



PRIME ANALYTICAL REPORTS ON REGULATION,
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WITHHOLDING TAX REGIME:

DOING BUSINESS PERSPECTIVE

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PREFACE

Policy Research Institute of Market Economy (PRIME Institute) published its first report on withholding taxes titled "Withholding Tax Regime: History, Consequences for Business and Implications for Policy" on August 10, 2015 as part of the series "PRIME Analytical Reports on Regulation, Taxation and Economic Policy".

This working paper "*Withholding Tax Regime: Doing Business Perspective*" is just a continuity of the series to further extend the analysis and present findings on the basis of sectoral economic developments undertaken during the intervening period, so that we can have a clear idea and understanding about complexity of withholding tax regime in Pakistan, costs associated with it and activate our thought process to propose/suggest simplicity and effectiveness therein.

The interesting feature of this working paper is that not only withholding tax regime under Income Tax Ordinance, 2001 is covered, but withholding tax on goods/supplies under Sales Tax Act, 1990 and withholding sales tax on services under Provincial sales tax laws, is also covered.

To keep the working paper simple and easily understandable, only basic Federal and Provincial receipts analysis, problems associated with withholding taxes and proposed measures to be taken to overcome those problems, have been made main part of the working paper. Elaborations of any type have been annexed to the working paper. At the end of the report, Appendices have been included comprising of relevant excerpts from reports of other authors addressing the similar issues pertaining to withholding taxes. India's transformation of sales tax regime under the slogan "One Nation One Tax" has also been included (Appendix-5) which can be an interesting case study for Pakistan, as well, to bring all the taxes under the umbrella of one single tax authority.

It is pertinent to mention here that this is my very first publication from the platform of any economic think tanks. Feedback from the readers of this working paper will be highly appreciated and will definitely be of great value in bringing betterment and improvement in my upcoming research work. I can be contacted through my email address farhan.anas@gmail.com.

I would like to say very special thanks to Mr. Ali Salman, Founder & Executive Director, PRIME Institute and his entire team for encouraging me to write this report and on its successful publication. Without their support and step-by-step guidance, it wouldn't have been possible!

Muhammad Anas Farhan

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EXECUTIVE SUMMARY

This paper looks at the withholding tax regime and assesses the impact of the present regime on taxpayers. We found that the Emphasis of Pakistan's revenue stream is on indirect taxes rather than direct taxes, both at Federal level and Provincial level. During FY2021-22, 67% of FBR's direct taxes came from withholding taxes. Similarly, share of indirect revenue in total provincial revenue of Sindh, Punjab, Khyber Pakhtunkhwa and Balochistan, remained at 98%, 85%, 86% and 95% respectively.

We discovered a long list of categories and rates of withholding tax in the Income Tax Ordinance, 2001. Rates of withholding tax for corporate and non-corporate entities are different. Withholding tax rates to be applied for persons whose name is on active taxpayers' list and for persons whose name is not on active taxpayers' list, are also different. The issue of double taxation and even multiple taxation exists under prevailing tax laws.

A withholding agent is made to go through a complex and lengthy procedure to comply with the provisions of Income Tax Ordinance, 2001. These include the deduction of tax, deposit of tax into Government Treasury, reporting of withholding tax details to FBR through filing of periodic withholding tax statements, reconciliation of withholding tax statements with financial statements, assessment, audit, and verification of withholding record of withholding agents, issuance of tax deduction certificates to taxpayers evidencing deposit of withholding tax into Government Treasury.

The withholding sales tax regime prevailing in every province/territory of the country is different. If withholding sales tax categories and rates pertaining to every province/territory are taken together, these are massive, as in the case of income tax. Cost of doing business for withholding agents in Pakistan, with the existing withholding income tax and withholding sales tax regime, is on much higher side, with no benefit at all from the principal taxation authorities.

We have made five recommendations i.e., simplified WHT regime at both Federal & Provincial level, make withholding taxes adjustable, apply same withholding rules to sales tax on services in every province, minimize reporting requirements, and eliminate strict audits and assessments of withholding agents.

SECTION-1

Just to begin with, we have to look which major direct- and indirect- taxes are being collected and administered by Federation/Federal Board of Revenue and which taxes fall within the domain of Federating Units/Provincial Tax Revenue Authorities.

	Federal Government	Provincial Government
Direct Taxes	Income Tax Capital Value Tax	Agricultural Income Tax Professional Tax Urban Immovable Property Tax Motor Vehicles Tax
Indirect Taxes	Sales Tax Customs Duty Federal Excise Duty	Sales Tax on Services Stamp Duty Infrastructure Development Cess

As already narrated in the earlier report published by PRIME (Withholding Tax Regime: History, Consequences for Business and Implications for Policy, 2015) emphasis of Pakistan's revenue stream is on indirect taxes (majorly sales tax, federal excise duty and customs duty) rather than direct taxes. This observation is further strengthened after official declaration/publishing of revenue collection figures by FBR from FY2015-16 to FY2021-22:

Table 1: Contribution of Indirect Taxes in Total Tax Collection of FBR

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Rs. in Billion						
Direct Taxes	1,192	1,344	1,537	1,446	1,523	1,731	2,285
Indirect Taxes	1,920	2,024	2,306	2,383	2,474	3,050	3,864
TOTAL	3,112	3,368	3,843	3,829	3,997	4,781	6,149
%age of Indirect Taxes	62%	60%	60%	62%	62%	64%	63%

(Source: Individual tax revenue collection figures have been taken from Revenue Division Year Books from 2015-16 to 2021-22 and percentage of indirect taxes in total tax collection derived accordingly)

Not only is the case at Federal level that indirect taxes contribute major portion in total tax collection, but tax collection at Provincial level also shows the similar stream, as evident from Table-2 below (Detailed analysis of Provincial tax receipts is available at Annexure-4).

