

TAX UPDATE

An Update on

Sales Tax Special Procedures (Withholding) Rules, 2007

Applicable w.e.f. February 14, 2013 as amended vide S.R.O.98 (I) 2013



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What this document aims at?

The purpose of this document is to briefly summarize the Sales Tax Special procedure (withholding) rules, 2007 taking into account the amendments made vide SRO 98(I)/2013 dated February 14, 2013.

The information and elaborations as contained herein are general in nature and based on our interpretation of the applicable statute and significant amendments become effective from February 14, 2013.

As such nothing contained herein should be taken as legal advice in a given case and Tariq Abdul Ghani Maqbool & Co. does not accept any responsibility for any loss arising from any action taken or not taken based on this document.

February 15, 2013

AMENDMENTS vide SRO 98(I)/2013 dated February 14, 2013 in Sales Tax Special Procedure (Withholding) Rules, 2007

Purview of withholding agents has been broadened to include:

- All companies as defined in Income Tax Ordinance, 2001, which are registered for Sales tax, Federal excise duty or Income Tax; and
- Persons registered as exporters

Rate for sales tax withholding has been standardized for all withholding agents to 1/5th (20%) of the total sales tax amount invoiced by the registered persons.

Previously Large Taxpayers Units (LTU) were required to withhold the same @ 1% of the value of taxable supplies, whereas Federal & Provincial Government departments, autonomous bodies and public sector organizations were required to withhold sales tax at 1/5th (20%) of sales tax.

Summary of Sales Tax Special Procedure (Withholding) Rules, 2007

Goods supplied/Services provided to	Goods supplied/ Services rendered by	Rate of withholding	Due date of depositing the Sales tax withheld	Exclusions
<ul style="list-style-type: none"> - Federal & Provincial Government department; - autonomous bodies; - public sector organizations; - Companies as defined in Income Tax Ordinance, 2001, which are registered for Sales Tax, Federal Excise Duty or Income Tax; and - Person registered as Exporters 	Registered persons	An amount equal to One fifth (1/5 th) of the total sales tax shown in the sales tax invoice.	<p>Purchases by Department under the Federal Govt., Provincial or District Govt., & Military accountant General by 15th of the following month; and</p> <p>In-case of purchases by remaining withholding agents by 15th of the month following the month during which payment has been made to the supplier.</p>	<p>Supply of the following goods and services if made by a registered person, namely:—</p> <ul style="list-style-type: none"> (i) Electrical energy; (ii) Natural gas; (iii) Petroleum products as supplied by petroleum production and exploration companies, oil refineries and oil marketing companies; (iv) Mild steel products; (v) Products made from sheets of iron or non-steel alloy, stainless steel or other alloy steel, such as pipes, almirahs, trunks etc. (vi) Paper, in rolls or sheets; (vii) Plastic products including pipes; (viii) Vegetable ghee and cooking oil; and (ix) Telecommunication services.
<ul style="list-style-type: none"> - Federal & Provincial Government department; - autonomous bodies; and - public sector organizations 	Unregistered persons	The whole amount of sales tax calculated at the applicable sales tax rate on the gross value of taxable supply.		
Recipients of service of advertisement, who are registered for sales tax.	Services rendered by a person based in Pakistan or abroad	<p>The amount of sales tax as mentioned in the invoice issued by the service provider.</p> <p>In case the amount of sales tax is not indicated in the invoice the whole amount of sales tax calculated at the applicable sales tax rate on the value of taxable services.</p>		

ILLUSTRATIONS for withholding by ...

BY ALL WITHHOLDING AGENTS on supplies and services from registered suppliers				BY SALES TAX REGISTERED RECIPIENTS OF ADVERTISEMENT SERVICES where applicable sales tax amount is mentioned on the invoice			
			Amount in Rs.				Amount in Rs.
Value of taxable supplies/ services excluding sales tax		A	1,000*	Value of advertisement services excluding sales tax		A	1,000*
Sales tax chargeable	$B = A \times 16\%^*$	B	160	Sales tax chargeable	$B = A \times 16\%^*$	B	160
Sales tax to be deducted by withholding agent	$C = 1/5\text{th of } B$	C	32	Sales tax to be deducted by withholding agent	$C = B$	C	160
Sales tax payable by the withholding agent to the supplier/service provider	$D = B - C$	D	128	Sales tax payable by the withholding agent to the advertiser	$D = B - C$	D	0
Total payable to the supplier/ service provider by the withholding agent	$E = A + B - C$	E	1,128	Total payable to the advertiser by the withholding agent	$E = A + B - C$	E	1,000

BY FEDERAL & PROVINCIAL GOVERNMENT DEPARTMENT, AUTONOMOUS BODIES, PUBLIC SECTOR ORGANIZATIONS HAVING FREE TAX NUMBER (FTN) on supplies and services from Un-registered persons				BY SALES TAX REGISTERED RECIPIENTS OF ADVERTISEMENT SERVICES where sales tax amount is not mentioned on the invoice			
			Amount in Rs.				Amount in Rs.
Value of supplies/ services		A	1,000*	Value of advertisement services		A	1,000*
Gross value of taxable supplies	$B = A \times 116\%$	B	1,160	Sales tax to be deducted by withholding agent	$B = A \times 16\%^* \div 116\%$	B	138
Sales tax to be deducted	$C = B - A$	C	160	Balance payable to the advertiser by the withholding agent	$C = A - B$	C	862
Balance payable to the supplier/ service provider by the withholding agent	$D = A - C$	D	840				

* The value of supplies/ services has been assumed to be Rs. 1,000
** The Sales tax rate has been assumed to be 16%

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