



**MOORE** Shekha Mufti  
Chartered Accountants

# TAX

# KHYBER PAKHTUNKHWA

# MEMORANDUM

2024-25



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

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## **PREFACE**

This Service Tax Memorandum summarizes crucial changes proposed in the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 and other allied laws through Finance Bill 2024. All such proposed changes through this Bill upon approval will be effective from 01 July 2024.

The tax memorandum contains the 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 statute(s).

The memorandum can also be accessed on our [website www.mooresekhamufti.com](http://www.mooresekhamufti.com)

**6<sup>th</sup> June 2024**

## **PROPOSED AMENDMENTS IN KHYBER PAKHTUNKHWA SALES TAX ON SERVICES ACT, 2022**

### **Collection Agents**

#### **Section 2(m-i), Section 14A**

Bill reveals that KP's Policy Board is to be empowered to notify any person as collection agents for the purpose of collection and deposit of KP Service Tax. By virtue of amendments, Policy Board will also be empowered to issue special procedures for carrying out various matters under the Act, 2022. In case of any non-compliance on part of collection agent, tax will be recovered from the collection agent.

It is noteworthy that, in the province of Sindh and Punjab, respective tax authorities have already issued notifications prescribing the State Bank of Pakistan and commercial banks as collection agents responsible for collecting sales tax on taxable services acquired from non-residents.

### **Tax Fraud**

#### **Section 2(aai)(viii)**

Scope of "Tax Fraud" is proposed to include instances where taxpayer fails to declare transactions in Sales Tax Return and payment of tax collected from service recipient.

### **Disallowance of Input Tax**

#### **Section 17(1)(k)**

It is proposed to disallow input tax adjustment which are:

- Subject to specified rate, fixed rate or lesser than 15% in case of services, or lesser than 18% in case of goods.
- Barred under Sales Tax Act, 1990
- Tax levied under Islamabad Capital Territory (Tax on Services) Ordinance, 2001

By virtue of such an amendment input tax on any procurement made from vendors based in Islamabad Capital Territory or the province of Sindh will not be admissible for adjustment against tax payable on services taxable in the province of Khyber Pakhtunkhwa. The proposed measure is contrary to the well-established principles of VAT and spirit of tax harmonization efforts underway.

### Order for imposition of Penalty / Default Surcharge Section 27(1A)

Bill proposes to introduce new provisions for imposition of penalty and default surcharge where person fails to comply with provisions of Act 2002 such as non-filing of return, non-payment of tax or failure to submit records with the authority.

#### Penalties

#### Clauses 4A, 7A, & 9 to Section 53

The following new penalties are introduced for cases where Registered Person:

- Fail to comply with provisions for issuance of e-invoice, a penalty of Rs.100,000 or 5% of tax involved which ever is higher for each instance of non-compliance has been proposed.
- Fail to comply with notices issued by KP Tax Authority for calling records / information, a penalty of Rs. 200,000 on the first non-compliance, Rs.500,000 on second non-compliance and for third non-compliance penalty of Rs.1,000,000 has been proposed.

Further scope of offence provided under Clause 9 is proposed to be enlarged to include violation against the restrictions imposed regarding sealing of business premises. Earlier, the offence was limited to violations against embargo placed on providing the services.

#### Increase in Default Surcharge Rate

#### Section 54

It is proposed to enhance of rate of default surcharge in the following manner:

S.No.	Description	Existing Rate (per annum)	Proposed Rate (per annum)
1	Registered person does not pay tax or receive refund erroneously	12% - Twelve Percent	24% - Twenty Four Percent
2	Registered person does not pay tax or receive refund fraudulently	24% - Twenty Four Percent	36% - Thirty Six Percent

## Requirement of Prior Approval for Accessing to Premises / Records

### Section 60

Officer will now be required to obtain prior approval from the Collector or Management Committee before accessing to premises, office, stock, records etc.

## Recovery without Notice

### Section 75

Likewise Federal & Sindh Tax Laws, the amendment has been proposed for recovery of tax without notice with prior approval of the Collector / Management Committee where return or records indicate any short payment of tax. Courts has already declared similar provision provided under Sales Tax Act, 1990 & Sindh Sales Tax on Services Act, 2011 as ultra vires.

## Introduction of Reward to Whistleblower

### Section 92A

Bill proposes to introduce the new section for rewarding the whistleblower who reports any concealment, evasion of tax, tax fraud, corruption or misconduct by official of tax authority.

## Decrease in Tax Rate

### Second Schedule

Tariff S.No.	Description of Services / Services provided o rendered by	Existing Rate (per annum)	Proposed Rate (per annum)
1	Hotels, motels, guest houses, resorts, accommodation	15%	13% with the facility of input tax adjustment as allowed under the Act 2022.
22	Exhibition, convention or carnival services	8% (without input tax adjustment)	5% (without input tax adjustment)
26	Health Insurance in respect of Government Sponsored Sehat Card Plus Programme	15%	10% (without input tax adjustment)