Table 2: Contribution of Indirect Taxes in Total Tax Collection of Provincial Governments

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (R.E.)
Punjab	81%	81%	91%	90%	90%	89%	85%
Sindh	94%	96%	96%	96%	97%	99%	98%
Khyber Pakhtunkhwa	80%	84%	82%	74%	88%	85%	86%
Balochistan	89%	92%	91%	94%	92%	93%	95%

(Source: Individual tax revenue collection figures have been taken from budget papers published by Finance Departments of every Province from 2015-16 to 2021-22 and percentage of indirect taxes in total tax collection derived accordingly)

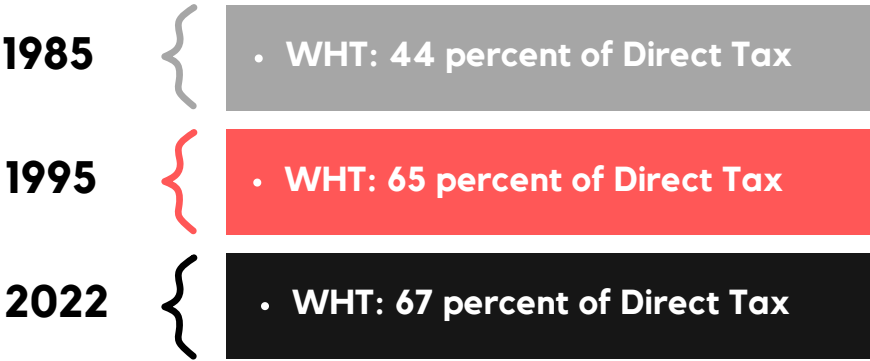
Another important point is that among around 40% and even less portion of direct taxes in total revenue collection by FBR, major chunk is from withholding taxes (WHT) which makes around 65-70% of total direct taxes, as shown below:

Table 3: Contribution of Withholding Tax in Direct Taxes

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Rs. in Billion						
Collection on demand	88	93	104	103	61	80	101
Tax with return	38	45	42	39	61	54	79
Advance Tax	302	325	336	344	351	412	587
WHT	803	944	1,047	961	1,092	1,237	1,534
Total	1,231	1,407	1,529	1,447	1,565	1,783	2,301
%age of WHT in Direct Taxes	65%	67%	68%	66%	70%	69%	67%

(Source: Revenue Division Year Books 2015-16 to 2021-22)

It is also evident from the Revenue Division’s Year Book 2021-22 that portion of WHT in total direct taxes collection is following the northward trajectory from 1985 to 2022:



Revenue Division Year Book 2021-22

From the above-narrated facts and figures it can easily be inferred that effectively, percentage of voluntary payments (VPs) in total tax collection by FBR ranged between the bracket of 11% to 14% in the past seven financial years:

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
%age of Voluntary Payments in Total Taxes	14%	14%	13%	13%	12%	11%	12%

Despite the fact that numerous tax deductions at source have been eliminated in the recent years, like WHT on cash withdrawal, WHT on banking instrument against cash, WHT on transfer, etc. still major portion of direct tax is being collected through WHT. And if WHT on these transactions is resumed, percentage of WHT in total tax collection may further increase sharply.

Section-2

ISSUES/PROBLEMS IN THE EXISTING WITHHOLDING TAX REGIME

Complexity

Existing WHT regime is quite complex in nature and a withholding agent has to follow a multi-layer complex procedure to comply with the statutory requirements of deducting tax from the payment of taxpayer, then depositing the tax withheld into Government Treasury within stipulated time period and then report the same to regulatory authorities.

Only under one single section (i.e. Section 153 of the Income Tax Ordinance 2001) which deals with deduction of tax from payments made in respect of supplies, services and contracts, there are numerous WHT rates for each category of product, service or contract. Then there is a bifurcation of taxpayers into companies and other-than-companies (i.e. individuals, firms or association of persons). Another litmus test is to check the status of taxpayer at the time of making payment. If the taxpayer is active as per last updated Active Taxpayers' List (ATL), WHT rate is different and if he is not on FBR's ATL at the time of making payment, tax will be withheld at a higher rate. Details of WHT rates applicable to payments made against supplies, services and contracts, have been shown in Annexure-2.

Double taxation and multiple taxation

It is clearly stated in the Income Tax Ordinance 2001 that withholding agent shall deduct tax from the gross amount payable (including sales tax, if any) to the tax payer. Sales tax is a tax and it has nothing to do with the income of the taxpayer. Supplier, service provider or contractor charges sales tax for onward deposit of the same to FBR. Accounting treatment of both these segments is also entirely different as sale price of the product or service is shown as income in the income statement of the taxpayer whereas sales tax charged by him on the top of that is shown as liability in the balance sheet. Deducting tax from the gross amount means that not only tax is withheld from income of the taxpayer but also from liability of the taxpayer, which leads to double taxation.

