

# The Federal Value Added Tax Act, 2010

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# A

## Bill

*to introduce and implement a broad-based tax on sales and purchases of goods and terminal taxes on goods, or passengers carried by railway, sea or air; taxes on their fares and freights to form a broad-based tax on consumption;*

WHEREAS it is expedient to impose a tax on sales and purchases of goods *and terminal taxes on goods, or passengers carried by railway, sea or air; taxes on their fares and freights* and to provide for the regulation and collection of the tax and of such taxes and to provide for matters connected therewith and ancillary thereto:

It is hereby enacted as follows:—

**1. Short title, extent, and commencement.**— (1) This Act may be called the Federal Value Added Tax Act, 2010.

- (2) It extends to the whole of Pakistan.
- (3) It shall come into force on the 1<sup>st</sup> day of July, 2010.

## Chapter-II

### PRELIMINARY

**2. Definitions.**— (1) In this Act, unless there is anything repugnant in the subject or context,—

- (i) “Appellate Tribunal” means the Appellate Tribunal established under section 130 of the Income Tax Ordinance, 2001 (XLIX of 2001) and, in case of imported goods, the Appellate Tribunal constituted under section 194 of the Customs Act;
- (ii) (c) “**approved non-profit charitable organization**” means a charitable organization whose income is exempt under sub-clause (3) of clause 58 in Part 1 of the Second Schedule to the Income Tax Ordinance, 2001 (XLIX of 2001);
- (iii) “association of persons” includes a firm, a Hindu undivided family, any artificial juridical person, and a body of persons formed under a foreign law, but does not include a company;
- (iv) “Board” means the Federal Board of Revenue established under section 3 of the Federal Board of Revenue Act, 2007;
- (v) “company” means—

- a) a company as defined in the Companies Ordinance, 1984 (XL VII of 1984);
  - b) a body corporate formed by or under any law in force in Pakistan;
  - c) a modaraba;
  - d) a body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies; or
  - e) a trust, a co-operative society, or a finance society or any other society established or constituted by or under any law for the time being in force;
- (vi) “computerized system” means an information technology system authorized by the Board under **section 91** for purposes relating to the administration of this Act;
  - (vii) “Customs Act” means the Customs Act, 1969 (IV of 1969) and the rules, notifications, and orders made under that Act, as amended from time to time;
  - (viii) “document” includes any electronic data, computer programme, computer tape, computer disk, micro-film or any other medium for the storage of data;
  - (ix) “due date” in relation to the furnishing of a tax return for a tax period means the date on which the return is due to be filed;
  - (x) “e-intermediary” means a person appointed as an e-intermediary under **section 92**;
  - (xi) “entertainment” means the provision of food, beverages, tobacco, amusement, recreation, or hospitality of any kind, whether or not the provision of such entertainment is lawful
  - (xii) “exempt,” in relation to a supply or import, has the meaning given in **section 11**;
  - (xiii) “Federal list services” means the carriage of goods or passengers by railway, sea, or air;
  - (xiv) “Federal VAT” means tax imposed under this Act on a supply or import of goods or on a supply of Federal list services;
  - (xv) “goods” includes all materials, commodities, and articles, other than actionable claims, money, stocks, shares and securities;
  - (xvi) “import”, in relation to goods, means to bring goods into Pakistan;
  - (xvii) “imposed” includes charged, levied, payable and all similar meanings necessary to create and enforce a liability for tax under this Act;
  - (xviii) “input tax”, in relation to a registered person, means—

- a) Federal VAT imposed on a supply of goods to the person;
- b) Federal VAT imposed on an import of goods by the person;
- c) Federal VAT imposed on a supply of services to the person; and
- d) Federal VAT imposed on a purchase of services by the person.

