

FINANCE ACT 2021 WITH FBR COMMENTARY

PRESENTATION OF



GCA TEAM

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GLOBAL CAREER IN ACCOUNTANCY

INTENDED USERS

THE TARGET AUDIENCE FOR THIS

GCA BUDGET MEMO IS “ICAP FRATERNITY

INCLUDING STUDENTS & GENERAL PUBLIC”.

ICAP STUDENTS WHO WILL APPEAR IN FOLLOWING

UPCOMING ATTEMPTS CAN USE THIS MEMO:

WINTER-21, SPRING-22, SUMMER-22 & AUTUMN-22 ONLY.

- Effective date of applicability of these changes will be **July 1, 2021** unless otherwise mentioned.
- Nothing contained in this document shall be construed as our advice in general or on a given case, accordingly, for ascertaining any effect of these changes in general or particular, the wordings in the bill should carefully be examined, taking into consideration the applicable laws and regulations, and precise advice should be sought before taking any decision based on, or acting up on any of the contents hereof.



COMMISSIONER (APPEALS) SECTION 2 (4AA)

- New sub-section (4AA) under section 2 of the ST act
- ‘Commissioner (Appeals)’ has been defined to mean commissioner of inland revenue (appeals) as appointed under section 30 of the ST act which provides the power and procedure for the appointment of authorities.

COTTAGE INDUSTRY SECTION 2(5AB)

OLD LIMIT

- **PKR 3 Million**

NEW LIMIT

- **PKR 10 Million**

ONLINE MARKET PLACE SECTION 2 (18A) & 3 (3) (C)

- A new sub-section (18A) in section 2 of the ST act
- The definition of online market place proposed to be inserted is inclusive and aiming to include:
 - an electronic interface such as a market place
 - e-commerce platform
 - portal or similar means

Which facilitates sales of goods, including third party sales, in any of the following manner

- by controlling the terms and conditions of the sale;
- authorizing the charge to the customers in respect of payment for the supply; or
 - ordering or delivering the goods.

- Sub-section (3) of section 3 identifies a person who is liable to pay the tax.
- In case of supply of goods through online market place, the liability to pay tax would be on the person running the online market place, whether or not the goods are owned by him.

TIER-1 RETAILER SECTION 2 (43A) & 3 (9A)

SHOP OLD SQUARE FEET

- **1000 square feet**

SHOP NEW SQUARE FEET

- **2000 square feet**

TIER-1 RETAILER SECTION 2 (43A) & 3 (9A)

(f) a retailer operating an 'online market place' supplying goods through e-commerce platform, whether or not the goods are owned by him;

(g) a retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by state bank of Pakistan;

TIER-1 RETAILER SECTION 2 (43A) & 3 (9A)

- An online market place involved in supply of goods, whether owned by him or by a third party supplier, would also be treated tier-1 retailer.
- Retailers who are accepting payment through debit or credit cards or other digital mode of payment would be considered as tier-1 retailers.
- Omitted first proviso of section 3(9a) which entitled the customers of a tier-1 retailer to receive a cash back of up to five percent of the tax involved.

TIME OF SUPPLY

SECTION 2 (44) (A)

- Section 2 (44) (a) provides time of supply in relation to a supply of goods to mean earlier of the following events:
 - the time at which the goods are delivered or
 - made available to the recipient of the supply or
 - the time when any payment is received by the supplier in respect of that supply.
- Advance by supplier from customer required the supplier to pay sales tax upfront on receipt of advance even though no delivery of goods or invoice is issued. This provision is omitted & registered persons are now not required to levy sales tax on receipt of advances.

ADJUSTABLE INPUT TAX SECTION 8B (1)

Public limited companies listed on
Pakistan Stock Exchange can claim
100% input tax adjustment.

ADJUSTABLE INPUT TAX SECTION 8B (6)

Tier-1 retailer who does not integrate his retail outlet under provisions of ST act.

Old Disallow

- **15% (85% allow)**

New Disallow

- **60% (40% allow)**

ASSESSMENT OF TAX

SECTION 11 (5)

- Section 11 (5) provides that an officer of inland revenue cannot pass an assessment order unless a show cause notice is given within five years of the “relevant date” i.e. Date of payment of sales tax along with the sales tax return. Sales tax is paid on a monthly basis, therefore limitation of time for issuing a show cause notice is also determined on a monthly basis.
- Relevant Date be substituted with “end of the financial year in which the relevant date falls”. Substitution would enable officers of inland revenue to issue show cause notice within maximum of six years from the relevant date.

