

POLICY RESEARCH INSTITUTE OF MARKET ECONOMY (PRIME)
SALES TAX PROPOSALS FOR FEDERAL BUDGET 2023-24
SALES TAX ACT, 1990

Section/ Clause/ Rule	Proposed Amendment	Rationale
(1)	(2)	(3)
Section 3 of the Sales Tax Act, 1990	For the word “eighteen” wherever occurring, the word “five” shall be substituted.	Sales tax is an indirect tax and keeping it on higher side leads to regressive taxation system which is not a positive sign for development of any economy. Due to severe economic crisis, Government increased the rate of sales tax from seventeen percent to eighteen percent to handle the emergency economic situation. However, in the longer run, such high rate of sales tax is not sustainable. With input/output adjustment, maximum rate should be five percent. Ideal situation is to fix the sales tax rate of five percent with no input/output adjustment. However, till the formation of full-fledged framework, rate of five percent should be fixed keeping other things the same.
The Eleventh Schedule of the Sales Tax Act, 1990	The eleventh schedule to be substituted as per Annexure-A enclosed:	There should be simple withholding sales tax (SWHT) regime. Focus should be on broadening of tax base with flat, low-rate, broad and predictable taxes. And it can only be achieved through, among other factors, keeping SWHT regime simple. Currently, there is ambiguity in the Eleventh Schedule with regard to active tax payer suppliers. In the table itself, 1/5 of sales tax to be withheld from active taxpayers; however, active tax payers are exempt from applicability of SWHT and are mentioned as Exclusions below the table. Ideally, SWHT should not be applicable to active taxpayers. Further, separate SWHT rates on some supplies (like cane molasses, lead batteries, etc.) and supplier categories (like wholesaler, dealer or distributor), are also not justified. It is therefore proposed to simplify the whole SWHT regime simple by making amendments in Eleventh Schedule of the Sales Tax Act, 1990, as suggested.

**The
ELEVENTH SCHEDULE
[See sub-section (7) of section 3]**

TABLE

The rates for withholding or deduction by the withholding agents are specified as below provided that withholding of tax under this Schedule shall not be applicable to the goods, supplies and services specified vide clauses after the Table

S. No.	Withholding agent	Supplier category	Rate or extent of deduction
(1)	(2)	(3)	(4)
1.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)	Persons other than Active Taxpayers and unregistered persons	Whole of the tax involved or as applicable to supplies on the basis of gross value of Supplies
2.	(a) Federal and provincial government departments; autonomous bodies; and public sector organizations (b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001) (c) Registered persons as recipient of advertisement services	Person providing advertisement Services	Whole of sales tax applicable
3.	Online market place	Persons other than active taxpayers and unregistered persons	1% of gross value of supplies: Provided that the provisions of this entry shall be effective from the date as notified by the Board.

- (i) Electrical energy;
- (ii) Natural Gas;
- (iii) Petroleum Products as supplied by petroleum production and exploration companies, oil refineries, oil marketing companies and dealers of motor spirit and high speed diesel;
- (iv) Telecommunication services;
- (v) Vegetable ghee and cooking oil;
- (vi) Goods specified in the Third Schedule to the Sales Tax Act, 1990;
- (vii) Supplies made by importers who paid value addition tax on such goods at the time of import;
- (viii) Supplies made by an Active Taxpayer as defined in the Sales Tax Act, 1990 to another registered persons with exception of advertisement services; and
- (ix) Supply of sand, stone, gravel/crush and clay to low cost housing schemes sponsored or approved by Naya Pakistan Housing and Development Authority.