

Sales tax evaders warned of penalties, goods confiscation

KARACHI: The Federal Board of Revenue (FBR) has warned of penalties on goods evading sales tax on the pretext that they originate from tax-exempted territories in the country, sources said on Thursday.

The sources said the FBR empowered regional tax offices to confiscate goods coming from tax-exempt areas and having no valid documents. RTOs, through amendment into Income Tax Ordinance 2001, have been empowered to establish check posts for monitoring the goods entering into normal tax areas.

Tax-exempted areas include Azad Jammu and Kashmir, Gilgit-Baltistan and tribal areas under Article 246 of the constitution. An ordinance, namely Tax Laws (Second Amendment) Ordinance, 2019, was promulgated a day earlier. Under the law, an inspector of Inland Revenue can stop vehicles on routes coming from tax-exempt areas and examine documents to ascertain their validity and conformity to the carried goods.

“In absence of the prescribed documents or any discrepancy in such documents, the goods shall be seized along with the vehicle carrying the goods by the officer,” the amended law read.

The sources said there would also be fine and penalties on tax evaders under the latest amendment. The law proposed up to two years of imprisonment for individuals violating the law. Besides, the law also proposed a fine of Rs200,000.

The FBR recently issued instructions to offices of Inland Revenue to ensure sales tax collection on goods manufactured in tax-exempt areas. The instructions were issued to clarify the misconception that goods manufactured in tax-exempt areas were also exempted from sales tax in other parts of the country.

The FBR said sales tax on supplies originating from Kashmir is payable in Kashmir. However, dealers/distributors of such products located in Pakistan are required to discharge their liability on the value added on such products after adjustment of input tax paid in Kashmir as provided under the Sales Tax Act, 1990. A notification, issued by Jammu and Kashmir government on February 8, 1995, said sales tax is exempted on all goods manufactured in Kashmir, except some specified items.

The FBR said such a notification would not apply to supplies made in the country and the distributors/dealers of such items originating from the tax-exempted area would be charged sales tax at applicable rates and values, or on printed retail price in case of items falling in the third schedule to the Sales Act 1990, and deposit the same in Pakistan as per law.

If items are tax exempted in Kashmir, there would be no input tax paid. However, any deduction of any input tax paid in the country would be available under the law. The sources said the authorities empowered the tax officers to take harsh action against tax evaders taking advantage on goods manufactured in tax exempt areas, through the latest amendments into the tax laws.