

Pakistan Sindh Revenue Board issues indirect sales tax notifications effective 1 July 2019

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On 27 June 2019, Pakistan's Sindh Revenue Board (SRB) issued 10 notifications and on 1 July 2019, 4 additional notifications regarding indirect tax matters. The developments are outlined below.

1. Withdrawal of Sindh Sales Tax (SST) exemptions

▶ **Advertisement in newspapers and periodicals (9802.4000)**

Advertisements in newspapers and periodicals are exempt from SST. This exemption will no longer be available for color advertisement and black and white advertisement occupying specified space in the newspaper or periodicals. Such advertisement shall now be subject to SST at the rate of 3%.

▶ **Internet service (98.12)**

Internet services, whether dialup up or broadband, up to 4 mbps were exempt from SST subject to certain condition. Under the notification, this exemption has been withdrawn and internet service will be taxable at 19.5% as applicable to other telecom services.

▶ **Service of beauticians, salons and laundries (9810.0000)**

Previously, the services of beauticians, salons and laundries services were exempt subject to certain conditions including that the service provider does not exceed a maximum turnover of 4 million rupees (Rs.) and the total utility

bills do not exceed Rs.40,000 in any month during a financial year. The SRB has now reduced the number of beauticians, salons and laundries qualifying for this exemption by reducing the annual turnover limit to Rs.2.5 million and total utility bills to Rs.25,000 in any month.

► **Banking services (98.13)**

The SRB has withdrawn the exemption available on banking services related to Hajj and Umrah, Cheque Book, Musharika and Modaraba financing. Effectively, Islamic banking services like Mushraika and Modaraba financial shall now be taxable at a rate of 13% on the gross amount. Activities for promoting an Islamic mode of financing would be directly affected.

► **Construction of government projects (9824.0000)**

Construction of Government projects (including Local Government and Cantonment Board), except construction for commercial purposes, were exempt from SST. Such exemption has now been withdrawn, however, government civil works, as paid out of their respective expenditure budgets, shall be taxable at 5%.

2. Introduction of reduced rate for certain services

Notification No. SRB-3-4/8/2013 dated 18 June 2013 specifies services subject to SST at a reduced rate. The reduced rate has been introduced for following new services:

Tariff Heading	Description of Services	Reduced SST Rate	Conditions and Restrictions
9805.5000	Services provided or rendered by stand-alone laundries and dry cleaners	5%	Input tax credit/adjustment shall not be admissible
9830.0000	Services provided in the manufacturing or processing of textile and leather goods for others on toll basis	3%	

3. Further reduction in the reduced rate for certain services

The following services which were already taxed at a reduced rate are now through Notification SRB-3-4/17/2019 dated 27 June 2019, further reduced to:

Tariff Heading	Description of Services	Reduced SST Rate	Conditions and Restrictions
9805.5000	Travel Agents	8%	5%
9805.5100	Tour operators	8%	5%
9834.0000	Services provided or rendered by fashion designers	10%	5%
9836.0000	Inter-city transportation or carriage of goods by road through truck addas or bus/wagon excluding carriage of petroleum oils, automotive vehicles and cargo by logistic companies with a fleet of 25 or more vehicles.	8%	3%

4. Amnesty for indenters

Indenting services are subject to tax under the *Sindh Finance Act, 2016* at standard rate of tax. The Karachi Chamber of Commerce and Industry (KCCI), on behalf of indenters, was negotiating with the SRB regarding such levy as well as its applicable rate of tax. Consequently, the SST rate on indenting services were reduced to 3% with effect from 1 July 2017.

Despite of reduction in the SST rate, indenters still expressed their concerns regarding the SST rate for tax periods from July 2015 to June 2017. The SRB has now offered a reduced rate of 3% on indenting services for the tax periods from July 2015 onwards subject to condition that applicable amount of SST is deposited by 31 August 2019.

There may be an issue for indenters who have already discharged their SST liability as the notification also puts a bar on claiming a refund/adjustment of the SST paid earlier in excess of 3%.

5. Life and health insurance

► Exemption

Life and health insurance services as a whole were exempt from SST through various notifications where the aforesaid exemption was extended time to time and it was last extended up to 30 June 2019 through the notification dated 8 May 2019. The time period of the said exemption expired on 30 June 2019.

Through the notification dated 27 June 2019, the exemption provided for health insurance services under the notification dated 8 May 2019 has now been further extended through 30 June 2020. However, the exemption provided for life insurance services previously extended through 30 June 2019 has not been further extended and accordingly has expired.

As a consequence to the said amendment, the conditional exemption of Life Insurance services, other than group life insurance, of individuals for insurance policy coverage of up to Rs.500,000 as provided under notification No. SRB-3-4/7/2013 dated 18 June 2013 is restored.