Same is the case with withholding tax at import stage. Import duties and sales tax are added to the price/assessed value of the product and then tax is withheld. likewise, in some cases, besides sales tax, advance tax is charged on services bill e.g. telephone/mobile phone bills. Withholding agent has to withhold tax including FED/sales tax and advance income tax giving rise to the issue of multiple taxation.

Capital Value Tax (CVT) has been introduced very recently vide Finance Act 2022 which is applicable on purchase, registration and transfer of vehicles with engine capacity of more than 1300 cc. As per CVT Act 2022, CVT will be levied on ex-factory price including all the applicable taxes, meaning thereby that FED, Sales Tax and advance tax is added to ex-factory price of the vehicle and CVT is calculated on this amount. Then withholding agent has to withhold tax on total price of vehicle inclusive of FED, CVT and GST. A classic example of multiple taxation on a single item and single activity.

Cost of Compliance/Doing Business of Withholding Agent

To avoid any untoward situation and to fulfill statutory compliance requirements ensuring timeliness, accuracy and completeness, withholding agents have to incur huge cost. Most of the businesses are bound to establish a full-fledged setup having qualified staff and requisite IT equipment & other infrastructure to deal with withholding tax matters. A step further, they have to hire tax consultants to deal with the complex matters of WHT as well as to defend their litigation matters at various forums. At the time of assessments and WHT audits, lot of record is provided for verification to FBR both in hard form and in soft form thus increasing cost of business manifold.

Separate WHT rates for Active Taxpayers (Filers) and Inactive Taxpayers (Non-Filers) – Discrimination that leads to distortion

The concept of “Filer” and “Non-Filer” was initially introduced by FBR vide Finance Act 2014 and originally, basic objective was to increase compliance and enhance revenues, as stated in Revenue Division’s Year Book 2014-15. For this purpose, enhanced rates of WHT had been imposed by FBR on numerous transactions.

Vide Finance Act, 2019, definitions of Filer and Non-Filer were abolished from the law and Rules were prescribed for the persons not appearing in the ATL, by incorporating Tenth Schedule in the Income Tax Ordinance 2001.

In the existing scenario, the rate of tax to be deducted from a person whose name is not in ATL, will be increased by 100%, i.e. double of the standard WHT rate. However, it will be increased by 200% on purchase/transfer of motor vehicle and by 250% on purchase of immovable property accordingly.

Basic mind-blowing question is that is the person whose name is not appearing in ATL is really a tax evader? If a person’s annual income is less than the basic threshold and he is not required to file the tax return, is it justified to penalize him by deducting enhanced tax from his payment whatsoever? Isn’t it unjustified to treat two persons differently for a single transaction/activity, just on the grounds that one person was eligible to file the return and he did it and other person was not required to file his return and so he did not file the return?

Distinction of Adjustable, Minimum, Fixed and Final Tax

Adjustable withholding taxes are those which a taxpayer can get adjusted against his personal tax liability. Fair enough.

In many cases, withholding taxes are minimum. In such case, if personal tax liability of taxpayer is greater than the tax already withheld by withholding agent then he has to pay the additional amount; however, in case tax liability is less than the already withheld tax then there is no option to claim refund from FBR because whatever amount has been withheld, is considered as the minimum amount of tax.

Scenario of fixed/final WHT is one more step further. Whatever amount of tax has been withheld by withholding agent from the payment of taxpayer, neither it can be adjusted against personal tax liability of the taxpayer nor tax amount withheld in excess of actual tax liability can be refunded.

Problem faced by withholding agent due to this distinction is that he has to deposit the tax according to prescribed category of adjustable, minimum or fixed/final. If a WHT is adjustable but inadvertently deposited with FBR under fixed/final tax, then taxpayer cannot get it adjusted against his personal tax liability. Withholding agent has to remain extra vigilant while depositing the tax and has to bear extra burden.

Revenue spinners v/s Revenue non-spinners – An Imbalance

As stated in the Revenue Division's Year Book 2021-22, only 10 categories (contracts, imports, salary, profit on debt, dividends, electricity, telephone, export, purchase/transfer of immovable property, technical fee) have contributed 89% in the total WHT collection during the year and around 50 categories have contributed rest of the 11%. It means that there exists imbalance somewhere between revenue spinners and revenue non-spinners.

There are many categories on which withholding agent has to incur huge cost and invest lot of his time in collecting WHT but, in aggregate, their share is too much less in total WHT collection of FBR.

WHT majorly used as a tool to enhance revenue only instead of broadening of tax base

Initial objective to introduce WHT was to use it as an “identifier”, i.e. to identify the transactions on which tax is being withheld and then to match it with the tax computations and underlying financial statements submitted by taxpayer himself. Other way around, if taxpayer intends to conceal his business activities to evade tax thereon, tax authorities should have sufficient information to assess his income.

