

Ref : KTBA/02.2025/027
Date : February 03, 2025

Ms. Aisha Farooq
Director General of withholding Taxes
Federal Board of Revenue
FBR House, Constitution Avenue G-5
Islamabad.

Dear Madam,

RESTRICTION OF VOLUNTARY DISALLOWANCE AND ANOMALOUS INPUT TAX ADJUSTMENT IN SALES TAX RETURN

Ever since changes have been incorporated in the Sales Tax Return online format lately in November 2024, the registered persons are experiencing challenges to file their declarations accurately. We tend to highlight below the issues for your review and redressal. In the meantime, detailed explanations of these challenges are mentioned at the end of this letter.

1. Restriction on Voluntary Disallowance of Input Tax in Annexure A & B:

The option to voluntarily disallow input tax related to nontaxable/exempt supplies including input tax disallowance in line with apportionment Rule 25(3) as previously available at Column No. 7 of the Sales Tax Return, has been removed. Conversely, now for this purpose the registered persons have to select each invoice in Annexure A or Goods Declaration in Annexure B and report reason & value against each line item individually which is a time-consuming activity specially where thousands of purchase invoices/GDs are available for adjustment.

Suggestion: We suggest restoration of Column No.7 in the Sales Tax return that provides opportunity to registered persons to voluntarily disallow input tax from Annexure A or B as the case may be with option to explain reasoning or attach evidence.

Alternatively, we propose to introduce a feature in Annexure-A and Annexure-B to allow selection of multiple invoices or GDs (with filter options like name of supplier, HS codes or nature of goods or rate of tax) where disallowance reason is identical.

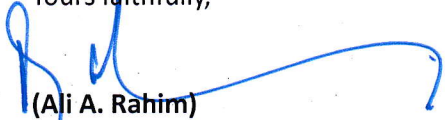
2. Adjustment of Minimum Value Addition Tax Paid Under Section 7A:

Under updated online sales tax return format, the option to disallow additional sales tax paid against minimum value addition at import stage has also been abolished which otherwise is absent in Annexure B either. This anomaly leads to incorrect adjustments viz.a.viz non-compliance with statutory requirements. Earlier this feature was also catered in Column No. 7 of the return.

Suggestion: We propose to amend/modify the Annexure-B to add provision to disallow tax paid against minimum value addition at import stage, in order to enable accurate determination of their tax liability.

We are confident that addressing these issues will streamline the tax filing process and enhance compliance. We look forward to your kind consideration and remain available for further discussions.

Yours faithfully,



(Ali A. Rahim)

President

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Copy to:

- i. **Mr. Rashid Mahmood Langrial**, Chairman, FBR, Islamabad.
- ii. **Dr. Hamid Ateeq Sarwar**, Member (Inland Revenue - Operations), FBR, Islamabad.
- iii. **Dr. Najeem Ahmad**, Member (Inland Revenue - Policy), FBR, Islamabad.
- iv. **Ms. Mufeeza Iqbal**, Member (Information Technology), FBR, Islamabad.
- v. **Ms. Fakhira Anjum**, Chief Sales Tax Operations, FBR, Islamabad.
- vi. **Press Media**

Details of Issues in Sales Tax Return

1. Restriction on Voluntary Disallowance of Input Tax:

- **Definition of Taxable Supply:** According to Section 2(41) of the Sales Tax Act, 1990, "taxable supply" means the supply of goods or services chargeable to tax under the Act, excluding exempt supplies.
- **Complication in Input Tax Disallowance:** Businesses engaged in both taxable and exempt supplies must disallow input tax pertain to non-taxable/exempt supplies and apportion their input tax pertain to both taxable and non-taxable supplies. Previously, this was facilitated through Serial No. 7, which allowed manual adjustments. Without this option, taxpayers are left without a mechanism to meet legal requirements for apportionment, creating risks of non-compliance and incorrect filings.
- **Recommendation:** introducing an option in Annexure-C and Annexure-B to allow selection of multiple invoice or GDs on the basis of columns available in Annexure A and Annexure B (i.e name of supplier, HS codes or nature of goods or rate of tax) to disallow input tax by providing same reason and same percentage of input tax being disallowed to simplify compliance and enable accurate adjustments.

2. Adjustment of Minimum Value Addition Tax Paid Under Section 7A:

- **Previous Mechanism:** Taxpayers could manually disallow the minimum value addition tax paid at the import stage under Section 7A.
- **Current Issue:** Annexure-B lacks a provision for disallowing additional sales tax, leading to incorrect tax reporting.
- **Recommendation:** Add a specific column in Annexure-B to disallow the minimum value addition tax, ensuring accurate reporting of tax liabilities.