

GST on power sector subsidy: FBR backs proposal on tariff Differential

The Federal Board of Revenue (FBR) has supported a proposal that DISCOs may be allowed either to recover sales tax on tariff differential subsidy from consumers or the federal government should pay sales tax on tariff differential subsidy to distribution companies.

Sources said that the issue of sales tax on power sector subsidy was discussed during a recent meeting held in the context of recovery of sales tax on subsidy from the power sector consumers. Power sector subsidy provided by the federal or provincial governments is not liable to sales tax for being not part of invoice. Therefore, power distribution companies wanted to be allowed either to recover sales tax on tariff differential subsidy from the consumers or Finance Division may provide sales tax on tariff differential subsidy to DISCOs.

On the proposal, the FBR response was that sales tax on tariff differential amount is not being recovered from consumers and the burden cannot be imposed solely on DISCOs. Therefore, it agrees to the suggestion that either DISCOs be allowed to recover sales tax on tariff differential subsidy from the consumers or the government should pay the sales tax to DISCOs on subsidy.

Power Division also supported the proposal and wanted that the Economic Coordination Committee (ECC) may decide the matter that DISCOs may be allowed either to recover sales tax on tariff differential subsidy from consumers or the federal government should pay sales tax on tariff differential subsidy to DISCOs.

The issue of disallowance of input tax credit against transmission and line losses also came under discussion during the meetings on circular debt. There was a proposal from DISCOs that either input tax adjustment may be allowed by a further 50% of differential between actual line losses and those determined by NEPRA or input tax adjustment may be allowed 100% of differential between actual line losses and those determined by NEPRA.

The FBR proposed that input tax adjustment may be allowed by a further 50% of differential between actual line losses and those determined by NEPRA. Petroleum Division also agreed to the FBR proposal. The DISCOs proposed that sales tax to be levied and collected during a tax period, must be on cash collection basis and not on accrual basis, by amending rule of Special Procedure Rules, 2007.

The FBR was of the view that the entire sales tax regime is based on payment of sales tax on accrual basis and creating an exception would invite similar demands from other utility companies such as K-Electric, gas distribution companies and others. The FBR did not agree to the proposal to levy sales tax on cash basis.

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