EXAMPLE

Return Month : July, 2020

Financial year end: December, 2020

Due Date : August 15th, 2020

Time Barred for July will be (previously) = August 15th, 2025

Time Barred for July will be (Now) = December, 2026

RECORDS

SECTION 22(1)(E)(EB)

- Clause (e) of sub-section (1) of section 22 of the ST Act, to add 'cash book' as a record to be maintained by a registered person.
- Clause (eb) under sub-section (1) of section 22 of the ST Act making it obligatory for registered persons to maintain all records electronically as well.

TRANSACTIONS BETWEEN ASSOCIATES SECTION 25AA(2)

Sub-section (2) to section 25AA of the ST Act empowers FBR to prescribe rules for determining transfer price of taxable supplies between associates which would reflect fair market values in an arm's length transaction.

EXTENSION OF TIME FOR FURNISHING RETURNS SECTION 26AB

- New section 26AB to the ST act which would allow a registered persons to apply for extension in the time for filing of monthly sales tax returns under section 26 of the ST act.
- For this purpose, the registered person would apply before commissioner by the due date of filing and the commissioner may grant the approval for extension in time on the basis of satisfactory reasons.
- The commissioner may not allow an extension in time for a period of more than 15 days, unless there are exceptional circumstances.

- In case the commissioner has not granted extension, the registered person may file an application for extension before the chief commissioner. The chief commissioner on such request may allow extension in time for a period of 15 days unless there are exceptional circumstances justifying longer extension in time.
- Such extensions in time would not relieve the registered person from payment of default surcharge for such extended period.

**PROVISIONS RELATING TO GOODS SUPPLIED
FROM TAXES EXEMPT AREAS
SECTION 40D (5)**

BSM, established in cooperation with Iran and Afghanistan are included within the scope of tax exempt areas in addition to Azad Jammu Kashmir, Gilgit Baltistan and previously regarded as tribal areas.

LICENSING OF BRAND NAME SECTION 40E

- New section, 40E introduce a requirement for manufacturers of specified goods, to obtain brand licenses from FBR for each brand or stock keeping unit.
- “Stock keeping unit” has not been defined in the ST act, in common parlance it refers to a scannable bar code, as is printed usually on product labels. This means that all items, whether existing as unique brands or being sold with unique bar codes, will require brand licensing from FBR in the manner to be prescribed by it.
- Section also outlines penal consequences for the failure to comply with its provisions, whereby any items sold without the brand license will be deemed to be counterfeit goods and may be confiscated and destroyed in a manner as may be prescribed, and without prejudice to additional penal action under the ST act.

RECOVERY OF ARREARS OF TAX SECTION 48 (3)

- New sub-section (3) under section 48 of the ST act wherein the powers of the officer inland revenue are proposed to be enhanced further to provide assistance in collection and recovery of taxes, in pursuance of requests from foreign jurisdictions under tax treaties, multilateral conventions, inter-governmental agreements or similar agreement or mechanism.
- Section 48(1) &(2) of the ST act would apply *mutatis mutandis*.

AGREEMENT FOR THE EXCHANGE OF INFORMATION SECTION 56A (1A) & (3)

- The existing section 56A of the ST act empowers the federal government to enter into bilateral or multilateral agreements for the exchange of information (including electronic information) with provincial governments and governments of foreign countries, with respect to sales tax imposed under the ST act or any other law in force in Pakistan or a corresponding law in the foreign country.
- Amendment in title of the section by including the words “or assistance in recovery of duties”.
- Two new sub-sections, (1A) and (3).

- Through sub-section (1A), the FBR will be empowered to share data/information, including real time videos and images obtained under the ST act, with the federal or provincial governments. The exercise of these enhanced powers will be subject to the limitations and conditions as may be specified by the FBR.
- Through sub-section (3), it is proposed to empower the federal government to enter into bilateral or multilateral conventions, inter-governmental agreements or other mechanisms for assistance in recovery of duties.

PRIZE SCHEMES TO PROMOTE TAX CULTURE

SECTION 56C (2)

- New sub-section (2) in section 56C of the ST act
- FBR may prescribe a procedure for mystery shopping with respect to Tier-1 retailers and in case of any discrepancy, due course of action would be taken under all the relevant provisions of the ST act.

