MOORE ShekhaMufti
Chartered Accountants

2024

TAX NEWSLETTER

January 2024 | Issue #02 | info@mooreshekhamufti.com

Moore Shekha Mufti is an independent member firm of Moore Global International, members in principal cities throughout the world.

MOORE ShekhaMufti
Chartered Accountants

Preface

This document summarizes the crucial changes made in tax laws during the month of January 2024. The document contains comments, which represent our interpretation of the legislation. We therefore recommend that while considering their application to any particular case, reference be made to the specific wordings of the relevant piece of legislation.

Table of Content

MOORE ShekhaMufti
Chartered Accountants

SALES TAX UPDATES

AMENDMENT IN SINDH SALES TAX SPECIAL PROCEDURE (TAX ON SPECIFIED SERVICES) RULES, 2023

The Sindh Revenue Board [SRB] had introduced the captioned Rules [the Rules] as a significant move to capture the transactions of service rendering by the foreign vendors to residents of the province of Sindh. The Rules prescribed scheduled banks and such other licensed entities as 'collecting agents' and required to charge and collect Sindh sales tax at the time of transferring money abroad in respect of import of specified services by service recipients based in Sindh. Initially the scope of the Rules was restricted to the advertisement services and IT services.

Now to remove some practical difficulties, the Rules have been amended to exclude the transactions undertaken by the companies having status of "Active Taxpayer" either with the SRB or the Federal Board of Revenue [FBR], meaning thereby no collection of tax from such companies would be made under the Rules.

Further, scope of the Rules has also been extended to the services provided by market research agencies for which payment is made through a collecting agent by using any means for transfer of payment to any service provider not resident in Pakistan. The collecting agent shall collect tax at the rate of 13% on such services.

LAUNCHING OF SINGLE SALES TAX RETURN

Notification No. 17230-R dated 1st February 2024

Recently, the FBR developed a Single Sales Tax Portal to streamline and simplify the process of filing sales tax returns for taxpayers. This initiative aims to facilitate business operations by allowing taxpayers to file a single sales tax return instead of multiple returns to the FBR and various provincial sales tax authorities. The system is designed to automatically apportion input tax adjustment and tax payments across different sales tax authorities, thus eliminating the need for reconciliations and payment transfers. However, the FBR was struggling in getting the other stakeholder onboard for the adoption of portal.

Now, it has been notified that the telecommunication sector will be filing their sales tax returns on this portal effective from the tax period of January 2024 filing of which is falling due in the month February 2024.

SALES TAX UPDATES

ONLINE INTEGRATION OF FMCG SECTOR WITH FBR'S ELECTRONIC SYSTEM

In a significant step toward digitalization FBR recently amended Sales Tax Rules, 2006 through notification requiring issuance of e-invoicing and online integration of FMCG sector registered persons with the FBR's system for real time reporting of supplies effective from 1st February 2024.

Such notifications dictated that integration was to be carried out by FBR licensed Vendors only. Since, no licenses could be issued in timely manner by the concerned officials of FBR, a clarification dated 2nd February 2024 has been issued whereby it has allowed that specified taxpayers may integrate their software with FBR's system without licensed integrators. Strictly speaking, such a requirement should have been relaxed only by amending the rules through notification instead of issuing clarification to avoid any legal issues. Further, despite this clarification, uncertainty persists with respect to certain issues like whether a person integrating with FBR without involving any third party or through a consultant would be required to get its system scrutinized by licensed integrator subsequently and who will be held responsible in case of technical failures in system.

RATIONALIZATION OF NEGATIVE LIST ISSUED FOR FIVE EXPORT ORIENTED SECTORS

In March 2023, FBR had issued negative list of specified goods and services vide STGO No.9 of 2023; input tax on such goods has been declared inadmissible for the purpose of sales tax refund for Five Export Oriented Sectors (Textile, Carpets, Leather, Surgical & Sports) on the premise of not related to business activity or otherwise inadmissible under the law.

However, FBR vide its Circular dated 12 January 2024 has made some rationalization in above negative list by allowing refund input tax on below mentioned goods to these sectors by excluding such goods from purview of negative list.

HS Codes	Item Description
2519	NATURAL MAGNESIUM CARBONATE
3909	AMINO-RESINS, PHENOLIE RESINS POLYURETHANES
7018	GLASS BEEDS, IMITATION PEARLS, PRECIOUS STONES, GLASS SMALLWARES, GLASS MICROSPHERES
7019	GLASS FIBRES
9607	SLIDE FASTENERS AND PARTS THEREOF
4404	HOOPWOOD SLPIT PALES PILES, PICKETS STAKES OF WOODS
7303	TUBES, PIPES AND HOLLOW PROFILES OF CAST IRON
7305	TUBES AND PIPES, INTERNAL AND EXTERNAL CIRCULAR CROSS-SECTIONS OF IRON OR STEEL
7306	TUBES, PIPES AND HOLLOW PROFILES OF IRON OR STEEL

MOORE ShekhaMufti
Chartered Accountants

IMPORTANT CASE LAWS

DECISION BY SINDH HIGH COURT ON TAX EXEMPTION ON HOUSE PROPERTY BY RELIGIOUS AND CHARITABLE INSTITUTION

THE COMMISSIONER INCOME TAX VS KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED (2023) 128 TAX 480

BACKGROUND: Respondent Karachi Stock Exchange (Now identified as Pakistan Stock Exchange) is a commercial organization and is engaged in business of trading securities. Members operating there from assemble for their financial gains on payment of consideration which is called “Salami” to the respondent. Income Tax Appellate Tribunal's (ITAT) approved exemption on such income from property, under Clause (93) of the Second Schedule to the Ordinance on the basis that the aims and objects of the respondent are not only to further the interests of brokers and dealers but also to assist, regulate and control the trade in securities. The house property owned by the respondent is held under a legal obligation for either being used for its objects or, if let out, the income derived from such property is either actually applied or set apart for application thereto for being expended within Pakistan.

ISSUE INVOLVED: The main issue is whether the ITAT was justified in granting the income from property exemption under Clause (93) of the Second Schedule to the Ordinance even though the company was not a religious or charitable institution.

DECISION: The court rejected the ITAT's findings, emphasizing that the respondent's commercial nature and activities in securities trading do not align with the definition of charitable purposes because from the specified portions of that building/property the individuals are looking after their own monetary interests and revenue generated by the respondent either as a commission in trade of securities or as license fee for operating from a particular portion of that property or rent for occupying the cubical/portions, in no way termed to be an activity to keep the respondent under the umbrella of charitable activity or an act towards “advancement of any other object of general public utility. It concluded that the income from property is not exempt under Clause (93) of the Second Schedule to the Income Tax Ordinance, 1979.

MOORE ShekhaMufti
Chartered Accountants

Principal Office
C-253, P.E.C.H.S., Block 6
Off Shahrah-e-Faisal
Karachi. Pakistan
P: + 92 21 34392484
+ 92 21 34392485
F: + 92 21 34544766

Lahore Office
Office No. 613, 6th Floor of
High-Q Tower, Plot # 1
Gulberg 5, Jail Road,
Lahore
P: +92 42 3235958
F: +92 12 36298234

Islamabad Office
Room # 18, 6th Floor, The
Hive Islamabad Stock
Exchange Tower
Block JF71/ ,
Bule Area Islamabad

www.mooreshekhamufti.com