Government of Pakistan
Revenue Division
Federal Board of Revenue
Inland Revenue Policy
*****

C. No. 4/1-STB/2022 Islamabad, the 20th January, 2022

Circular No. 06 of 2022
(Sales Tax)

Subject: **Finance (Supplementary) Act 2022 - Explanation of Important Amendments in Sales Tax Act 1990, ICT (Tax on Services) Ordinance 2001 and Federal Excise Act 2005.**

In order to achieve broader economic and financial stability through sustainable economic growth through removal of distortions, broadening of tax base and documentation of economy, Finance (Supplementary) Act, 2022 has been passed. Explanations and context of important changes brought about are explained as follows:

I. Streamlining of 5th Schedule

Zero-rating under 5th Schedule to the Sales Tax Act, 1990 has been rationalized and some of the entries have been omitted. For example, zero-rating on local supply of plant and machinery to Export Processing Zones (EPZ), duty free shops, local supplies to exports covered under Export Facilitation Scheme, and supply/repair/maintenance of ships and related equipment and machinery has been withdrawn.

20-1-22

On the other hand, zero-rated regime at import stage is introduced for drugs registered under the Drugs Act, 1976. Pharmaceutical goods and their raw materials were earlier exempt from Sales Tax; as a result, most of the supply chain was undocumented. This had led to misuse of this facility and revenue leakages. Moreover, the sector had absorbed tax paid on various inputs including packaging material and utilities. These input taxes became part of cost and were passed on to patients. In order to address these issues, pharmaceutical products are made zero rated and any tax paid on their inputs are made refundable. This measure will bring transparency to the sector and help FBR in documenting the entire supply chain. It will also help the government in controlling and reducing the price of pharmaceutical goods. In order to process the refund claims of this sector, a refund module on the pattern of FASTER is devised. Zero-rating to crude oil, which was withdrawn through Finance Act, 2021 has also been restored.

II. **Streamlining of 6th Schedule**

For the purpose of tax rationalization and broadening of tax base, while retaining exemptions on essential food items, basic healthcare and education, a number of exemptions from Table-1 of the Sixth Schedule to the Sales Tax Act, 1990 have been withdrawn. The goods on which GST at standard rate has been imposed can be broadly categorized as imported/branded food items or plant and machinery and industrial inputs. Imported live animals/poultry, imported meat/uncooked poultry, imported eggs, imported seeds and various types of agriculture equipment, plant and machinery of green field industries are some of the items which are now brought in to the standard regime.

26.1.22

Through new insertion in Table-2 of the Sixth Schedule, local supply of food items like cereals, meat, poultry, vegetable, fruits, eggs etc. has been exempted from the levy of sales tax. Similarly, supplies of locally manufactured laptop and newspapers are also exempt. Exemption on local supply of sugar cane has also been provided. On the other hand, some of the existing exemptions available in Table-2 have been withdrawn on raw cotton, whey and sausages (sold other than retail packaging), match-boxes among others. Furthermore, before Finance (Supplementary) Act, 2022, bread, sheer-mal, vermicillies, bun and rusk sold at all bakeries and sweet shops were exempt by virtue of S. No. 7 of the Table *ibid.* However, the said provision has now been amended, whereby tax at standard rate has become chargeable on these items when they are sold in bakeries, restaurants, food chains and sweet shops falling under the category of Tier-1 Retailers.

Exemption to various plants, machinery and equipment, often involving huge tax expenditure, are available under Table-3 of the Sixth Schedule. Some of these exemptions have been withdrawn.

III. Streamlining of 8th Schedule

Eight Schedule to the Sales Tax Act, 1990, provides rates lower than standard rate of GST and before Finance (Supplementary) Act, 2022 a wide array of rates ranging from 1% to 16.9 % were available under the said Schedule. This caused distortion in the tax system. The differential rates were difficult to administer and open to misuse. Eighth Schedule has now been streamlined and a number of reduced rates and concessionary regimes have been withdrawn bringing these goods under standard regime.