DELAYED REFUND SECTION 67

A refund in the consequences of any order passed under section 66 is not made within 45 days of the date of such order, there shall be, in addition to the amount of refund, a further sum equal to the KIBOR per annum of the refund due from the date of refund order will be paid to the claimant.

CERTAIN TRANSACTIONS NOT ADMISSIBLE

SECTION 73 (1)

Sub-section (1) of section 73 of the ST act provides that a transaction exceeding value of PKR 50,000, excluding payment against a utility bill, shall be made through crossed banking instrument/ channel from the declared bank account of the buyer in favor of the supplier, otherwise respective input tax of the buyer would be disallowed.

- There was no consideration of the case where the transactions between the parties are in both ways. i.e., A selling party also purchases some goods from its customers. In other words, there was no consideration where both payable and receivable balances between the parties existed.
- Concept of off-setting of balance
- Conditions for this section benefit are as follows:

ST has been charged and paid by both parties under the relevant provisions of the ST Act and rules

Registered person has sought prior approval of the commissioner before making such adjustments.

Transactions should be documented and verifiable.

THIRD SCHEDULE SECTION 3(2)(A)

- Sugar added in Third Schedule except where it is supplied as an industrial raw material to pharmaceutical, beverage and confectionery industries.
- Effectively, now sugar manufacturers and importers are required to fix and print maximum retail price on packaging.



INCLUSION OF SUGAR IN THE THIRD SCHEDULE TO THE STA:

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

FIFTH SCHEDULE SECTION 4

Zero rating withdrawn
on following items.

Aircrafts, ships of specified weight or used for recreation or pleasure purpose and spare parts and equipment thereof (Serial No.1).

Equipment and machinery for pilotage, salvage, towage, air navigation and other services related to handling of ships and aircrafts in a port (Serial No.1).

Supply of locally manufactured plant and machinery to petroleum and gas sector, exploration and production companies, their contractors and sub-contractors. (Serial No. 6)

Petroleum crude oil having PCT heading 2709.0000 (Serial No. 10).

Raw materials, components, sub-component and parts, if imported or purchased locally, for use in the manufacturing of zero rated plants and machinery (Serial No. 11).

New entry # 15 added whereby local supplies of raw materials, components, parts and plant and machinery to exporters authorized under the Export Facilitation Scheme, 2021 will be zero rate.



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

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

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

GRANT OF ZERO-RATING ON CERTAIN ITEMS:

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

NEW ZERO RATED ITEMS

Milk (PCT Heading 04.01)

Fat filled milk excluding that sold in retail packing under a brand name or a trademark (PCT heading 1901.9090)

Supply, repair or maintenance of any ship which is neither;

- **(a) A ship of gross tonnage of less than 15 LDT; nor**
- **(b) A ship designed or adapted for use for recreation or pleasure.**

Supply of spare parts and equipment for ships falling under (i) above.

Supply of equipment and machinery for salvage, or towage services.

Supply of equipment and machinery for other services provided for the handling of ships in a port.

SIXTH SCHEDULE SECTION 13

The sixth schedule deals with exemptions of goods from levy of sales tax.

Table-1

Table-1 of the sixth schedule exempts import as well as local supplies of goods listed therein. Exemption be withdrawn on following goods either imported or local supply.

TABLE : 01

S.No.	Brief Description
24	Edible oils and vegetable ghee, including cooking oil, on which FED is charged, levied and collected by a registered manufacturer or importer as if it were a tax payable under Section 3 of the Customs Act.
27	Ordinary ice and waters
29	Table salt including iodized salt
29C	Glass bangles
91	Energy saver lamps
93	Bicycles
103	Import and supply of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts

S.No.	Brief Description
106	Import of Halal edible offal of bovine animals
108	Components or sub-components of energy saver lamps
109	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division
123	Aircraft, whether imported or acquired on wet or dry lease
124	Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000
125	Spare parts for use in aircrafts, trainer aircrafts or simulators
128	Aviation simulators imported by airline company recognized by Aviation Division
153	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which FED is payable in sales tax mode

- FED as well as exemption be withdrawn. Consequently, these products would now be subject to sales tax at the prevailing sales tax rate.
- Edible oils, vegetable ghee including cooking oil, steel billet, ship plates and other re-rolled products of steel sector are currently subject to FED in sales tax mode, therefore, sales tax on the aforesaid supplies are exempt.

