HARMONIZATION OF PROVINCIAL TAX LAWS

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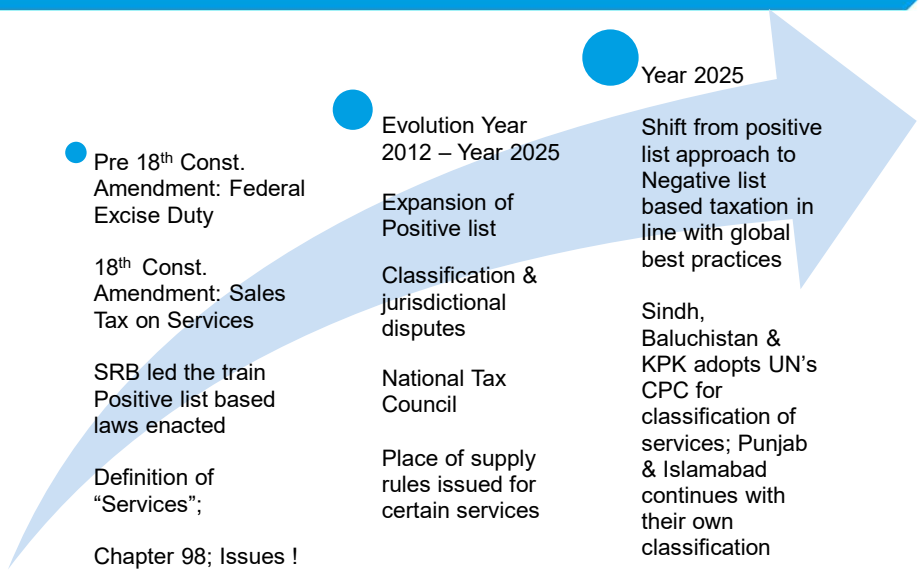
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Overview

- Historical Perspective
- Harmonization- Key Milestones
- Key changes through Finance Act 2025
- Key Legal Issues & Compliance Challenges
- Comparative Snapshot - Regional Sales Tax Regimes
- Key Takeaways and Recommendations

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Historical Perspective



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Key Milestones

Resolution through National Tax Council

- Sales Tax on Restaurants
- Sales Tax on Toll Manufacturing
- Special Procedure (Transportation or Carriage of Petroleum Oils Through Oil Tankers) Rules in 2018
- Place of Provision of Services Rules in 2023
- "Pause" @ Reverse Charge Taxation by PRA

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Key Milestones

Developing Stories

- Single Sales Tax Return
- Harmonization of Standard Sales Tax Rate & Input Tax Adjustment
- Data Sharing across the Jurisdictions
- E-Invoicing & Integration mechanism
- Credit of Reverse Charge Mechansim under Punjab ST Laws

Key Changes through Finance Act 2025

- Move towards Negative list is major structural shift
- Negative list provides greater clarity; if a service is not specifically exempt, it must be treated as taxable – a reversal of the old presumption
- Expected to broaden the tax base by adding significant new taxpayers
- Negative list is not uniform across the provinces; such variation may induce (paper entry) change of business location

Key Changes through Finance Act 2025

- Definition of term “Service” amended for enhanced scope; practically anything which is not “goods” to be treated as “Service”
- Sindh ST Law specified that activities covered under Entry 53 of the Constitution will not be touched upon by the Province. It will reduce jurisdictional dispute regarding port activities
- Whether transfer of “Right to use” is to be construed as service?
- Provincial legislature mandate to define “service” under Entry 49; preamble too wide; services originated from abroad taxable under reverse charge

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Key Changes through Finance Act 2025

- Reportedly Provinces agreed to adopt standardized service classification codes (CPC – Central Product Classification codes by the UN) for services
- Sindh and Baluchistan defined CPC codes in their law, referencing the UNSD CPC Version 2.1
- KPK’s law allows the management committee to prescribe or amend codes for services, but also clarified that whether a service is taxable does not depend on its inclusion in a code list. No such reference exists in Punjab ST Laws
- Common codes may facilitate the single return and make inter-provincial data comparable.