(xix) “international transport” means the carriage of goods or passengers by railway, sea, or air—

- (a) from a place outside Pakistan to a place in Pakistan;
- (b) from a place inside Pakistan to a place outside Pakistan; or
- (c) from a place outside Pakistan to another place outside Pakistan;

(xx) “LTU” means the Large Taxpayers Unit established by the Board;

(xxi) “money” means—

- (a) any coin or paper currency that is legal tender in Pakistan or another country;
- (b) a negotiable instrument used or circulated, or intended for use or circulation, as currency (whether of Pakistan or of another country);
- (c) a bill of exchange, promissory note, bank draft, postal order, money order, or similar instrument; or
- (d) whatever is supplied as payment by way of credit card or debit card or crediting or debiting of an account but does not include a collector’s piece or an item of numismatic interest;

(xxii) “non-resident” means a person who is not a resident;

(xxiii) “officer of the Inland Revenue” shall include -

- (a) the Chief Commissioner VAT;
- (b) Commissioner VAT;
- (c) Commissioner VAT (Appeals);
- (d) Additional Commissioner VAT;
- (e) Deputy Commissioner VAT;
- (f) Assistant Commissioner VAT;
- (g) Senior Auditor or Auditor VAT;
- (h) Special Officer VAT;

- (i) Inspector VAT; and
  - (j) any other officer of the VAT specified by the Federal Government;
- (xxiv) “output tax”, in relation to a registered person, means—
- (a) Federal VAT imposed on a supply of goods by the person;
  - (b) Federal VAT imposed on a supply of services by the person; and
  - (c) Federal VAT imposed on a purchase of services by the person;
- (xxv) “passenger vehicle” means an on-road or off-road vehicle designed or adapted for the transport of 9 or fewer seated passengers;
- (xxvi) “permanent establishment” has the meaning given in the Income Tax Ordinance 2001 (XLIX of 2001);
- (xxvii) “person” means—
- (a) an individual;
  - (b) a company, or an association of persons, incorporated, formed, organized or established in Pakistan or elsewhere;
  - (c) a Local Government in Pakistan;
  - (d) a foreign government, a political subdivision of a foreign government;  
or
  - (e) a public international organization;
- (xxviii) “prescribed” means prescribed by rules made under this Act;
- (xxix) “progressive or periodic supply” means a supply that is made progressively or periodically under an agreement or law that provides for progressive or periodic payments or that is treated as a progressive or periodic supply under a Provincial Value Added Tax law;
- (xxx) “recipient”, in relation to a supply, means the person to whom the supply is made;
- (xxxi) “registered office”, in relation to a registered person, means the office or other place of business specified by the person on the application for registration under this Act or subsequently notified to the Board;
- (xxxii) “registration number” means the number allocated by the Board to the registered person for the purpose of this Act;

- (xxxiii) “registered person” means -
- (a) a person who is registered; and
  - (b) subject to the limitations set out in **sub-section (6) of section 44**, a person who is required to be registered;
- (xxxiv) “resident” has the meaning given in the Income Tax Ordinance 2001 (XLIX of 2001);
- (xxxv) “RTO” means the Regional Taxpayers Office established by the Board.
- (xxxvi) “second-hand goods” means goods that have previously been used but does not include—
- (i) precious metals or goods made of precious metals, being -
    - (a) gold (in an investment form) of at least 99.5% fineness;
    - (b) silver (in an investment form) of at least 99.9% fineness;
    - (c) platinum (in an investment form) of at least 99% fineness;
    - (d) goods to the extent that they would fall within (a), (b), or (c) if they were of the required fineness;
  - (ii) diamonds, rubies, emeralds, or sapphires that are not mounted, set, or strung; or
  - (iii) animals or plants;
- (xxxvii) “services” means anything that is not goods, immovable property, or money;
- (xxxviii) “Special Judge” means the Special Judge appointed under section 185 of the Customs Act;
- (xxxix) “supplier”, in relation to a supply, means the person making the supply;
- (xl) “supply” means any form of supply whatsoever;
- (xli) “supply of goods” means a sale, exchange, or other transfer of the right to dispose of goods as owner, including under a hire purchase agreement;
- (xlii) “supply of services” means a supply of Federal list services;
- (xlili) “tax” includes—
- (i) tax imposed under **section 9**;
  - (ii) a fine, default surcharge, penalty, or fee imposed under this Act;
  - (iii) any other sum payable under the provisions of this Act or rules made thereunder;



- (xliv) “tax fraction” means the amount worked out in accordance with the following formula—

$$\frac{R}{100 + R}$$

where “R” is the rate of tax specified in [section 9\(2\)](#);