Below entries were inserted in table-1 of the sixth schedule vide the tax law second amendment ordinance, 2021 and Tax Laws (Second Amendment) Ordinance, 2021.

S.No.	Description
157	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30 th June, 2026: <ul style="list-style-type: none">(i) Small cars/SUVs with 50 kwh battery or below; and(ii) Light commercial vehicles (LCVs) with 150 kwh battery or below
158	Goods temporarily imported into Pakistan by international athletes which shall be subsequently taken by them within 120 days of temporary import
159	Import of auto disable syringes till 30 th June, 2021 <ul style="list-style-type: none">(i) with needles(ii) without needles
160	Import of following raw materials for the manufacturers of auto disable syringes till 30 th June, 2021 <ul style="list-style-type: none">(i) Tubular metal needles(ii) Rubber gaskets

TABLE : 02

- Table-2 deals with exemption on local supply of goods.
- Serial # 26 in table-2 of the 6th schedule thereby exempting supply of locally produced silos till 30 June 2026.
- Following entries to be transferred from table-1 to table-2 of the sixth schedule:

S. No. (Table-2)	Brief Description
29	Sugar beet
30	Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged
31	Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name
32	Flavored milk, excluding that sold in retail packing under a brand name
33	Yogurt, excluding that sold in retail packing under a brand name
34	Whey, excluding that sold in retail packing under a brand name
35	Butter, excluding that sold in retail packing under a brand name

S. No. (Table-2)	Brief Description
36	Desi ghee, excluding that sold in retail packing under a brand name
37	Cheese, excluding that sold in retail packing under a brand name
38	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name
39	Sausages and similar products of poultry meat or meat offal excluding sold in retail packing under a brand name or trademark
40	Products of meat or meat offal excluding sold in retail packing under a brand name or trademark
42	Fat filled milk excluding that sold in retail packing under a brand name or a trademark

OMISSIONS

- Supplies made by manufacturers of marble and granite having annual turnover less than PKR 5,000,000/- even if their annual utility bill is more than PKR 800,000/-.
- Bricks (up to 30th June, 2018)

CONDITIONAL EXEMPTION

Import of POS
machines

TABLE : 04

- The government is intending to establish BSM so as to mitigate problems faced by the people residing in border areas due to fencing and counter-smuggling measures.
- Exemption, on certain specified conditions, is provided to supply of specified edible agriculture produce, certain raw materials, household machines and equipment which are supplied within the limits of the border sustenance markets, established in cooperation with Iran and Afghanistan.

CONDITIONS

Such goods shall be supplied only within the limits of Border Sustenance Markets established in cooperation with Iran and Afghanistan

If the goods, on which exemption under this Table has been availed, are brought outside the limits of such markets, sales tax shall be charged on the value assessed on the goods declaration import or the fair market value, whichever is higher

Such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of sales tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction

NEW ZERO RATE VIA FINANCE ACT APPROVAL

- White spirit
- Solvent oil



WITHDRAWAL OF EXEMPTIONS UNDER SIXTH SCHEDULE TO THE STA:

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

EXEMPTION OF SALES TAX ON WHITE SPIRIT AND SOLVENT OIL:

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

EXEMPTION OF SALES TAX ON PRINTING PAPERS FOR HOLY QURAN:

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

EXEMPTION OF SALES TAX ON CKD KITS FOR ELECTRIC VEHICLES:

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

EXEMPTION OF SALES TAX ON TEMPORARY IMPORT BY INTERNATIC**ATHLETES:**

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

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

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

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

To provide incentive to the IT industry in the country, import of plant, machinery, equipment and raw materials by Special Technology Zone Authority, developers and enterprises has been granted exemption by adding S. No. 161 of Table-1 of the Sixth Schedule to the STA.

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

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

EXEMPTION OF SALES TAX ON LOCALLY PRODUCED SILOS:

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

EXEMPTION OF SALES TAX ON SUPPLY OF WHEAT BRAN

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

EXEMPTION OF SALES TAX ON IMPORT OF POS MACHINES:

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

EXEMPTION OF SALES TAX AND FED TO BORDER SUSTENANCE**MARKETS:**

In order to mitigate the problems faced by people residing in border areas of Baluchistan and Khyber Pakhtunkhwa due to fencing and counter smuggling measures, Border Sustenance Markets are being established on the border with Iran and Afghanistan. To facilitate the said markets, exemption on certain specified items has been granted by inserting new Table-4 in the the Sixth Schedule to the STA. Similarly exemption from federal excise has also been granted on specified items meant for such markets.

