INTERNATIONAL THE NEWS

March 8, 2025

KTBA raises concern over virtual halt in sales tax registrations

KARACHI: The Karachi Tax Bar Association (KTBA) has expressed concerns over a virtual halt in new registrations under the Sales Tax Act, 1990 by field formations.

While the apparent intention behind this measure is to curb the issue of flying invoices and prevent the abuse of input/output tax adjustments, it has inadvertently created challenges for genuine taxpayers and may have long-term adverse effects on the tax base and compliance culture, the KTBA stated in a letter to the chairperson of the Federal Board of Revenue (FBR) on Friday.

Highlighting the issue, KTBA noted that many legitimate emerging businesses, particularly small and medium enterprises (SMEs), are unable to obtain sales tax registration. This not only hampers their ability to operate formally but also discourages compliance with tax laws. By restricting new registrations, the tax base is likely to shrink further, as emerging SMEs may opt to operate informally.

The current policy allows unregistered businesses to function without contributing to the tax system, creating an unfair advantage over compliant taxpayers who bear the burden of taxation. The inability to register for sales tax poses a direct threat to new investments and will hinder the growth of startups and SMEs, which are crucial for economic development and the expansion of the tax-to-GDP ratio.

While acknowledging that the issue of flying invoices is a serious concern, the KTBA stressed the need for targeted measures that address the root cause without penalising genuine taxpayers.

The association proposed implementing a robust verification process for new registrations, including physical verification of business premises, bank account details, and supply chain checks. It also suggested involving third-party references such as trade bodies and federations, where deemed appropriate.

The KTBA recommended introducing a risk-based registration process, where businesses are initially granted provisional registration for six months. Those with a low risk of non-compliance and a proven track record would receive permanent registration, while high-risk businesses would undergo stricter scrutiny using advanced data analytics, artificial intelligence, and audits to identify suspicious patterns in sales and purchase data.

The tax body also called for integrating the IRIS system with other government databases, such as NADRA, SECP, SRB, and PRA, to verify the authenticity of applicants. It further suggested implementing real-time monitoring of sales and purchase transactions to detect and prevent the issuance of flying invoices.

The KTBA added that the virtual halt in new sales tax registrations, despite being aimed at addressing a critical issue, is inadvertently discouraging compliance and shrinking the tax base. By adopting a balanced approach that targets fraudulent activities while facilitating genuine taxpayers, the FBR can achieve its objectives without compromising the growth of legitimate businesses.

The association also urged the FBR to consider gradually liberalising economic and tax policies by engaging and entrusting trade bodies and federations, which have historically played a positive role in economic and tax growth in various jurisdictions.