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Special procedures, FBR hasn't fully addressed ST issues of various sectors

ISLAMABAD: The Federal Board of Revenue (FBR) has not fully addressed sales tax issues of sectors operating under special procedures particularly steel sector despite passage of over two and half months since introduction of budgetary changes of financial year 2019-20.

Tax experts have termed the Sales Tax General Order (STGO) 105 of 2019 issued by the FBR after abolition of Sales Tax Special Procedure for the certain sectors as deficient in respect of steel sector. Since July 1, 2019, the issues needs to be fully resolved, but the FBR is still in process of clarifying budgetary matters in mid-September 2019.

The background facts are that earlier for certain sectors Special Procedures for charging and payment of sales tax were prescribed by the Federal Government through notifications under delegated powers given under the Sales Tax Act 1990.

One of the Special Procedure was regarding payment of sales tax on steel products manufactured by certain sugar mills, which were using electricity generated in-house for production of prescribed steel products in their steel units. Some sugar mills in-house generate electricity for consumption and also produce steel products.

The prescribed Special Procedure provided that such sugar mills will pay sales tax of Rs.13 per unit of electricity used in-house for production of steel products. Tax paid at this rate was the final discharge of sales tax liability in the month of production regardless of the time of supply though there was a procedure for issuance of sales tax invoice and reporting in the monthly sales tax return.

These Special Procedures were abolished through budgetary measures of financial year 2019-20 and sales tax at standard rate of 17 per cent was imposed with effect from first July 2019.

However while abolishing Special Procedure no tax treatment of those finished steel products was thought of on which sales tax at the rate of Rs.13 per unit of electricity consumed stood paid in the month of production but these finished goods were still lying in stock when Special Procedure was abolished.

When asked, Shahid Jami tax consultant explained with example that in the case of one of such sugar mill, due to seasonal nature of their production, had paid over Rs.130 Million of sales tax during the months of production but steel products were in stock as on 30 June 2019 when the Special Procedure was abolished.

He explained this stock was reported to the FBR online as per Performa prescribed and in writing to the concerned Commissioner with the request to physically verify the tax paid stock. He specified that well before first July 2019 the FBR was supposed to issue a Sales Tax General Order (STGO) regarding the invoicing and reporting of such tax paid stock and also to make requisite changes in the columns of the monthly Sales Tax Returns and in the operating software.

Jami highlighted that in-spite of repeated requests on the FBR Helpline the matter has been delayed a lot with the result the taxpayer was unable to carry out any sales transaction of tax paid stock as the buyers were not willing to accept invoice under the previous regime and the new standard regime was not showing the amount of sales tax already paid as input tax resulting into double taxation.

He stated that very lately FBR has issued STGO NO.105/2019 dated 13 September 2019 prescribing certain procedures in respect of stock and input where the special regime has been abolished. Though for input tax admissibility of steel sector against GDs of re-meltable scrap imported prior to first July 2019 has been prescribed but no procedure for sugar mills operating steel units with their self-generated electricity has been prescribed in respect of tax paid stock. He observed that slackness of FBR in the context of early resolution of the issue is one of factor adversely affecting the revival of the economy, he added.