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

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

EIGHTH SCHEDULE SECTION 3(2)(AA)

The eighth schedule deals with goods subject to specific rates of sales tax.

REDUCTION IN ST RATE – SYSTEM INTEGRATION

OLD RATE

• **12%**

NEW RATE

• **10%**

REDUCE TAX RATE WITHDRAWN

Soyabean meal

Raw cotton and ginned cotton

Waste paper

Soya bean seed

LNG/RLNG (Import)

LNG/ RLNG

Ginned cotton

LNG imported for servicing CNG sector and local supplies thereof

NEW ADDITION

- The reduced rate of 12.5% previously proposed for the locally manufactured or assembled motorcars of cylinder capacity upto 850cc has now been extended to 1000cc motorcars also.
- Goods supplied from tax-exempt areas of erstwhile FATA/PATA to the taxable areas has been reduced to 16%.

- The rate of sales tax on potassium chlorate increased from PKR 80 per kg to PKR 90 per kg in addition to 17% standard rate.
- Insert the following new entries in table-1 of the eighth schedule to the ST Act.

S.No.	Description	Rate of tax	Condition
71	Following locally manufactured or assembled electric vehicles (4 wheelers) till 30 th June, 2026: (i) Small cars/ SUVs with 50 kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	1%	If supplied locally
72	Motorcars	12.5%	Locally manufactured or assembled motorcars of cylinder capacity upto 850cc
73	Import and local supply of Hybrid Electric Vehicles: (a) Upto 1800 cc (b) From 1801 cc to 2500 cc	8.5% 12.75%	



REDUCTION OF SALES TAX ON LOCALLY MANUFACTURED ELECTRIC VEHICLES:

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

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

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

INCREASE IN SALES TAX RATE ON IMPORT OF POTASSIUM CHLORATE:

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

GOODS SUPPLIED FROM EXEMPT AREA TO TAXABLE AREAS:

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

NINTH SCHEDULE SECTION 3(3B)

- The ninth schedule deals with the levy of sales tax on import or supply of cellular mobile phones etc.
- Sales tax on import of cellular mobile phones are subject to fixed amount of sales tax based on their nature, however, collection of sales tax on such imported phone is made at the time of sale/activation of sim cards by the Cellular Mobile Operators (CMO).

- FA, 2020, split the table given under the ninth schedule into Table-1 and Table-2. Under Table-1, SIM cards are treated as separate supply of goods and subject to sales tax at PKR 250 per SIM card. Chargeability of sales tax on SIM card under Table-1 has been challenged by CMOs on the ground that no ownership is transferred to the customer rather it is a conduit for operating cellular phones. Such litigations are pending adjudication.
- A proviso inserted to Table-1 of the ninth schedule which makes it redundant retrospectively from 01 July 2020.



WITHDRAWAL OF FIXED SALES TAX ON SIM CARD:

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

ELEVENTH SCHEDULE SECTION 3(7)

- Specifies the withholding agents and provides the rates of sales tax withholding.
- Manufacturers of lead batteries to withhold the entire amount of applicable sales tax (i.e. 17%) while purchasing reclaimed lead or used lead batteries.

NEW ADDITION VIA ACT

Sno.	Withholding agent	Supplier Category	Rate of extent of deduction	
			As per the Act	Proposed through Bill
7.	Registered persons manufacturing lead batteries	Persons supplying any kind of lead under chapter 78 (PCT Headings:7801.1000, 7801.9100....)	75% of the sales tax applicable	Whole amount of sales tax applicable
8.	Online market place	Persons other than active taxpayers	2% of gross value of supplies: Provided that the Provisions of this entry shall be effective from the date as notified by the Board.”.	Entry not proposed in the Bill



WITHHOLDING REGIME FOR SUPPLIERS OF LEAD:

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

WITHHOLDING REGIME FOR ONLINE MARKET PLACES:

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

TWELFTH SCHEDULE (MINIMUM VALUE ADDITION TAX) SECTION 7A(2)