But due to exponential growth of revenue on account of WHT, gradually it started to be considered as a more effective revenue generation tool. As mentioned in Revenue Division’s Year Book 2021-22, share of WHT in total direct tax collection was just 44% in 1985 whereas in the FY2021-22, this share has risen to 67%.

Registration of withholding agents with all the tax revenue authorities

A withholding agent has to get himself registered with FBR as well as all the Provincial tax revenue authorities and then to comply with the requirements of all the tax laws, as enlisted in Annexure-1.

Section-3

PROPOSED REFORMS IN WITHHOLDING TAX REGIME

WHT regime to be simplified at both Federal & Provincial level

The problem of complexity has already been elaborated in previous section. First step to bring simplicity in the WHT regime is to curtail the categories/sections of WHT. Revenue spinners and revenue non-spinners have so far been identified, therefore WHT having least contribution should be done away with.

Further, instead of multiple sub-categories, multiple rates, multiple criteria of taxpayer's status, there should be a single rate of WHT applicable under one category. Like, to withhold tax from payment against supplies, withholding agent should have a clear understanding that a single rate of, say 4%, is applicable, whatever be the product, whoever be the taxpayer and whatever be the status of taxpayer.

Adjustability of Withholding Taxes

At least withholding taxes which are transaction-based must be declared as adjustable taxes. Investment-specific taxes (e.g. profit on debt, capital gains, etc.) can be categorized as minimum, fixed or final. Withholding agent should not be burdened to check the nature of tax being withheld and then to deposit it accordingly.

Same Withholding Rules should apply to sales tax on services in every province

Ideally, there should be a single tax authority under whose administrative control provincial bifurcation/segregation exists and revenue is shared among provinces accordingly. But until this dream becomes a reality, provinces should unanimously decide to adopt withholding tax rules which are applicable in all provinces instead of every province having its own withholding tax rules. It does not create problems only for taxpayers having nation-wide business but also for withholding agents having service providers all over the Country.

Reporting requirements to be minimized

Extensive reporting requirement on the part of withholding agent should be minimized. When withholding agent deposits with FBR, the tax withheld from the payment made to taxpayer, that should be enough. FBR should have systematic arrangements at the backend to generate reports from weekly withholding tax payments. Even if separate reporting is deemed necessary, then only one single statement is sufficient to be filed instead of multiple statements to be filed at various intervals

Further, requirement to file statement to reconcile annual withholding tax statement with financial statements of withholding agent should also be abolished.

Strict audits and assessments of withholding agents to be eliminated

Withholding agent is already making lot of efforts in generating huge amount of revenue on behalf of FBR and his efforts must be appreciated at all levels instead of watching him with skepticism. Trust is the main factor which, if missing, can sabotage the entire withholding tax regime. Further, if a withholding agent remains busy in fulfilling the requirements of FBR all the time and always a sword is hanging over his head when a notice is served upon him and when he has to face the litigation proceedings, how he can focus on running his business? Instead, he should be given opportunity to focus more on his business so that economic activities flourish. By doing this, his revenue and profits will increase and resultantly more tax will be paid by him on his own business income. Audit and assessment of tax on his own business income makes sense.

PRIME has strongly recommended and proposed to FBR to bring simplicity in the existing WHT regime and also to take such measures which can be helpful in curtailment of cost of doing business of withholding agents, in the Federal Budget 2023-24 and making necessary amendment in the legislation through Finance Act 2023.

Taxation experts propose flat and low-rate taxation system for Pakistan's Finance Bill 2023

Annexures

ANNEXURE - 1

Tax Laws Dealing with Withholding Taxes Under Income Tax & Sales Tax

- Income Tax Ordinance, 2001
- Sales Tax Act, 1990 (Eleventh Schedule)
- Punjab Sales Tax on Services (Withholding) Rules, 2015
- Sindh Sales Tax Special Procedure (Withholding) Rules, 2014
- Khyber Pakhtunkhwa Sales Tax on Services (Withholding) Regulation, 2020
- Balochistan Sales Tax Special Procedure (Withholding) Rules, 2018

ANNEXURE - 2

Withholding Agent as defined in Income Tax Ordinance, 2001

Section 153(7) defines the following persons as Withholding Agent:

- (a) the Federal Government;
- (b) a company;
- (c) an association of persons constituted by, or under law;
- (d) a non-profit organization;
- (e) a foreign contractor or consultant;
- (f) a consortium or joint venture;
- (g) an exporter or an export house for the purpose of subsection (2);
- (h) an association of persons, having turnover of one hundred million rupees or above in any of the preceding tax years;
- (i) an individual, having turnover of one hundred million rupees or above in any of the preceding tax years;
- (j) a person registered under the Sales Tax Act, 1990 having turnover of one hundred million rupees or more in any of the preceding tax years;
- (k) a person deriving income from the business of construction and sale of residential, commercial or other buildings (builder); or
- (l) a person deriving income from the business of development and sale of residential, commercial or other plots (developer).

