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Our Correspondent

FBR explains sales tax input adjustment

KARACHI: The Federal Board of Revenue (FBR) on Thursday allowed sales tax input adjustment on supplies made to government departments, foreign missions, and persons not engaged in supply of taxable goods.

The FBR issued Sales Tax General Order (STGO) No 1 of 2020 to explain the amendment made to Sales Tax Act, 1990 through Tax Laws (Second Amendment) Ordinance, 2019.

Through Second Amendment Ordinance, a new sub-section to Section 73 of Sales Tax Act, 1990 was introduced under which if a registered manufacturer makes taxable supplies to a person, not registered under the act, exceeding Rs10 million in a month or Rs100 million in a financial year, then input tax adjustment, as attributable to such excess supplies to the unregistered person, would not be allowed.

The FBR said that queries were received from manufacturers in this regard. In the wake of such queries and in order to remove difficulty arising from the amendment, the FBR said such amendment would not be applicable on supplies made to: federal, provincial governments; foreign mission, diplomats and privileged persons; and all other persons not engaged in supply of taxable goods.

The FBR further explained that the threshold of Rs10 million per month and Rs100 million per year on goods supplied to one specific person by the registered manufacturer.

Tax experts at PwC A F Ferguson Chartered Accountants said the latest amendment apparently was overlapping in the disallowance of input tax under Section 8 and Section 73 in certain situation where supplies were made to unregistered persons.

They further said that through the Finance Act 2019, input tax attributable to supplies made to unregistered person had been disallowed, on pro rata basis, where supplies were made to an unregistered person and for which sales invoices do not bear the NIC number or NTN of the recipient.