

SALES TAX ACT 1990

Section	Proposed change	Implications
2(44)	<p>Time of supply and Sales tax on advance payments:</p> <p><i>“Time of supply”</i> a supply shall have taken place at the time of delivery of goods by the suppliers.</p>	<p>The Finance Act 2007 has made a drastic change in the definition of <i>“time of supply”</i> for the purpose of sales tax determination. As per new substitution the <i>“time of supply”</i> shall be deemed to have taken place at the time of delivery of goods.</p>
8(B)	<p>Restriction of Input Tax adjustments</p> <p>A registered person shall not be allowed to adjust input tax in excess of ninety percent of the out put tax for that tax period</p> <p>Provided that tax charged on acquisition of fixed assets shall be adjustable against out put tax in twelve equal monthly installments after the start of production</p>	<p>This measure has been taken to discourage the mal practice regarding the adjustment of input tax.</p>
	<p>Provisions for payment of sales tax refund along with duty drawback is limited to zero rated supplies</p>	<p>The scope of sales tax refund is now being limited to zero-rated supplies or exports only. A scheme is being envisaged whereby the exporters of five zero-rated sectors shall be able to obtain sales tax refund on packing material, chemicals along with customs duty drawback.</p>
	<p>Withdrawal of special procedures for commercial importers, iron & steel sector, restaurants, biscuits and confectionery</p>	<p>With a view to remove distortions in the sales tax system a number of special treatment procedures are being abolished. Now commercial importers, iron & steel sector, restaurants and biscuit and confectionery sector shall operate in standard sales tax procedure of payment of due tax after adjusting the input tax on</p>

		purchases from the output tax charged on supplies.
	Introduction of concept of withholding agents in sales tax	To plug the revenue gap in Government supplies and to collect the due tax from general orders supplies and wholesalers, the system of withholding of sales tax by the Government agencies is being introduced.
	Enhancement in period of record retention	Based on international best practices, the period of record retention is being enhanced to five years from existing three years.
	Single sales tax return	Abolishing the various sales tax returns and a separate invoice summary, a single sales tax return has been introduced and invoice summary has been made an annexure to the return for facilitation.
	Linkage of registration threshold of manufacturers with utility bills	Apart from the existing registration threshold of supplies of Rs. 5 million per annum, a new parameter based on utility bills is being introduced by amending the Sales Tax Act, 1990. Whereby the manufacturers having utility bills of more than Rs. 600,000 per annum shall also be required to obtain sales tax registration
10	Refund of input tax.	Previously the time limit for such refund was 30 days. Extra time bought by CBR in this regard. If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall

		<p>be refunded to the registered person not later than forty-five days of filing of refund claim in such manner and subject to such conditions as the Board may, by notification in the official Gazette specify:</p>
	<p>Relief Measures</p> <ul style="list-style-type: none"> • Zero-rating of sales tax on sewing machines and bicycles. • Exemption of sales tax on cottonseed oil • Sales tax zero-rating on writing inks and exercise books • Amnesty scheme for waiver of default surcharge and penalty • Zero-rating of sales tax on trailers and semi-trailers 	<p>The measure is aimed at providing relief to the general public.</p> <p>Cottonseed oil is the only locally produced vegetable oil subject to sales tax. To bring it at par with other local vegetable oils and to provide relief to the oil mills, sales tax on cottonseed oil has been exempted.</p> <p>To promote education and to make available essential educational items at reduced cost, sales tax on writing ink and exercise books has been zero-rated.</p> <p>To encourage the taxpayers to clear their outstanding tax liabilities and to reduce the legal disputes, amnesty of default surcharge and penalties has been announced. Taxpayers who wish to avail the amnesty may deposit the principal amount of tax by 30.06.2007.</p>

	<ul style="list-style-type: none"> • Exemption of sales tax arrears of industries located in FATA/PATA • Zero-rating of utilities of rice exporters • Exemption of sales tax on glass bangles • Zero-rating of sales tax on uncooked poultry meat 	<p>To promote the domestic production of better trailers and semi-trailers for the improvement of goods transport, it is proposed to zero-rate sales tax on trailers and semi-trailers.</p> <p>The industries located in FATA/PATA are closed because of sales tax arrears created as a result of the relief provided to the industries by Peshawar High Court which was later on decided against by the Supreme Court. To provide relief to the industries in FATA/PATA, it is proposed to exempt the arrears of sales tax against the units subject to the condition that disputed excise duty and customs duty is duly deposited by them.</p> <p>Local supply of rice is exempt being agricultural produce. Exports are also zero-rated but the exporters have to obtain refund of small incidental e.g. sales tax on utility bills. To boost the industry, it is proposed to zero-rate the utility of rice exporters.</p> <p>To provide relief to the traditional bangle industry of Sindh, glass bangles have been exempted from sales tax.</p> <p>To decrease the cost of doing business for the organized sector</p>
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	<ul style="list-style-type: none"> • Exemption of sales tax on surgical tapes and ultrasound gel 	<p>in poultry meat processing, sales tax on uncooked poultry meat has been zero-rated.</p> <p>Medicines are exempt from sales tax. Therefore, the scope of exemption has been extended to two more medicinal items which are surgical tapes and ultrasound gel.</p>
	<p>Revenue Measures</p> <ul style="list-style-type: none"> • Increase in rate of sales tax from 15% to 20% on specified raw materials • Withdrawal of input tax adjustment on the supply of utilities (electricity and gas) to the residential colonies of manufacturers 	<p>To discourage the informal manufacturing in iron and steel, plastics and paper, the rate of sales tax on import and supply of their raw materials as well as some specified chemicals is being increased from 15% to 20% which will induce the informal manufacturing sector to be compliant to obtain input tax adjustment as the end products remain chargeable to sales tax @ 15%.</p> <p>In the light of best VAT practices, input tax adjustment is being disallowed on supply of utilities (electricity and gas) to the residential colonies of manufacturers. This measure will</p>

	<ul style="list-style-type: none"> • Withdrawal of zero-rating of chemicals of multiple usage • Collection of sales tax of CNG stations from gas distribution companies 	<p>also settle many legal disputes.</p> <p>Under SRO 525(I)/2006, a large number of chemicals used in the five major export oriented sectors have been zero-rated. Keeping in view the multiple usage of some of the chemicals are also used in other industries, such chemicals are being taken out of zero-rating notification.</p> <p>To rationalize the collection of sales tax on supplies made by CNG stations, the responsibility to charge and deposit sales tax is being given to the gas distribution companies. CNG stations will not be required to remain registered with sales tax or keep any records.</p>
	<p>Streamlining Measures</p> <ul style="list-style-type: none"> • Abolition of sales tax on advance payments 	<p>To simply the sales tax regime, sales tax leviable on advance payments received by registered persons is being abolished. Now the registered persons shall be required to charge sales tax at the time of delivery of goods.</p>