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TAX NEWSLETTER

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Sales Tax on
**STEEL
SECTOR**



SALES TAX FRAMEWORK FOR STEEL SECTOR

Introduction

The Federal Board of Revenue ("FBR") reintroduced an electricity-consumption-based sales tax mechanism for the steel sector through S.R.O. 1245(I)/2026 dated 31 July 2026 ("SRO 1245"), effective from 1 July 2026. The mechanism was subsequently amended through S.R.O. 1664(I)/2026 dated 29 September 2026 and further amended through S.R.O. 1789(I)/2026 dated 13 October 2026, with the amendments introduced by the latter notification taking effect from 1 October 2026.

The new mechanism bears significant resemblance to the special procedure historically applicable to steel melters, re-rollers and composite units under Chapter XI of the Sales Tax Special Procedures Rules, 2007, but introduces a materially different structure based on the nature and source of scrap consumed, FBR system integration and electricity consumption.

The development is particularly significant because the earlier special procedure had been withdrawn by the FBR in 2019. SRO 1245 therefore represents a substantive revival of an electricity-based taxation mechanism for the steel sector, albeit through a new statutory framework with modified eligibility criteria and tax rates.

The principal provisions are summarized below:

1. Who is Covered?

SRO 1245 applies to:

- ✓ steel melters;
- ✓ steel re-rollers;
- ✓ steel composite units engaged in steel melting and re-rolling;
- ✓ steel units operating on electric power;
- ✓ steel units using captive or self-generated electricity; and
- ✓ steel units operated by sugar mills or other persons using self-generated electricity, including electricity generated from bagasse or other means.

2. Production and Electricity-Based Sales Tax

- a) The applicable electricity-based tax rate depends, in part, on the type and source of raw materials consumed. The principal rates are as follows:

Manufacturers' Category	Sales tax per Electricity Unit
Steel melters and composite units consuming local scrap.	Rs. 30
Qualifying melters and composite units consuming imported scrap above the prescribed 70% threshold.	Rs. 05
Qualifying melters and composite units consuming scrap supplied directly by EFS-authorized persons above the prescribed 70% threshold.	Rs. 05
Manufacturers using captive power or self-generated electricity.	Rs. 35
Steel re-rollers manufacturing steel bars, whether using imported or local raw material.	Rs. 30
Steel re-rollers located in erstwhile FATA/PATA manufacturing steel bars	Rs. 20

whether using imported or local raw material.	
Melters and composite units in erstwhile FATA/PATA using local re-meltable scrap.	Rs. 20
Qualifying melters and composite units in erstwhile FATA/PATA meeting the prescribed imported-material/EFS threshold.	Rs. 05
Re-rollers in erstwhile FATA/PATA manufacturing steel bars.	Rs. 20

- b) The reduced rates are conditional and should not be treated as automatic entitlements. For qualifying units in erstwhile FATA/PATA, the Rs. 5 rate applies where consumption of imported raw material or re-meltable steel scrap purchased directly from EFS-registered persons exceeds 70% in aggregate during immediately preceding twelve months. However, with effect from 1 October 2026, the prescribed twelve-month period has been reduced to six months vide S.R.O. 1789(I)/2026 dated 13 October 2026.
- c) For newly established businesses and the resumption of closed steel-manufacturing businesses, eligibility for the Rs. 5 rate is to be determined on the basis of quarterly imports or purchases.
- d) Steel melters and composite units shall be liable to sales tax at the rate of Rs. 5 per electricity unit, provided they are integrated with the Board's Computerized System for real-time reporting of sales and consumption and their consumption of imported re-meltable iron and steel scrap for the manufacture of steel billets/ingots exceeds 70% of total raw material consumed during immediately preceding twelve months. However, with effect from 1 October 2026, the prescribed twelve-month period has been reduced to six months vide S.R.O. 1789(I)/2026 dated 13 October 2026. Further, integration with the Board's Computerized System shall be applicable from such date as may be specified by the Board through a Sales Tax General Order.

3. Classification Threshold for Steel Melter/Composite Units/Re-roller

Consumption of 500,000 or more electricity units per month through a single electricity meter is the prescribed threshold for categorization as a steel melter or composite unit, as applicable. Manufacturers consuming less than this threshold fall under the re-roller category unless the FBR production monitoring system establishes and proves that the manufacturer is a steel melter or composite unit.

The notification also provides that an electricity connection associated with a steel business will remain the same for purposes of the mechanism despite a change in ownership or the nature of the business, including through lease arrangements.

4. Adjustment of Electricity-Based Sales Tax

A significant clarification introduced through S.R.O. 1664(I)/2026 is that sales tax collected under the electricity-based mechanism is advance in nature. Steel melters, composite units and re-rollers, as applicable, are entitled to adjust the tax paid against their output sales tax. Accordingly, the electricity-based levy should be accounted for as an advance sales tax payment rather than automatically treated as an additional, non-adjustable tax over and above output sales tax.

5. Reporting in Annexure – K of Sales Tax Return

Steel melters, re-rollers and composite units must file Annex-K of the sales tax return to calculate their correct sales tax liability under the Thirteenth Schedule to the Sales Tax Act, 1990 (the Act). Annexure-K automatically retrieves electricity consumption data after the relevant Distribution Company (DISCO) files its Annex-C.

Through instructions dated 7 October 2026, the FBR has introduced a facility for steel melters, re-rollers and composite units facing difficulties in reporting electricity consumption in Annex-K of their sales tax returns due to non-reporting or delayed filing by the relevant DISCO. Taxpayers may submit an online application through IRIS to the concerned Chief Commissioner Inland Revenue, supported by the relevant electricity bills and other necessary details, within the statutory period. Upon verification and online approval, the electricity units consumed will automatically populate Annex-K, enabling the taxpayer to calculate the correct sales tax liability and file the return accordingly. Steel manufacturers should ensure timely submission of applications and retain supporting documentation to avoid reporting discrepancies or delays in filing their sales tax returns.

6. Finished Supplies - Steel Products

The electricity-based mechanism does not eliminate the need to determine output sales tax on supplies of finished steel products. The applicable tax treatment must be considered under the Act, the relevant special procedures and the applicable valuation notification. Under S.R.O. 2402(I)/2025 dated 10 December 2025, the minimum values of supply for locally produced steel goods, inclusive of sales tax, are prescribed as follows:

S#	Steel product	Minimum value of supply
1.	Steel bars and other long profiles	Average national retail price of steel bars published monthly by the Pakistan Bureau of Statistics for Lahore, Karachi, Peshawar, Quetta, Rawalpindi and Islamabad, less Rs. 1,500 per metric ton
2.	Steel billets	85% of the value determined for steel bars and other long profiles of the applicable steel-bar benchmark
3.	Steel ingots/bala	80% of the value determined for steel bars and other long profiles of the applicable steel-bar benchmark
4.	Ship plates	75% of the value determined for steel bars and other long profiles of the applicable steel-bar benchmark

Sales tax on an ad-valorem basis is chargeable at the standard rate of 18% under section 3(1) of the Sales Tax Act, 1990. However, supplies made by registered persons operating within erstwhile FATA/PATA to recipients within the same territory are subject to the reduced rate of 12% (*for tax year 2026-2027*), subject to the applicable valuation provisions and conditions.

Disclaimer

This newsletter is intended for general information and discussion purposes only and should not be construed as specific tax or legal advice. The applicability of the above provisions may vary depending upon the facts and circumstances of each taxpayer

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