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FBR expects Rs25bln more revenue from enhanced sales tax withholding rate

KARACHI: The Federal Board of Revenue (FBR) has estimated around Rs20-25 billion as additional revenue after enhancement of sales tax withholding rate to five percent, as compared with the existing one percent, sources said on Thursday.

Sources said the new rate of withholding tax of sales tax would be applicable from July 1 subject to the approval of Finance Bill, 2019 by the Parliament.

In order to discourage undocumented economy the government has proposed increased sales tax withholding tax rate to five percent from one percent on supplies made by unregistered persons to the income tax registered companies.

The FBR sources said the hike in rate was proposed with the intention to increase the cost of business for unregistered persons and compelling them to register. Sources were unable to quantify the amount of additional revenue to be generated through this change.

However, they said that the tax authorities had made a simplified automated procedure for sales tax registration, which was also proposed through the Finance Bill 2019.

The bill proposed that sales tax registration would be done through an automated interface, without any physical contact with the tax officers, with facility of biometric verification through NADRA e-Sahulat centres.

The elimination of zero-rated sales tax and imposition of normal tax rate on local supplies would also increase the revenue from indirect taxes, they said. The withholding sales tax would also increase as manufacturers were allowed concessional sales tax rates on supply to unregistered persons under zero-rated scheme.

Tax experts at Deloitte Pakistan said that as per salient features, SRO 1125(I)/2011 was proposed to be eliminated with intention to streamline and prevent leakage of revenue due to misuse of the SRO.

The finance bill proposed that standardised rate of 17 percent should be restored on items covered under the SRO. Further, rate of sales tax on local supplies of finished articles of textile and leather and finished fabric be raised to 15 percent for integrated business.

Tax experts said that in order to force unregistered persons to become part of the documented economy, the finance bill now proposed to compel the manufacturers to mention particulars on invoices in Urdu or English language.

Tax invoice was also required to reflect CNIC number of the recipient in case supplies were made to an unregistered person. The bill also proposes to require a supplier of textile yarn and fabric to mention count, denier and construction, in addition to description, on tax invoice at the time of making taxable supply.

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