WHT on Payments against Supplies, Services and Contracts

Payment Under Section	Nature of Payment	Rate of WHT	
		Person Name on Active Taxpayers' List (ATL)	Person Name NOT Active Taxpayers' List (ATL)
153(1)(a)	Payment for Sale of <i>rice, cotton seed or edible oils</i>	1.5%	3%
	Payment for Sale of other goods (in full or part including payment by way of advance) - by companies	4%	8%
	by persons other than companies	4.5%	9%
153(1)(b)	Payment for rendering of or providing of Services (in full or part including payment by way of advance):		
	<ul style="list-style-type: none"> • Transport services • Freight forward services • Air cargo services • Courier services • Manpower outsourcing services • Hotel services • Security guard services • Software development services • IT services & IT enabled services • Tracking services • Advertising services (other than by print or electronic media) • Share registrar services • Engineering services including architectural services • Warehousing services • Services rendered by asset management companies • Data services provided under license issued by PTA • Telecommunication infrastructure (tower) services • Car rental services • Building maintenance services • Services rendered by Pakistan Stock Exchange Ltd and Pakistan Mercantile Exchange Ltd 	3%*	6%*

WHT on Payments against Supplies, Services and Contracts

	<ul style="list-style-type: none"> • Inspection, certification, testing and training services • Oilfield Services • Telecommunication Services • Collateral Management Services • Travel and Tour Services • REIT management services • Services rendered by National Clearing Company of Pakistan Limited 		
	Payment to Electronic & Print Media for advertisement services	1.5%	3%
153(1)(b)	Other than the services mentioned above in case of companies	8%	16%
	in case of persons other than companies	10%	20%
	On the execution of a Contract in case of sportspersons	10%	20%
153(1)(c)	On the execution of a Contract, other than contract for the sale of goods or the rendering of or providing services (in full or part including payment by way of advance) by companies	6.5%	13%
	by persons other than companies	7%	14%
153(2)(c)	Exporter making payment to a resident person for rendering of stitching, dying, printing, embroidery, washing, sizing and weaving services	1%	2%

*For twenty-seven classified services on which 3% or 6% WHT rate is applicable, another condition for which attention of withholding agents is required is that such rate is applicable only to a service provider whose services are subjected to withholding tax on gross receipts and the service provider has not agitated taxation of gross receipts before any court of law.

Complete list of transactions attracting withholding tax provisions under Income Tax Ordinance, 2001, along with applicable rates, can be accessed by [clicking here.](#)

Analysis of Provincial Own-Tax Receipts

Tax Receipts in Sindh

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (R.E.)
Rs. in Million							
Direct Taxes	7,508	6,259	6,796	7,330	5,402	3,406	4,965
Indirect Taxes	117,430	138,095	167,563	170,395	176,464	224,939	262,962
Total	124,938	144,354	174,359	177,725	181,866	228,345	267,927
%age of Indirect Taxes	94%	96%	96%	96%	97%	99%	98%

(Source: Budget Analysis 2022-23, Finance Department, Government of Sindh)

Tax Receipts in Punjab

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (R.E.)
Rs. in Million							
Direct Taxes	27,747	29,062	17,846	19,674	18,933	25,381	40,813
Indirect Taxes	115,119	126,315	179,770	171,997	169,606	199,234	235,881
Total	142,866	155,378	197,616	191,670	188,539	224,615	276,694
%age of Indirect Taxes	81%	81%	91%	90%	90%	89%	85%

(Source: Annual Budget Statements, Finance Department, Government of Punjab)

Tax Receipts in Khyber Pakhtunkhwa

	2015-16 (R.E.)	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (R.E.)
Rs. in Million							
Direct Taxes	2,812	2,955	3,141	5,270	3,200	5,072	6,111
Indirect Taxes	11,507	15,216	14,588	14,935	22,465	28,488	38,469
Total	14,319	18,171	17,729	20,205	25,665	33,560	44,580
%age of Indirect Taxes	80%	84%	82%	74%	88%	85%	86%

(Source: Annual Budget Statements, Finance Department, Government of Balochistan)

Analysis of Provincial Own-Tax Receipts

Tax Receipts in Balochistan

	2015-16	2016-17 (R.E.)	2017-18 (B.E.)	2018-19	2019-20	2020-21	2021-22 (R.E.)
Rs. in Million							
Direct Taxes	471	547	679	629	1,280	1,204	1,230
Indirect Taxes	3,667	6,254	6,667	10,504	15,169	17,145	22,909
Total	4,138	6,801	7,346	11,133	16,449	18,349	24,139
%age of Indirect Taxes	89%	92%	91%	94%	92%	93%	95%

(Source: Annual Budget Statements, Finance Department, Government of Balochistan)

R.E: Revised Estimates; B.E: Budgeted Estimates

Withholding Sales Tax (SWHT) on Goods throughout Pakistan

Till June 30, 2007, there was only one authority, i.e. FBR that was empowered to administer withholding tax and that WHT was only under income tax law. From 1st July 2007, FBR made a vigorous development and withholding of sales tax started first time in the history of Pakistan. Sales Tax Special Procedure (Withholding) Rules, 2007 were issued vide SRO 660(I)/2007 to enforce withholding of sales tax, but the scope of sales tax withholding was very limited. Gradually, through amendments in the said Rules, scope of withholding sales tax started to get widened. Vide Finance Act 2019, Eleventh Schedule was inserted in Sales Tax Act 1990 to make withholding sales tax regime part of the Act.

