

ICAP for providing one-window solution to taxpayers

ISLAMABAD: The Institute of Chartered Accountants of Pakistan (ICAP) has strongly recommended integration of federal and provincial revenue authorities for providing one-window solution to the taxpayers without undermining the existence and independence of each authority.

According to the ICAP's budget proposals on harmonization of tax laws for 2020-2021, under the Constitution of Pakistan, levying sales tax on services is in the domain of the provinces.

Accordingly, harmonization should not be interpreted as centralization, rather it should be seen strictly from the perspective of bringing uniformity in the sales tax legislations of the provinces and the ICT and their application.

The purpose of these proposals is to initiate a process of creating common standards across the provinces and the ICT.

It does not mean to encroach the powers of enacting laws and regulations from the provinces.

Since most of the major service providers operate across the country, the need for increased harmonization of provincial and the ICT sales tax on services laws has become imminent.

The principal areas, which are conflicting or raise serious cause of concerns are: jurisdiction, incidence of tax, admissibility of common input, reverse charge mechanism, inconsistent rate of tax, uneven penalty and default surcharge, inter-province transactions, tax controversies, etc.

The ICAP recommended that the one-window solution should, inter alia, achieve objectives such as filing of a single return for federal and provincial sales tax; introduction of common online software/application like STRIVE at federal and provincial levels, and enable inter-adjustment of refunds across revenue authorities.

The FBR is practically not allowing refunds for provincial sales tax, owing to settlement disputes/claims pending with the Provincial Tax Authorities.

Further, unnecessary notices are issued against input tax claims on account of non-verification of provincial sales tax in the FBR's system.

This issue needs to be taken up with the provincial sales tax authorities for its resolution at the earliest, the ICAP said.

The concept of reverse charge is used in many countries to exempt the exporters of services from registering themselves in the country of the importer.

The Provincial Sales Tax Statutes in Pakistan also have Reverse Charge provisions under which inter-province services are subject to collection of tax from the recipient of service.

Since the inter-province transactions are not zero-rated or exempt in the jurisdiction of origin, such transactions are also taxed in the province of the service provider.

It is strongly recommended that the reverse charge should be restricted to such cases where service provider is located outside Pakistan.

Further, tax paid under the reverse charge mechanism should be allowed as an input tax, it recommended.

Currently, input tax is not allowed on goods or services procured or received by a registered person during a period exceeding six months prior to the date of commencement of the provision of taxable services by him.

It is proposed that in case of large projects, where the installation and commissioning into service takes longer, the time limit for claiming input tax be allowed from the date of commencement of project to the date of commissioning into service.

The bar on admissibility of input tax borne by the taxpayer prior to six months preceding the commencement of provision of taxable services is not justifiable in case of large projects having longer set up time with no visibility of subsequent taxation of their services.

The ICAP recommended that a registered service provider has been prevented from claiming or deducting input tax paid on the goods or services including but not limited to goods and services subject to tax at fixed or specific rate, sales tax paid on building material, office equipment, and further tax or value addition tax levied under the Sales Tax Act.

It is recommended that the aforesaid provisions relating to input tax adjustment should be harmonized and revamped.

This will bring harmony between the federal and provincial tax laws.

The existing law provisions restrict or disallow the input tax claim of value addition tax paid on import of goods (used for rendering of services) under the Federal Sales Tax Act or Sales Tax paid on taxable goods in excess of the standard rate applicable in provinces.

Whilst the ICAP considers that harmonization of sales tax laws across provinces is more likely to address the above issues, meanwhile, it is proposed to amend the existing provisions as follows: Lift the restrictions on adjustment of input tax to the extent of standard rate and withdraw the provision restricting admissibility of minimum value

addition tax paid on goods at import stage where the goods are consumed or used in the process of rendering of services.

It is unjust to put a restriction on input tax as it is against the generally accepted VAT principles.

According to the ICAP, the adjustment of input tax on acquisition of capital goods, machinery and fixed assets is available in 12 equal monthly installments.

It is proposed to delete the provision and align it with the provision of STA'90, which allows full adjustment of input tax in the month of acquisition.

It is necessary to achieve harmonization of input tax adjustment provisions both under the federal and provincial sales tax laws.

In addition, it is also just and equitable from liquidity point of view to allow adjustment in the tax period in which the capital goods are acquired.

The provincial statutes stipulate that where a registered person, receiving a taxable service from another registered person, is in the knowledge of, or has reasonable grounds to suspect, that some or all of the tax payable in respect of that taxable service or any previous or subsequent taxable service provided would go unpaid, both the recipient and provider of the taxable service shall be jointly and severally liable for payment of such unpaid tax.

It is proposed that the provision should be aligned with Section 8A of STA'90 where the burden of the proof that the service provider and service recipient acted in connivance rests upon the tax authorities.

This will bring harmony between the federal and provincial sales tax laws.

This would also restrain the assessing officer from using the power imprudently without carrying out proper enquiry.

The ICAP has proposed that the time period for retention of records and assessment of tax should be rationalized and fixed at six years in all provinces as applicable under the Sales Tax Act and Income Tax Ordinance 2001.

The longer period of retention and assessment is not only burdensome, but also contrary to the timeline provided under the federal laws, it added.