**Increase in Tax Rate**  
**Second Schedule**

Tariff S.No.	Description of Services / Services provided or rendered by	Existing Rate (per annum)	Proposed Rate (per annum)
1 (iii)	Local non-corporate stand-alone hotels and restaurants which are integrated with Tax Authority System.	5% (without input tax adjustment)	6% (without input tax adjustment)
1 (iii)	Local non-corporate stand-alone hotels and restaurants which are not integrated with Tax Authority System.	8% (without input tax adjustment)	13% with the facility of input tax adjustment as allowed under the Act 2022.
1 (iii)	Traditional type restaurants (dhaba) located in Tariff Area	1% (without input tax adjustment)	2% (without input tax adjustment)
1 (iv)	Traditional accommodation facilities if charges for overnight stay does not exceed Rs.300	1% (without input tax adjustment)	2% (without input tax adjustment)
1 (v)	Marriage or Wedding Halls which are not integrated with Tax Authority System.	8% (without input tax adjustment)	11% (without input tax adjustment)  Note: Such taxpayer may eligible to opt at time of registration for Fixed Tax Regime by 25 June 2024 (discussed below)
6	Advertisement on or through print media	1% (without input tax adjustment)	2% (without input tax adjustment)
13	Contractual Execution	5% (without input tax adjustment)	15% (without input tax adjustment)
20	Cinematographic, production, photographic services, recording services and telecasting or broadcasting services	1% (without input tax adjustment)	15% (without input tax adjustment)
21	Event Management Services	8% (without input tax adjustment)	10% (without input tax adjustment)

### Increase in Tax Rate Second Schedule

Tariff S.No.	Description of Services / Services provided or rendered by	Existing Rate (per annum)	Proposed Rate (per annum)
27	Cold Storage Services	1% (without input tax adjustment)	2% (without input tax adjustment)
34	Underwriters / Sponsorship Services	1% (without input tax adjustment)	2% (without input tax adjustment)
36	Auctioneers	1% (without input tax adjustment)	2% (without input tax adjustment)
39	Quality Assurance, Quality Control, Quality Inspection, Quality Verification or Certification	1% (without input tax adjustment)	2% (without input tax adjustment)
41	Ride-hailing or ride hail services	2% (without input tax adjustment)	5% (without input tax adjustment)
44	Installation, Erection & Commissioning Services	1% (without input tax adjustment)	2% (without input tax adjustment)

### Introduction of Fixed Rate Regime Second Schedule

Tariff S.No.	Description of Services / Services provided or rendered by	Existing Rate (per annum)	Proposed Rate (per annum)
1 (v-a)	Wedding Hall having a capacity of 500 or above persons and located in posh area	15%	Rs.25,000 per function
1 (v-a)	Wedding Hall having a capacity range between 300 and 500 persons and located in municipality area	15%	Rs.15,000 per function

## Introduction of Fixed Rate Regime Second Schedule

Tariff S.No.	Description of Services / Services provided or rendered by	Existing Rate (per annum)	Proposed Rate (per annum)
1 (v-a)	Wedding Hall having a capacity of 300 or less persons and located in suburb / roadside	15%	Rs.10,000 per function
5	Customs Agents	15%	Rs.3,000 per Goods Declaration
19	Practitioners, Professionals, Consultants or Advisers of Legal Profession	5% (without input tax adjustment) for Non Corporate Entities 15% for Corporate Entities	Rs.500 per case / appeal / petition

## New Taxable Services Second Schedule

Tariff S.No.	Services provided or rendered by	Proposed Rate
1 (iii)	Traditional type restaurants (dhaba) located in erstwhile FATA / PATA	2% (without input tax adjustment)
1A	Health Care Centers operated by private sectors which charges exceed Rs.10,000/- per day / per bed/ per room	5% (without input tax adjustment)
29A	Facilities for intra-provincial travel or transportation of persons by road through buses, coaches, coasters, cars, wagon	5% (without input tax adjustment)
29A	Facilities for inter-provincial travel or transportation of persons by road through buses, coaches, coasters, cars, wagon	5% on 50% Value of Services (without input tax adjustment)
46A	Management Services including fund and asset management services	15%



## TOBACCO DEVELOPMENT CESS

The bill also proposes to enhance the rate of Tobacco development cess on transportation of tobacco by amending the Khyber Pakhtunkhwa Act No.1 of 1996 as under;

Description	Rate
Virginia (Flue-Cured, Barley and Dark-Air Cured).	Rs.50/- per Kg or 03% of the Invoice Value whichever is higher
White Patta/Rustica Tobacco including Khaka, Khara and Rorh made of main stalk (Dandi) and stem of tobacco	Rs.30/- per Kg or 03% of the Invoice Value whichever is higher
Snuff	

## KHYBER PAKHTUNKHWA PROVINCIAL EXCISE DUTY (UN-MANUFACTURED TOBACCO) ACT, 2024

Bill proposes enactment of new law through which provincial excise duty is to be levied on the unmanufactured tobacco at the rate of Rs.50 per kg to be collected through the green leaf threshing units.

## STAMP ACT, 1899

Bill proposes imposition of Stamps on allotment order, transfer of allotment orders issued by a developer, builder, co-operative society, housing society or housing authority or any other body or organization providing open plots, dwellings houses or built up commercial premises, in respect of residential or commercial plots at the rate of 2% of value of plot as notified by the Federal Board Revenue or the Deputy Commissioner whichever is higher.

Further, the Bill also proposed the rate of Stamps from "two rupees" to "one rupee" for every one hundred rupees in case of "Conveyance of agriculture or urban immovable property."



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