Current SWHT regime under Eleventh Schedule of the Sales Tax Act, 1990 is as follows:

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)	Active Taxpayers	1/5th of Sales Tax as shown on invoice
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)	Active Taxpayer registered as a wholesaler, dealer or distributor	1/10th of Sales Tax as shown on invoice
3.	Federal and provincial government departments; autonomous bodies; and public sector organizations	Persons other than Active Taxpayers	Whole of the tax involved or as applicable to supplies on the basis of gross value of Supplies

Withholding Sales Tax (SWHT) on Goods throughout Pakistan

4.	Companies as defined in the Income Tax Ordinance, 2001 excluding companies exporting surgical instruments	Persons other than Active Tax payers	5% of gross value of supplies
5.	Registered persons as recipient of advertisement services	Person providing advertisement Services	Whole of sales tax applicable
6.	Registered persons purchasing cane molasses.	Persons other than Active Taxpayers	Whole of sales tax applicable.
7.	Registered persons manufacturing lead batteries	Persons supplying any kind of lead under chapter 78 (PCT Headings: 7801.1000, 7801.9100, 7801.9900, 7802.0000, 78.03, 7804.1100, 7804.1900, 7804.2000, 78.05, 7806.0010, 7806.0020, 7806.0090) or scrap batteries under chapter 85 (PCT Headings: Respective Headings	75% of the sales tax applicable.
8.	Online market place	Persons other than active taxpayers	1% of gross value of supplies: Provided that the provisions of this entry shall be effective from the date as notified by the Board.

Withholding Sales Tax (SWHT) on Goods throughout Pakistan**Exclusions:**

- (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) Vegetable ghee and cooking oil;
- (v) Telecommunication services;
- (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.

Above-mentioned SWHT Rules are also applicable to services rendered in Islamabad under Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Withholding Sales Tax on Services in Punjab

The rules shall not apply on services relating to:

- Telecommunication
- Banking
- Courier
- Insurance
- Provided by the companies being the active tax payers (except advertisement services)

S. No.	Category of Services and Service Provider	Rate of Punjab-SWHT
a.	Registered Persons (other than persons providing advertisement services) (Registered with PRA in Punjab Sales Tax)	Withhold the whole (100%) amount of Punjab Sales Tax on Services shown in the tax invoice issued by a registered person.
b.	Un-Registered Persons (other than persons providing advertisement services)	Withhold sales tax at the applicable rate (i.e.16%) of the gross value of taxable services from the payment due to the service provider.
c.	Payment for advertisement services if amount of Punjab Sales Tax is indicated/shown on invoice	Withhold the whole (100%) amount of Punjab Sales Tax on Services shown in the invoice issued by advertisement services provider.
d.	Payment for advertisement services if Amount of Punjab Sales Tax is not indicated/shown on invoice	The amount shall be deducted at the applicable rate (16%) on the gross value of taxable services from the payment due to the service provider.

Withholding Sales Tax on Services in Sindh

Withholding agent shall not be responsible to deduct or withhold such amount of tax as are compulsorily collected against the invoices or bills issued by a SRB-registered service provider in respect of the services of

- telecommunication,
- banking company, financial institution,
- insurance company (other than a re-insurance company) in relation to its services of life insurance and health insurance of individual persons,
- port operator, airport operator, terminal operator, and airport ground services.

S. No.	Category of Services and Service Provider	Rate of Sindh-SWHT
a.	Registered Persons (Registered in Sindh Sales Tax) where sales tax amount is shown on the invoice	Withhold 1/5 (one-fifth) i.e. 20% of amount of total Sindh Sales Tax on Services shown in the invoice issued by a registered person.
b.	Registered Persons (Registered in Sindh Sales Tax) where sales tax amount is not shown on the invoice	Withhold sales tax at the applicable rate (13%) of the gross value of taxable services from the payment due to the service provider
c.	Un-Registered Persons	Withhold sales tax at the applicable rate (13%) of the gross value of taxable services from the payment due to the service provider
d.	Advertisement Services, Auctioneers, Renting of Immovable Property and Intercity Transportation or Carriage of Goods by Road if amount of Sindh Sales Tax is indicated/shown on invoice	Withhold the whole (100%) amount of Sindh Sales Tax on Services shown in the tax invoice issued by services provider.
e.	Amount of Sindh Sales Tax is not indicated/shown on invoice	The amount shall be deducted at the applicable rate (13%) on the gross value of taxable services from the payment due to the service provider. Applicable Rate: Under head 98.02 of the second schedule of Sindh Sales Tax Act 2011

Withholding Sales Tax on Services in Khyber Pakhtunkhwa

Services not subject to withholding:

- Telecommunication services (excluding such services as are provided or received by telecom companies to or from each other)

S. No.	Category of Service and Service Provider	Rate of KPK-SWHT
a.	<ul style="list-style-type: none"> • Advertisement services • Services provided by Un-Registered Persons or In-Active Taxpayers as per KPK Active Taxpayers' List (ATL) • Services provided to Federal Government, Provincial Government Departments, or Public Sector Institutions, Organizations, Entities and Projects etc. • Services provided in KPK by persons from outside the province if such persons are not registered with KPRA • Reduced-rate services 	Compulsory application of full withholding at applicable rates across the board.
b.	In all other cases not covered under (a) above	50% of the amount of leviable tax.