- (xlv) “tax fraud” includes evasion of tax and obtaining of undue refund;
- (xlvi) “tax invoice” means a document required to be issued under [section 49](#);
- (xlvii) “tax period” means the calendar month or such other period as the Federal Government may, by notification in the official Gazette, specify;
- (xlviii) “tax return” means any return required to be furnished under this Act;
- (xlix) “taxable import” means an import of goods, other than an exempt import;
- (l) “taxable supply” means a taxable supply as defined in [section 7](#);
- (li) “time of supply” means—
- (a) in relation to a supply of goods, other than under hire purchase agreement: the time at which the goods are delivered or made available to the recipient of the supply;
  - (b) in relation to a supply of goods under a hire purchase agreement, the time at which the agreement is entered into; and
  - (c) in relation to a supply of services, the time at which the services are rendered, provided, or performed;
- (lii) “trust”, means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust;
- (liii) “unit trust”, means any trust under which beneficial interests are divided into units such that the entitlements of the beneficiaries to income or capital are determined by the number of units held;
- (liv) “value”—
- (a) in relation to an import of goods: has the meaning given in [section 14](#);
  - (b) in relation to a supply of goods or services: has the meaning given in [section 18](#);
- (lv) “zero-rated,” in relation to a supply or import, has the meaning given in [section 12](#);

**3. Associated persons.**— (1) For the purpose of this Act two persons are “associated persons” if the relationship between them is such that one can reasonably be expected to act in accordance with the intentions of the other, or both can reasonably be expected to act in accordance with the intentions of a third person.

(2) The following are presumed to be “associated persons”—

- (a) an individual and a relative of the individual; and
- (b) the members of an association of persons,

unless the Board is satisfied that neither person can reasonably be expected to act in accordance with the intentions of the other.

(3) Whether or not sub-section (1) applies, the following are “associated persons”—

- (a) a member of an association of persons and the association, if the member, either alone or together with an associate or associates under another application of this section, controls **fifty** per cent or more of the rights to income or capital of the association;
- (b) a trust and any person who benefits or may benefit under the trust;
- (c) a shareholder in a company and the company, if the shareholder, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons—
  - (i) **fifty** per cent or more of the voting power in the company;
  - (ii) **fifty** per cent or more of the rights to dividends; or
  - (iii) **fifty** per cent or more of the rights to capital;
- (d) two companies, where a person, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons –
  - (i) **fifty** per cent or more of the voting power in both companies;
  - (ii) **fifty** per cent or more of the rights to dividends in both companies; or
  - (iii) **fifty** per cent or more of the rights to capital in both companies.

(4) “relative” in relation to an individual, means—

- (a) an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual;
- (b) an ancestor, a descendant of any of the grandparents, or an adopted child, of a spouse of the individual; or
- (c) a spouse of the individual or of any person specified in sub-paragraph (a) or (b).

(5) Two persons are not associated persons solely because one of them is an employee of the other or both are employees of a third person.

**4. Consideration.**— (1) For the purpose of this Act “consideration”, in relation to a supply, means the total of the following amounts, namely:-

- (a) the amount in money paid or payable by any person, whether directly or indirectly, in respect of, in response to, or for the inducement of the supply; and
- (b) the open market price of anything paid or payable in kind, whether directly or indirectly, by any person in respect of, in response to, or for the inducement of the supply,

reduced by any price discounts or rebates allowed and accounted for at the time of supply or, for a taxable supply, at or before the time the tax becomes payable under [section 19](#).

(2) For the avoidance of doubt, the expression “consideration” includes amounts paid to reimburse the supplier for any Federal duties, levies, fees, charges, and taxes (including Federal VAT, as applicable) paid or payable by the supplier on, or by reason of, the supply.

(3) The supplier shall bear the burden of proving that the consideration for a particular supply of goods or services is not less than the price at which the supplier ordinarily supplies those goods and services.

**5. Economic activity.**— (1) For the purposes of this Act the expression “economic activity” means any activity carried on continuously or regularly by a person that involves or is intended to involve the supply of goods, services to another person and includes—

- (a) an activity carried on in the form of a business, including a profession, calling, trade, manufacture or undertaking of any kind, whether or not the activity is undertaken for profit;
- (b) the supply of movable property by way of lease, licence or similar arrangement; and
- (c) a one-off adventure or concern in the nature of a trade.