28.1.22

IV. Rationalizing 9th Schedule

The rate of Sales Tax on cellular/mobile devices are specified under the provisions of Table-2 of Ninth Schedule to the Sales Tax Act, 1990. The rates of high–end mobile devices (exceeding 200 US$) imported in CBU condition were chargeable to fixed sales tax ranging from Rs. 1,740 to Rs. 9,270 per device. There was little justification for reduced rate on import of expensive/ high-end branded mobile devices. Therefore, tax @ 17% ad valorem has been introduced for imported mobile devices valuing more than US$ 200.

V. Other Important Amendments

(i) For the purposes of documentation, competitiveness and fair tax regime for all the earlier threshold for cottage industry of rupees ten million has been reduced to eight million annual turnover from all supplies.

(ii) Exemption has been retained for imported fruits and vegetables from Afghanistan.

(iii) Person whose deductible tax under section 236G/236H of the Income Tax Ordinance 2001 has exceeded a threshold as may be specified by the Board has also been included in a definition of a Tier-1 retailer.

(iv) Board has been empowered to include/exclude any item from the Third Schedule

(v) A new Directorate General for Digital Invoicing and Analysis has been provided in the Act.

(vi) Through amendment in section 33, sealing of business premises has been provided in case of violation of section 9A of section 3 and section

26.1.22

40C or in case of non-integration with the computerized system of the Board.

(vii) Sugar has been excluded from the purview of Third Schedule with effect from 1st December, 2021.

(viii) In order to facilitate general consumers, the condition of CNIC has been withdrawn in case of payment made through debit/credit card or digital mode.

(ix) Under S. No. 61, 62 and 63 of Table-1 of the Eighth Schedule, reduced rate of sales tax on silver, gold and precious metals jewelry has been withdrawn being luxury items which will not affect the common man

(x) Under S. No. 66 of Table-1 of the Eighth Schedule, the rate of sales tax has been enhanced from 10% to 12%.

(xi) Reduced rate of sales tax has been retained in respect of locally manufactured hybrid electric vehicles.

(xii) Personal computers and laptops have been made chargeable to tax @ 5% if imported in CBU condition.

(xiii) Rate of sales tax on imported EV in CBU condition has been enhanced from 5% to 12.5%.

2. Likewise, services liable to tax under ICT (Tax on Services) Ordinance, 2001, are specified in the Schedule to the Ordinance ibid, along with the applicable rates. However, there were a number of notifications in the field wherein, subject to certain conditions, reduced rates were provided in respect of some services. In order to streamline and consolidate the taxable services and their chargeable rates under ICT (Tax on Services) Ordinance, 2001, the existing Schedule was substituted as Table-1 and a second Table was inserted incorporating the rates earlier notified through SROs at different timings.

26.1.22

3. Through S. No. 55, 55B, 55C and 55D of Table-1 of the First Schedule to the Federal Excise Act, 2005, the rates of FED on imported, locally manufactured motorcars/SUVs, imported and locally manufactured double cabin are provided respectively. In order to rationalize the existing rates of FED on vehicles, the following increase in the various slabs has been made:

#	Description of Goods	Previous rate of FED	Current rate of FED
55	Imported motor cars, SUVs and other motor vehicles:		
	(a) of cylinder capacity up to 1000cc	2.5% ad val	No change
	(b) of cylinder capacity from 1001cc to 1799cc	5% ad val.	10% ad val.
	(c) of cylinder capacity 1800cc to 3000cc	25% ad val.	30% ad val.
	(d) of cylinder capacity exceeding 3001cc	30% ad val.	40% ad val.
55B	Locally manufactured or assembled motor cars, SUVs:		
	(a) of cylinder capacity up to 1300cc	(a) (i) upto 1000cc -- 0 % (ii) 1001cc to 2000cc -- 2.5%	2.5%
	(b) of cylinder capacity from 1301cc to 2000cc	2.5% ad val.	5% ad val.
	(c) of cylinder capacity 2001cc and above	5% ad val.	10% ad val.

26.1.22

55C	Imported double cabin (4x4) pick-up vehicles	25% ad val.	30% ad val.
55D	Locally manufactured double cabin (4x4) pick-up vehicles except the vehicles booked on or before the 30th June, 2020 subject to the restriction or conditions specified by the Board.	7.5% ad val.	10% ad val.

4. The aforementioned changes in law and tax/FED rates are applicable with effect from January 16, 2022.

20.01.2022

(Mukhtiar Ahmad Shar)
Secretary (ST&FE-Budget)