Withholding Sales Tax on Services in Balochistan

Withholding agent shall not deduct or withhold sales tax against the invoices or bills issued by a BRA-registered service provider in respect of the services of:

- telecommunication
- banking company, insurance company (other than a re-insurance company), financial institution
- port operator, airport operator, terminal operator, and airport ground services

S. No.	Category of Services and Service Provider	Rate of Balochistan-SWHT
a.	Registered Persons (Registered in Sales Tax) and amount of sales tax is shown on the invoice	Withhold 1/5th (one-fifth) amount of total Sales Tax on Services shown in the tax invoice issued by a registered person.
b.	Registered Persons (Registered in Sales Tax) and amount of sales tax not shown on the invoice	Withhold sales tax at the applicable rate (15%) of the gross value of taxable services from the payment due to the service provider
c.	Un-Registered Persons (withholding agents will keep copy of CNIC or NTN certificate for record and also report to BRA accordingly)	Withhold sales tax at the applicable rate (15%) of the gross value of taxable services from the payment due to the service provider
d.	Advertisement Services, Intercity transportation or Carriage of Goods by Road, Advertising Agent, Renting of Immovable Property, Consultant and Auctioneer if amount of Sales Tax is indicated/shown on invoice	Withhold the whole (100%) amount of Sales Tax on Services shown in the invoice issued by advertisement services provider.
e.	Advertisement Services, Intercity Transportation or Carriage of Goods by Road, Advertising Agent, Renting of Immovable Property, Consultant and Auctioneer if amount of Sales Tax is not indicated/shown on invoice	The amount shall be deducted at the applicable rate (15%) on the gross value of taxable services from the payment due to the service provider.

APPENDICES

APPENDIX - 1

- Due to overemphasis on withholding taxes, the people want to conceal their actual transactions and do business through multiple names, in each case keeping lower threshold to avoid coming into the ambit of withholding provisions (which are now 58 in number!)
- Over the last many years, successive governments have reduced their reliance on direct taxes, and instead increased their reliance on indirect ones. Even the Inland Revenue Service has transferred a major portion of its responsibilities of collecting tax on withholding tax agents leaving very little to justify its own existence.
- The followers of World Bank's "Ease of Doing Business" report have noted with dismay that paying taxes in Pakistan continues to have a poor rating. The international lender has ranked Pakistan 171 out of 189 countries in its 2015 survey. It takes 594 hours to comply with provisions of lax law (withholding tax compliance time is not included). In India it takes 243 hours for tax compliance.

(Source: Huzaima Bukhari & Dr. Ikramul Haq (2020), Towards Flat, Low-rate, Broad and Predictable Taxes, Islamabad: PRIME Institute)

APPENDIX - 2

- Pakistan's growth is stunted by its inability to allocate all of its talent and resources to the most productive uses. Underlying that inability are various distortions, either introduced by policy decisions, or unaddressed by them. Distortions can take many forms. Some examples are taxes, subsidies, size dependent industrial policies, trade restrictions or gender norms. For example, distortions in the form of differences in direct tax rates tend to make it more profitable to invest in real estate relative to manufacturing or tradable services

(Source: From Swimming in Sand to High and Sustainable Growth, Pakistan's Country Economic Memorandum 2022, World Bank Group)

APPENDIX - 3

- Withholdingisation needs to be reduced in the economy to improve efficiency.
- Some Sales and Withholding Taxes yield little revenue but are significant impediments for growth.
- Each new tax, including the withholding tax, should consider the economic cost and benefits in the budgetary proposal. Revenue non-spinners should be evaluated in terms of pre-post enactment, and future policy should be based on that.
- The behavioral aspect of the economic agents should be considered in formulating new taxes/rates, and the forecasting capacity of the FBR needs to improve.
- There is a need to improve the entire tax system from policy to administration. The World Bank using DFID grants has already spent USD 150 million on this endeavour without much success. A similar project worth USD 300 million by the World Bank and financed by DFID is underway. The results for the current project are awaited.
- Rather than confronting taxpayers, FBR might consider facilitation, education, building better systems and working on taxpayers' trust.
- Other than WHT on income tax, WHT on sales tax is not reported by the FBR.
- There are 866 commodity lines which contribute only 20% to the share of domestic sales tax. The 16 commodity lines provide the remaining 80%. The trend remains the same from FY15 to FY19. A similar pattern is observed in sales tax revenue from imports, where 93% of the revenue is obtained from 16 commodity lines in FY19. Eighty-two commodity lines contributed the remaining 6%.

(Source: Growth Inclusive Tax Policy: A Reform Proposal; Pakistan Institute of Development Economics; June 20, 2020)

APPENDIX - 4

- Pakistan suffers from one of the most complex tax structures with multiple taxes and authorities for business to deal with. Fragmentation between the federation and the provinces has not helped. Taxes should be unified, returns simplified and the scope for personal interaction be reduced.
- Phase out the inequitable advance/withholding taxes on the consumption of the poor.
- Reliance on advance and withholding taxes, which sap the cash flow of business, be reduced.
- Advance/withholding taxes on the consumption by the poor, although theoretically adjustable, are inequitable due to their below taxable threshold income and inability to obtain refunds. This raises the cost of cellular services thus impeding a sector which can play an important role in the formalization of the economy.
- Advance and withholding taxes sap the cash flow of businesses and should be reduced gradually.

