

KTBA Raises Concerns to FBR Regarding Challenges in Filing Sales Tax Returns

The Karachi Tax Bar Association (KTBA) on Monday reached out to the Federal Board of Revenue (FBR) to highlight the difficulties encountered by taxpayers while filing sales tax returns.

In a letter addressed to the FBR on Monday, the tax bar drew attention to specific problems encountered during the process.

During the filing of sales tax returns for the tax period of May 2023, taxpayers discovered that the IRIS portal was no longer incorporating credit notes in Annexure-C of the monthly sales tax return. Suspecting a technical error, the KTBA promptly contacted the FBR helpline for assistance. In response, they were informed that the FBR portal had been updated to restrict the direct inclusion of credit notes in Annexure-C.

According to the new procedure, credit notes would only be accepted in the Sales Tax Return if the purchaser of goods, also known as the goods recipient, raised a corresponding debit note in their Annexure-A. In the absence of such a debit note, sellers were unable to declare or incorporate the credit notes in their returns.

Previously, no such condition existed for sellers in creating credit notes. This sudden alteration in the system has given rise to numerous issues concerning the issuing and declaration of credit notes under Section 9 of the Sales Tax Act, 1990. The KTBA has brought forth the following concerns for prompt resolution:

a) Buyers who are registered persons but do not claim input tax: In cases where sales are made to purchasers registered with the FBR, but they do not claim the related input tax in their Annexure-A, the buyer may deem the input tax inadmissible or the supplies they make exempt from tax. In such instances, since the purchaser does not claim the input tax initially, they would not raise a debit note.

b) Buyers who are unregistered persons: Unregistered buyers who are not affiliated with the FBR cannot generate a debit note for the respective invoice issued by the seller. However, Rule 22 of Chapter 3, “Credit and Debit Notes and Destruction of Goods” of the Sales Tax Rules, 2006 states that adjustments can be made against credit notes for returns of supplies made by unregistered persons.

c) Buyers who are service providers: Service industry buyers, who are not required to be registered under the Sales Tax Act with the FBR, are also unable to create debit notes against the invoices issued by sellers.

It seems that the new restriction implemented on the FBR portal assumes that both the seller and purchaser are registered with the FBR and claim related input tax on taxable supplies. However, this assumption does not align with the practical reality.

As an immediate solution, the KTBA has advised reverting the undesired change made on the FBR portal to allow taxpayers to pay their due liabilities of sales tax and file accurate Sales Tax Returns (STRs). Additionally, they have requested an extension of the filing deadline for the tax period of May 2023 until the issue is resolved.