

C.No.1 (140)C/(RGST)/2011

49619-R

Islamabad 11<sup>th</sup> April, 2011

To

- (i) The Chief Collector Customs,  
(South) & (North), Lahore & Karachi
- (ii) The Chief Commissioner Inland Revenue  
Large Taxpayers Unit,  
Lahore, Islamabad & Karachi
- (iii) The Chief Commissioner Inland Revenue,  
Regional Tax Offices,  
Lahore I-II, Karachi I-II & III, Abbotabad,  
Bahawalpur, Faisalabad, Gujranwala,  
Hyderabad, Islamabad, Multan,  
Peshawar, Quetta, Rawalpindi,  
Sukkar, Sailkot & Sargodha.

**Sub: CLARIFICATIONS AND IMPLEMENTATION OF SRO. 283(1)/2011  
DATED 01.04.2011**

FBR, in consultation with the trade and industry, has recently revamped the zero-rating scheme of sales tax for five major export sectors i.e. textile, carpets, leather, surgical and sports goods earlier notified vide SRO.509(1)/2007 dated 09.06.2007. The reformed scheme has been notified vide SRO.283(1)/2011 dated 01.04.2011. Draft notification was duly shared with the concerned associations. Some associations and tax consultants have however, raised some questions for better understanding of the new scheme. All these questions have been examined in FBR. The issues raised in these questions are clarified as follows:

- (i) The expression "wholesaler" defined under clause (46) of section 2 of the Sales Tax Act, 1990 includes trader excluding a person who is exclusively involved in retail business.
- (ii) Refund on capital goods, maintenance parts, lubricants, packing materials and other sector-specific used inputs not covered under SRO.283(1)/2011 shall be admissible only to the extent proportionate to zero-rated supplies. No refund shall be available against supplies made on payment of sales tax @ 6% or as the case may be, @ 4%. However, where the tax amounts received on 6% or 4% rates fall below the refund amount, the same may be minused from the refund and claim be filed only for the balance amount, if any.

- (iii) Benefit of the said notification shall be available only to such persons who are operating their businesses in these five export sectors. Any supply made to a person doing business in sectors other than these sectors shall be chargeable to sales tax at standard rate as applicable under the law. Adjustment of input tax, if any, shall be admissible on such full-tax-paid supplies.
- (iv) Zero-rating facility on electricity and gas shall remain available across-the-board to the manufactures (including manufacturer-cum-exporters) as per previous practice. The new industrial registrants may apply to FBR for this purpose. Wholesalers or commercial importers shall however, not be entitled to any such facility. Hence, they need not to so apply to FBR.
- (v) The legal provisions quoted in the preamble of SRO.283(1)/2011 have been duly cleared by the Law & Justice Division to cover the following aspects in the notification on schematic basis:
  - (a) zero-rating of sales tax;
  - (b) changing of sales tax at lower rate(s) resulting in tax amounts below standard liability;
  - (c) bar of input tax adjustment;
  - (d) dispensation of tax liability over and above the reduced rates;
  - (e) restriction on scope of tax liability; and
  - (f) exemption of special excise duty.
- (vi) In case of supplies made to retailers, tax shall be charged at the reduced rate as applicable. In case of purchases of finished goods, the retailers shall pay sales tax @ 4% to the sellers and they will also be required to pay upfront tax to the extent and in the manner as provided under Chapter-II of the Sales Tax Special Procedure Rules, 2007. However, the registered manufacturers or wholesalers shall pay sales tax only @4% on the retail sale of their finished products and no other tax liability shall accrue to them on such direct retail sales.
- (vii) The affectivity of SRO.283(1)/2011 shall be interpreted as follows:
  - (a) The effect of SRO.231(1)/2011 dated 15.03.2011 and SRO.274(1)/2011 dated 27.03.2011 stands nullified ab initio.

- (b) All goods covered under SRO.509 (I)/2007 shall continue to enjoy zero-rating during the period from 15.03.2011 to 31.03.2011 to the extent applicable before 15-03-2011.
- (c) The goods not covered under SRO.509(I)/2007 but added in SRO.283(I)/2011 shall be entitled to zero-rating facility with effect from 01-04-2011.
- (d) The reduced rates of 6% and 4% shall be applicable on such supplies as are made on or after 01.04.2011

2. All LTUs and RTOs are directed to publicize the above clarifications widely and as and if needed, take due help from the concerned associations and trade bodies to bring new persons and businesses under registration-net for the purpose of the said notification. A monthly report on new registrations and revenue receipts may be furnished to FBR by 25<sup>th</sup> of each month following the tax period. The first such report should reach the Board by 20<sup>th</sup> May, 2011 covering the information of new registrations from 1<sup>st</sup> April, 2011 to 30.09.2011. The first report must contain information on the efforts specifically/specially made by the LTUs/RTOs to increase registrations under the subject notification either with or without the assistance of the associations from the concerned five major export sectors.

3. If required peaceful physical surveys may be undertaken and potential registrants may be educated about the new scheme. Proper efforts may however, be made to ensure that prospective registrants are convinced for voluntary compliance in future. The concerned associations may be taken on board for survey and taxpayer education purposes. There is in fact a strong need to market the new scheme for voluntary registrations in the larger interest of the relevant industries and their exports. Compulsory registration measures shall be taken as a last resort.

  
**(IFTIKHAR QUTAB)**  
Chief (FGST/ST&FE)