(2) Anything done or undertaken during the commencement or termination of an economic activity is part of the economic activity.

(3) An “economic activity” does not include—

- (a) the activities of an employee providing services in that capacity to an employer;
- (b) a private recreational pursuit or hobby of an individual;
- (c) an activity of a person other than an individual, which is essentially carried on as a private recreational pursuit or hobby of a member, owner, or associate of the person;
- (d) an activity carried on without a reasonable expectation of profit by an individual or an association of person, all of the members of which are individuals.

**6. Open market price.**— (1) For the purpose of this Act, the expression “open market price” of a supply of goods or services, including anything provided as in-kind consideration for another supply, is-

- (a) the consideration the supply would fetch in an open market transaction freely made between unrelated persons; or
- (b) if it is not possible to determine an amount under paragraph (a), the consideration a similar supply would fetch in an open market transaction freely made between unrelated persons, adjusted to take account of the differences between such supply and the actual supply,

determined on the basis of the market conditions, including the registration status of the supplier, prevailing at the time and place of the actual supply.

(2) For the purpose of clause (b) of sub-section (1), one supply is similar to another if it is the same as, or closely resembles, the other supply in character, quality, quantity, functionality, materials, and reputation.

(3) If the open market price of a supply cannot be determined under sub-section (1), it may be determined using any method approved by the Board for calculating an objective approximation of the consideration the supply would fetch in an open market transaction freely made between unrelated persons.

(4) If a provision of this Act requires the fair market price to be determined for particular goods or services, or for a particular asset, that value is worked out under this section by reference to the value that a supply of those goods or services, or that asset, would fetch in a transaction freely made under normal market conditions.

(5) For the avoidance of doubt, the market to which reference is made in applying this section is the market in which the transaction takes place.

**7. Taxable supply.**—(1) Except to the extent that it is an exempt supply, a supply of goods or a supply of Federal list services is a taxable supply if it is made—

- (a) in Pakistan;
- (b) by a registered person; and
- (c) in the course of an economic activity, including in the commencement or termination of the activity.

(2) Where a person makes a supply that is not a taxable supply and issues a tax invoice, sales receipt, or other document to the recipient representing that the supply is a taxable supply:—

- (a) the supply is deemed to be a taxable supply; and
- (b) the rate of tax applicable to the supply is deemed to be the rate stated on the face of the document, or implied from what is stated thereon.

## Chapter-II

### INTEGRATION WITH PROVINCIAL VALUE ADDED TAX LAWS

**8. Collection of Provincial VAT.**— (1) Where a Provincial Value Added Tax law provides for the Provincial VAT to be collected under this Act, the Board shall collect that tax and shall apply all provisions of this Act necessary to ensure that the Provincial VAT and the Federal VAT operate together as an integrated tax regime.

(2) The provisions of this Act relating to penalties, offences, and default surcharges shall apply irrespective of whether the tax payable, or the adjustments allowable, relate to supplies of services or to supplies of goods and services.

## Chapter-III

### IMPOSITION OF TAX

#### *Part A – Tax Payable and Person Liable*

**9. Imposition of tax.**— (1) There shall be charged, levied, paid and collected a tax known as value added tax (VAT) under this Act on —

- (a) taxable supplies; and
- (b) taxable imports.

(2) The rate of tax applicable to a taxable supply or import shall be,-

- (a) if the supply or import is zero-rated, the rate of tax shall be zero percent;
- (b) in all other cases, fifteen per cent of the value of supply;

(3) The amount of tax shall be computed by applying the rate specified in sub-section (2) to the value of the supply or import.

(4) Where there is a change in the rate of tax, the rate to be applied shall be,—

- (a) for an import of goods: the rate applicable at the time the tax becomes payable under sub-section (1) of section 15; and
- (b) for a supply of goods or services: the rate applicable at the time of supply.