Source: Pakistan Economic Reforms Programme; The Pakistan Business Council; August 2022

INDIA'S "ONE NATION-ONE TAX" PHILOSOPHY

India, after experiencing the decentralized sales tax regime (as currently prevailing in Pakistan) for so many years, finally decided to integrate the same and bring it under the famous slogan "One Nation-One Tax". In the words of Prime Minister Narendra Modi, the Goods and Services Tax (GST) is "a path-breaking legislation for New India". GST is not merely a tax reform but a milestone in realizing Sardar Vallabhbhai Patel's dream of building 'Ek Bharat – Sreshtha Bharat'. Print media across the world publicized this glorious development with the caption "landmark tax reform bill". This revolutionary taxation system was rolled out on the midnight of 1 July, 2017 in a ceremony held in the Central Hall of Parliament.

DAWN

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'One nation, one tax': Indian parliament passes landmark tax reform bill

AFP | Published August 3, 2016

Source: <https://www.dawn.com/news/1275163>

Need for GST

- Before 1 July 2017, Indian indirect tax regime was highly fragmented. Centre and States were separately taxing goods and services. There were many taxes like excise duty, service tax, VAT, CST, purchase tax, entertainment tax etc.
- In addition, there was multiplicity of rates, laws and procedures. This caused heavy compliance burden.
- Imposition of tax on tax was another serious problem. For example, VAT was levied on a value that included excise duty.
- Input tax credit chain broke as goods moved from one state to another, resulting in hidden cost for the business.
- There were tax nakas at every inter-state border, creating bottlenecks in inter-state transport of goods.
- Every state was effectively a distinct market for the industry as well as consumer.
- Industry's choice of locating factories or warehouses was heavily influenced by the prevailing tax regime rather than pure business consideration, making the industry uncompetitive.

INDIA'S "ONE NATION-ONE TAX" PHILOSOPHY**Salient Features of GST**

- Ending decades of twists and turns, GST subsumed 17 large taxes and 13 cesses
- With uniform tax on supplies of goods and services, India turned into one market.
- GST ensured compliance simplification with:
 1. Uniform processes across the country
 2. Simple registration process - Single return - Minimal physical interface
 3. Faster refunds
 4. Fully IT driven system
 5. Free flow of goods – Check posts removed

Benefits of GST to MSME

- MSMEs have gained significantly by GST.
- Earlier VAT exemption and composition scheme thresholds were very small.
- In GST, threshold has been initially fixed at Rs 20 lakh and has subsequently been increased to Rs 40 lakh for goods.
- GST introduced a composition scheme which allowed small businesses to pay a fixed rate on their turnover without any paperwork. This composition threshold is Rs 1.5 crore a year for goods and Rs 50 lakh for services.
- GST has opened up new avenues through quick bill discounting and loans to MSMEs.
- Compliance burden of MSMEs has reduced significantly with option of quarterly return filing for taxpayer having annual turnover of Rs 5 crore.

Benefits of GST to Consumers

- GST is a pro-people reform. Hence, consumer is at the center of this reform.
- Average tax rates in GST have come down. This has been made possible as tax base expanded on rollout of GST and compliance improved. Taxpayers' number has doubled from the earlier 60 lakh to about 1.2 crore.
- The Government has progressively lowered tax rates on essential and daily use items.
- A Finance Ministry study suggested that consumers saved at least four per cent on their household monthly expenses on an aggregate after GST.
- Thus, consumers now spend less on daily consumables like cereals, edible oils, sugar, sweets and snacks.

INDIA'S "ONE NATION-ONE TAX" PHILOSOPHY**Impact of GST on Logistics Sector**

- GST ended long queues of trucks & goods carriers at highway toll plazas freeing goods movement across states.
- Nakas, notorious for corruption and also resulting in restricting and slowing down the movement of goods disappeared.
- Credible studies point to an improvement of over 33 per cent in transport time after GST implementation.
- Millions of liters in petrol and diesel have also been saved apart from decongesting arterial roads.
- E-way bill system has helped government to facilitate monitoring of movement of essential commodities and medical supplies during lockdown necessitated by Covid-19 pandemic.

GST and Cooperative Federalism

- GST is the finest example of co-operative federalism in the history of India.
- Centre and States overcame all the hurdles in the way of GST, in complete consensus, in the larger interest of the country and its people.
- The GST Council, a federal body comprising the Union Finance Minister as its Chairman and Finance Ministers of all States as members, has played its role to perfection.
- Tax administration of Centre and States are working in close harmony.
- One of the biggest triumphs associated with GST is the spirit and display of cooperative federalism, with almost all decisions on GST being taken with consensus among members of the GST Council.

Outcome of New Tax Regime

- Tax base has doubled in GST.
- Goods now move faster.
- Refunds come quickly.
- Consumer gains with reduction tax burden on items of consumption.

(Source: Press Information Bureau, Government of India)

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