- Levies minimum value addition tax at the rate of 3% at import stage.
- Following goods excluded from levy of minimum value addition tax:

Electric vehicles (4 wheelers) CKD kits for small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below till 30th June, 2026

Electric vehicles (4 wheelers) small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below in CBU condition till 30th June, 2026

Electric vehicles (2-3 wheelers and heavy commercial vehicles) in CBU condition till 30th June, 2025; and

Motor cars of cylinder capacity up to 850cc



EXEMPTION FROM VALUE ADDITION TAX TO ELECTRIC VEHICLES:

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

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

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

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

THIRTEENTH SCHEDULE

As a result transfer of steel products from FED regime to sales tax regime, the following new schedule has been inserted prescribing minimum production for steel items for levy of sales tax under section 3(9AA) followed by procedure and conditions which were previously appearing under the forth schedule of the federal excise act, 2005 that has been omitted through the finance act:

S. No.	Product	Production criteria
1.	Steel billets and ingots	One metric ton per 700 kwh of electricity consumed
2.	Steel bars and other re-rolled long profiles of steel	One metric ton per 110 kwh of electricity consumed
3.	Ship plates and other re-rollable scrap	85% of the weight of the vessel imported for breaking"; and



CORRECTIVE AND STREAMLINING MEASURES:

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

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

5.	2(43A) of STA	Definition of tier-1 retailer has been streamlined through insertion of a new clause, whereby a retailer who has acquired point of sale is also included therein.
6.	2(44) of STA	Advance receipt of payment has been excluded from the purview of definition of time of supply.
7.	3 of STA	Besides correcting drafting error and deleting proviso regarding cash back, new sub-section (9AA) has been inserted in section 3 for fixation of minimum production as per criteria specified in newly added Thirteenth Schedule.
8.	8B of STA	In order to encourage listed corporate sector, Public limited Companies listed on Pakistan Stock Exchange have been excluded from the purview of section 8B of the Sales Tax Act, 1990. Moreover, in order to enhance cost of retailers not integrated with the FBR's online system, disallowance of input tax adjustment by such retailers has been further enhanced to 60%.

9.	11 of STA	Sales tax returns are filed on monthly basis, while audit is carried out on annual basis. Hence, in order to streamline section 11, the words "relevant date" have been substituted with the words "end of the financial year in which the relevant date falls".
10.	22 of STA	Section 22 has been amended by inserting cash book and electronic version of record to strengthen and streamline the requirement of record keeping.
11.	25AA of STA	A new sub-section has been added in section 25AA to provide enabling provision for prescribing rules for determining transfer pricing of taxable supplies between associates to reflect fair market value in arm's length transactions.
12.	26AB of STA	For the purpose of facilitation of the registered persons and in order to streamline the procedure for extension of time for furnishing of sales tax returns, new section 26AB has been inserted.

13.	40D of STA	Border Sustenance Markets have been included in the tax exempt areas and accordingly supplies made from such areas to the taxable areas shall be chargeable to sales tax.
14.	40E of STA & 45AA of FEA	New section has been added in both STA and FEA making it mandatory for manufacturers of the specified goods to obtain brand license for each separate brand or stock keeping unit (SKU) produced by them.
15.	48 of STA & 14 of FEA	Enabling provision has been inserted in both STA and FEA regarding assistance in collection and recovery of taxes with other countries on mutual basis.
16.	50 of STA	Procedure for publishing and placing the rules has been streamlined.

17.	56A of STA & 47A of FEA	Enabling provisions regarding sharing of data with ministries or divisions of Federal Government or Provincial Governments besides providing for mechanism for assistance in recovery of taxes with foreign countries on reciprocal basis have been inserted in section 56A of STA and 47A of FEA.
18.	56C of STA	Enabling provision has been inserted in section 56C to monitor and regulate the invoices issued by tier-1 retailers by way of mystery shopping.
19.	67 of STA	Benefit of additional payment has also been extended to those persons in whose case any order is passed under section 66 and refund is not issued within forty-five days of date of refund order.
20.	73 of STA	For the purpose of promoting ease of doing business, the concept of constructive payment (setting off payables against receivables from the same registered person) has been introduced in section 73 by inserting a new proviso in sub-section (1).

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

THANK YOU FOR READING.

**Any suggestions/criticisms can be sent
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