**10. Person liable to pay tax.**— (1) The person liable to pay the tax imposed under **section 9** is—

- (a) in the case of a taxable import: the person importing the goods;
- (b) in the case of a taxable supply: the supplier; and
- (c) in exceptional circumstances, as may be notified by the Federal Government, the recipient of a supply

(2) Sub-section (1) does not prevent the collection of tax from a different person if that person is made separately, or jointly and severally, liable for this tax under another provision of this Act.

**11. Exemptions.**— A supply or import shall be an “exempt” supply or import if—

- (a) it is specified as an exempt supply or import in the First Schedule of this Act or it is a supply of a right or option to receive a supply that will be an exempt supply;
- (b) it is specified as an exempt supply under a Provincial Value Added Tax law.

**12. Zero-rated supplies.**— A supply or import is a “zero-rated” supply or import if—

- (a) it is specified as a zero-rated supply or import in the Second Schedule of this Act or it is a supply of a right or option to receive a supply that will be a zero-rated supply; or
- (b) it is specified as a zero-rated supply under a Provincial Value Added Tax law.

**13. Exemption and zero-rating only as provided by law.**— (1) No supply, class of supplies, import, or class of imports shall be treated as exempt or zero-rated under this Act except as expressly provided in this Act.

(2) No person or class of persons is exempt from the payment of tax under this Act except as provided by this Act.

(3) No promise or commitment made, or understanding given, whether in writing or otherwise, by any person or any government department or authority shall over-ride sub-sections (1) and (2).

*Part B – Basic Rules Relating to Imports*

**14. Value of imported goods.**— (1) Unless otherwise specified, the value of imported goods shall be the sum of—

- (a) the value of the goods determined for the purposes of customs duty determined under section 25 of the Customs Act, whether or not duty is payable on the import;
- (b) to the extent not included under clause (a) -
  - (i) the cost of insurance and freight incurred in bringing the goods into Pakistan; and
  - (ii) the cost of services that have been treated as part of the import of the goods because of a provision of a Provincial Value Added Tax law; and
- (c) the amounts, if any, of customs duties, Federal excise duties, or other taxes, levies, or fiscal charges (other than the tax imposed under this Act) payable on the import of the goods.

(2) Where goods are re-imported after being exported for the purpose of undergoing repair, renovation, or improvement, the value of the re-imported goods shall be the amount of the increase in their value that is attributable to the repair, renovation, or improvement process, so long as the form or character of the goods has not been changed by the repair, renovation, or improvement.

**15. Payment of tax on taxable imports.**— (1) The tax payable on taxable imports shall be paid at the same time and place, and in the same manner, as if it were a duty of customs paid under the Customs Act.

(2) For the purposes of collection and enforcement of the tax payable on taxable imports under this Act, all provisions of the Customs Act, as amended from time to time, relating to the collection, payment and enforcement of taxes and duties shall apply.

*Part C – Basic Principles Relating to Supplies*

**16. Progressive or periodic supply.**— (1) Each progressive or periodic part of a progressive or periodic supply shall be treated as a series of separate supplies.

(2) If the progressive or periodic parts of a progressive or periodic supply are not readily identifiable, the supply shall be treated as a series of separate supplies each corresponding to the proportion of the supply to which each separate part of the consideration relates.

(3) A supply of goods under hire purchase agreement shall not be treated as a progressive or periodic supply.

**17. Ancillary or incidental supplies.**— (1) Where a supply consists of more than one element, the following criteria shall be taken into account to determine how the supply is to be treated, namely:-

- (a) every supply shall normally be regarded as distinct and independent;
- (b) a supply that comprises a single supply from an economic point of view should not be artificially split;
- (c) the essential features of the transaction shall be ascertained in order to determine whether the customer is being supplied with several distinct principal supplies or with a single supply;
- (d) there is a single supply if one or more elements constitute the principal supply, in which case the other elements (“the ancillary or incidental supplies”) shall be treated as part of the principal supply; and
- (e) a supply must be regarded as ancillary or incidental to a principal supply if it does not constitute for customers an aim in itself, but is merely a means of better enjoying the principal thing supplied.

(2) A supply of services that is ancillary or incidental to an import of goods shall be treated as part of the import of goods.

**18. Value of supply.— (1)** The value of a taxable supply shall be the consideration for the supply, reduced by an amount equal to the consideration multiplied by the tax fraction.