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Key Changes through Finance Act 2025

Significant Services brought into the tax net

- Legal Services
- Property Renting ? / Lease / Licensing, Property Maintenance, Amenities
- Education other than “general education” & Private Healthcare / Doctors
- Agricultural / Livestock Support Services taxed in Punjab
- Processing of textile / articles of leather for cottage industry

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Comparative Analysis of Certain Essential Services

Category	PSTSA 2012	SSTSA 2011
Health Services	Exempt only basic healthcare by Govt hospitals / doctors; Cosmetic Services are taxable	Exempt except: aesthetic surgery, consultation > Rs.3,000, rooms > Rs.25,000 / day
Education Services	Exempt only “General Education” and Education Services by Public Sector	Exempt: fee ≤ Rs. 500,000 / year per student
Agricultural Services	No Specific Exemption provided except for warehousing of agricultural commodities	Agricultural support services / agricultural machinery workshops are exempt
Livestock Services	No Specific Exemption provided	Veterinary services exempt
Public Transport	Exempt	General public transport exempt; rent-a-car, chartered flights, cab aggregators are taxable
Sports & Recreation	Exemption available only to public recreational events organized by Govt.	Exempt: Services of athletes and related support services
Charitable Activities	Exempt if provided by registered welfare organizations subject to exemption by FBR	No specific exemption available

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Key Legal Issues & Compliance Challenges

- Jurisdictional Overlap & Classification Issues e.g., digital products, distribution of goods, Software, Concrete Mix, etc.
- Litigation on constitutional and interpretation grounds; renting of immoveable property services, Construction / Real Estate industry issues, restriction of input tax credit @ reduced rate to taxpayers operating under standard tax regime, taxation of services originated from aboard and credit thereon
- Manpower supply services, pursuant to change in definition of term “economic activity i.e., Employees working on behalf of third parties

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Key Legal Issues & Compliance Challenges

- Interpretation of Exemption / Tax Free Services List may create fresh issues; what is “Cultural event” ? “Extra territorial organization” ?
- Place of supply ; Consumption vs. Origin
- Sudden inclusion of informal sector; documentation burden on small business
- Input tax capping and rate disparities, challenges for taxpayers having operations in multiple jurisdictions
- Implementation challenges remain — classification, enforcement, capacity
- Clearer policy, robust education and digital transformation

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Key Legal Issues & Compliance Challenges

- Multiple audits for single tax period with different jurisdiction creates disproportionate compliance burden
- Legal framework for single sales tax return is missing, procedural disparities create complications
- Disparity in sales tax withholding regime across the jurisdictions creates complications
- Capacity of the infrastructure & Capability of Human Resource; Retail Trade, Distribution untaxed even after roll out of Negative List
- Implementation with no Transition Time / Selective Enforcement

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Comparative Snapshot – Indian & GCC GST / VAT

Indian GST Regime	Gulf Region VAT regime
Unified federal and state indirect tax regime since 2017	Federally unified framework with domestic implementation
Centralized portal for registration, filing, compliance	Broad based VAT covering goods and services
Destination based taxation; seamless ITC across value chain	Clear place of supply and reverse charge rules
Strong coordination through GST Council	Strong administrative enforcement through digital compliance

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Recommendations & Take Aways

- Need for constitutional amendment or broad inter-government consensus to create unified system
- Strengthen National Tax Council akin to India's GST Council
- Invest in robust central portal for consistent taxpayer experience
- All services to be taxed @ standard rate; input tax credits to be allowed as pass through item. Promote cross-jurisdiction input adjustment; restriction on goods' input tax to go
- Move toward unified invoicing and audit mechanisms
- Overlapping Taxation: Concrete Mix, Software, etc. should be addressed

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Recommendations & Take Aways

- Introduce Advance Rulings & Sectoral Guidelines across PRAs
- Replace the traditional adjudication framework by bringing in robust ADR mechanism to generate meaningful revenues for Governments and ending hassles for businesses
- Rationalize reduced rates and thresholds to protect low-margin sectors
- Simplify filing through mobile apps and SME-targeted support
- Export of Services to be allowed

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Questions

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