

SALES TAX ACT: SNGPL URGES FBR TO REMOVE AMBIGUITY

RECORDER REPORT

ISLAMABAD: Sui Northern Gas Pipelines Limited (SNGPL) has requested Federal Board of Revenue (FBR) to remove an ambiguity in the Sales Tax Act made through Finance Act 2018 regarding applicability of the reduced rate of sales tax rate on import and onward supply of LNG/ RLNG to Sui gas companies.

The communication of the SNGPL to the FBR refers to recently inserted Sr. No. 51 in Eight Schedule of Sales Tax Act, 1990 through Finance Act 2018. In this regard, it is submitted that issue of reduction in sales tax rate on import and onward supply of LNG/ RLNG to Sui companies was initiated by SNGPL through Ministry of Energy. The company was unable to fully adjust its input tax amounting to Rs23, 139 million as of today paid on purchase of LNG/ RLNG against its output tax charged to the consumers, as a result of mismatch in tax rates due to diversion of RLNG to other sectors (since Output Tax is charged at zero rate to textile/ captive textile and reduced rate of 5% to CNG sector). The issue has created out of pocket situation for the company.

Consequently, a number of meetings were held by the ministry with the representatives of the Sui companies and FBR and following decision was taken which was duly supported by FBR:

Firstly, it was recommended that summary for ECC of the Cabinet may be moved for allowing application of uniform input and output sales tax rate of 12% by reducing the current rate of sales tax from 17% to 12% on import of LNG/ RLNG as well as on supply of LNG/ RLNG to gas distribution companies by the importers.

The summary was approved by ECC of the Cabinet and resultantly new insertions were introduced in Eight Schedule of Sales Tax Act, 1990 in Finance Bill 2018 to accommodate the recommendations of ECC of the Cabinet.

=====

Sr	Description	Heading of	Rate of	Condition
No		First Schedule	Sales	
		to Customs Act	Tax	

=====

50	LNG	2711.11	12%	If imported by M/s Pakistan State Oil and M/s Pakistan LNG Limited
51	RLNG	2711.21	12%	If supplied by M/s Pakistan State Oil and M/s Pakistan LNG Limited to M/s SNGPL

=====

However, SNGPL suggested following amendments in the Finance Bill 2018 since the changes introduced in Finance Bill 2018 were not in line with the recommendations of ECC of the

Cabinet.

The amendment in Eight Schedule of Sales Tax Act, 1990 Sr. No.51 Column 2 was proposed to replace word “RLNG” with “RLNG/LNG”, the SNGPL said.

Need for this amendment was due to the fact that PSO is supplying LNG to SNGPL therefore, it is expected that negative inferences may be drawn by the tax authorities and any LNG invoices billed by PSO might not qualify for the reduced rate of sales tax since the reduced rate of 12% will only be applicable on RLNG supplied by PSO and PLL to SNGPL.

Nevertheless, as per SNGPL understanding, the desired amendment has not been fully incorporated in the Finance Act 2018, rather the following amendment was made in Finance Act 2018, which has further worsened the existing situation as PSO would be supplying LNG to SNGPL at 17% and SNGPL would be supplying RLNG at 12% to its consumers. Moreover, the subject change in sales tax rate will directly hit the national exchequer at least 5% of the RLNG sales, as reduced rate of 12% will be applicable on entire supply chain of RLNG.

Amendment made in Finance Act 2018 revealed 12 percent sales tax on supply of RLNG. In view of the facts, immediate action is required to rectify the amendment made in Finance Act, 2018, in order to avoid further worsening of situation and unnecessary litigation with consumers and the department; therefore, it is requested that the above amendment in Finance Act, 2018 may kindly be replaced with the following:

Amendment required in Finance Act 2018:

=====

Sr	Description	Heading of	Rate of	Condition
No		First Schedule	Sales	
		to Customs Act	Tax	

=====				
51	RLNG/LNG	2711.21	12%	If supplied by M/s
				Pakistan State Oil
				and M/s Pakistan
				LNG Limited to
				or Sale Purchase
				M/s Sui Companies
				between Sui
				Companies i.e.
				SSGC and SNGPL
=====				

The consideration and necessary action by the FBR will help safeguard the national exchequer and will also be helpful for Sui companies as well, the SNGPL added.