to the computerized system without lawful authority	Higher of Rs. 25,000 or 100% of the amount of tax PLUS further exposure for imprisonment for a term up to 1 year or with fine up to the amount of tax involved or with both	Further exposure is subject to conviction by a Special Judge
			and dishonest damage or impairment of the computerized system		
	Unauthorized	and dishonest damage or impairment to any duplicate tape/ disc/ other medium on which any information obtained from the computerized system is kept or stored			
		use or disclosure or publish or otherwise dissemination of information obtained from the computerized system			
		use of unique user identifier of any other registered user to authenticate a transmission of information to the computerized system			
	Falsification of any record or information stored in the computerized system				
	Failure to comply with or contravention of any of the conditions prescribed for security of unique user identifier				

Note: Provisio to the newly inserted section 11A clarifies that none of the penalties can be imposed unless a show cause notice is served.