Through a separate notification dated 27 June 2019, the SRB has further reduced the rate for Life Insurance (other than group life insurance) of individuals for insurance policy coverage exceeding Rs. 500,000 from 8% to 5%. However, while doing so, the SRB has further confined the scope of the reduced rate to life insurance other than group life insurance, therefore, the group life insurance would be subject to normal rate of sales tax i.e., currently at 13% as of 1 July 2019.

6. Exemption for cable TV operators (9819.0000)

Services of stand-alone cable TV operators and advertisement on cable TV has been exempted for the tax periods from July 2018 to June 2020 subject to certain conditions.

7. Advertisement in digital media

Rule 34 of the Sindh Sales Tax on Services Rule, 2011 (the Rules) governs taxable services of advertisement. The SRB has inserted expression advertisement through digital media, wherever necessary, to levy SST thereon.

8. Extension of the Special Procedure Rule for transportation of petroleum oil

The SRB promulgated the Sindh Sales Tax Special Procedure (Transportation or Carriage of Petroleum Oils through Oil Tankers) Rules, 2018 (the Oil Tankers Rules) whereby a transporter has the option to pay sales tax at the rate of 15% on the value of inter-province services rendered. The Oil Tankers Rules were applicable through 30 June 2019 however, the same has been extended for one additional year through 2020.

9. SST withholding on inter-city transportation of goods through truck addas or bus/wagon

The service of inter-city transportation of goods is subject to 100% SST withholding by virtue of Rule 3(5) of the Sindh Sales Tax Special Procedure (Withholding) Rules 2014 (the Withholding Rules). Now services of inter-city transportation through Truck Addas or Bus/Wagon have been excluded from Rule 3(5) of the Withholding Rules. Effectively, one-fifth SST Withholding shall be attracted on such inter-city transportation services.

Further, an amendment introduced in Rule 42G(4A) of the Rules (Procedure for Collection on Inter-city transportation) which states that a service provider of inter-city transportation through Truck Addas or Bus/Wagon shall be liable to pay SST at 3% without any deduction by a withholding agent.

Since such inter-city transportation services have not been completely excluded from the purview of the Withholding Rules, amendment of Rule 42G of the Rules indicates that the service provider is not allowed to claim SST withholding on its invoices. Amendments in the Withholding Rule and Rule 42G of the Rule would have created an anomaly unless such inter-city transportation services were excluded from provisions of the Withholding Rules.

10. Reduced rate on newly introduced taxable services

Through *Sindh Finance Act, 2019*, new taxable services are introduced by the SRB which are subject to sales tax at a reduced rate as follows:

- ▶ Renting of machinery, equipment, appliances and other tangible goods at 5%
- ▶ Indoor sports and games center at 10%
- ▶ Services provided by cab aggregator or provided by owners/drivers etc. at 5%
- ▶ Training services at 5%
- ▶ Vehicle parking and valet services at 5%
- ▶ Insurance agents at 5%

11. Special procedure for insurance agents

The SRB has inserted a new special procedure for the collection and payment of sales tax on services provided by insurance agents under the Sindh Sales Tax on Services Rules, 2011, through Notification No. SRB-3-4/22/2019 dated 1 July 2019. The key features of the said special procedure are:

- ▶ Services of insurance agents are subject to tax irrespective of whether they pertain to exempt or taxable insurance services and shall be taxable at 5%.
- ▶ Input tax with respect to the service of an insurance agent shall not be available for adjustment against taxable insurance services.
- ▶ Insurance agents have been provided relaxation from registration under the Act if they are exclusively engaged in such services and the insurance company duly withholds SST on the consideration (including commissions, fees or remuneration) payable.

If any insurance agent is engaged in other activity as well (e.g., Banca Insurance/Banca Takaful service by bank) then it would be obliged to register under the Act.

12. Special rules for cab aggregator and the services provided by drivers or owners of motor vehicles used for cab aggregator services

Through the notification No. SRB-3-4/23/2019 dated 1 July 2019, the SRB has introduced the Sindh Sales Tax Special Procedure (Services provided or rendered by a cab aggregator and the services provided or rendered by the owners or drivers of the motor vehicles using the cab aggregator services) Rules, 2019 (Rules).

These Rules provide the definition, rate of tax and procedure for calculation of value of taxable services, liability for payment of tax, registration with the SRB, filing of returns and record keeping for the cab aggregator service provider and owners/drivers of motor vehicles using cab aggregator services.

13. Special procedure (withholding) rules

Through the notification No. SRB-3-4/24/2019 dated 1 July 2019, certain amendments are made in the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014 to cover insurance agents/brokers, cab aggregators and construction service providers/contractors serving as a withholding agent.

14. All notifications are applicable from 1 July 2019 except the amnesty for indenters and the exemption for Cable TV Operators.

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