(2) The value of a supply that is not a taxable supply shall be the consideration for the supply.

(3) If—

- (a) a registered person makes a taxable supply to an associated person for no consideration, or for a consideration that is lower than the open market price; and
- (b) the associated person would not be entitled to a full input tax credit for the purchase of the goods or services,

the value of the supply is the open market price of the supply, reduced by the tax fraction of that price.

**19. When tax becomes payable on supplies.— (1)** Tax shall become payable on a taxable supply of goods or services at the earliest of—

- (a) the time of supply;
- (b) the time when an invoice for the supply is issued by the supplier; or
- (c) the time when any part of the consideration for the supply is paid.

(2) Where a progressive or periodic supply is treated as a series of separate supplies, each such supply is treated as being made on the earliest of, -

- (a) if separate invoices are issued for each such supply, the date on which the applicable invoice is issued;
- (b) the date on which the payment corresponding to the supply is due;
- (c) the date on which any part of the payment corresponding to the supply is received;
- (d) the first day of the period, if any, to which the progressive or periodic payment relates; or
- (e) the first day on which the recipient is able to use or enjoy that supply.

*Part D – Special Rules*

**20. Purchase of economic activity as a going concern.— (1)** This section applies in respect of that part of a sale or transfer of an economic activity as a going concern that—

- (a) is a supply of goods or a supply of Federal list services; and
- (b) is zero-rated under the Second Schedule to this Act.



(2) Where this section applies, the recipient of the supply must make an increasing adjustment in a tax period if the economic activity was not purchased for a creditable purpose.

(3) The amount of the increasing adjustment is the tax rate specified in **section 9(2)(b)** multiplied by that part of the consideration for the sale or transfer of the economic activity that is a supply of goods or of Federal list services.

**21. Second-hand goods purchased for on-sale.**— (1) A registered person shall be treated as having incurred an amount of input tax on second-hand goods purchased for the purposes of sale or exchange (but not for manufacture) in the ordinary course of trade or business of selling second-hand goods, if all of the following conditions are met, namely

- (a) the goods are purchased from an unregistered person;
- (b) the supply of the goods to the person would not have been zero-rated or exempt if the supplier had been a registered person;
- (c) the goods are not imported by the person;
- (d) the on-supply of the goods is a taxable supply; and
- (e) the person has kept such books and records relating to the purchase and on-sale as are prescribed by the Board.

(2) The amount of the input tax shall be the tax fraction of the price for which the registered person purchased the second-hand goods, calculated using the tax rate applicable to the on-sale of the goods by the person.

(3) The input tax shall be accounted for in the tax period in which the registered person sells the goods.

(4) Where second-hand goods are given by an unregistered person as part payment for new goods of a similar kind, the open market price of the traded-in goods used to determine the consideration for the new goods must be the same as the price referred to in sub-section (2).

#### *Part E – Place of Taxation Rules*

**22. Supply of goods and services made in Pakistan.**— (1) A supply of goods shall be made in Pakistan if:—

- (a) the supplier is a resident of Pakistan;
- (b) the goods are delivered or made available in Pakistan; or
- (c) the supplier installs or assembles the goods in Pakistan.

(2) A supply of services shall be made in Pakistan if—

- (a) the supplier is a resident of Pakistan;

- (b) the supplier is a non-resident with a permanent establishment in Pakistan and the supply is made through that permanent establishment; or
  - (c) the services are performed in Pakistan by any person who is in Pakistan at the time they are performed and the recipient is not a registered person.
- (3) Where a progressive or periodic supply is deemed to be a series of separate supplies, the place where each such supply takes place shall be determined separately.
- (4) A non-resident who makes a supply of goods or services in Pakistan and does not have a permanent establishment in Pakistan shall—
- (a) appoint a VAT representative in Pakistan; and
  - (b) furnish such security

as may be prescribed by the Board.

**23. Export of goods.—** (1) A sale of goods shall be zero-rated if-

- (a) the supplier has entered the goods for export under the customs laws and the goods have been exported;
  - (b) a supply of goods is made to a tourist or visitor, if the supplier is a licensed duty-free vendor who holds documentary evidence, and collected at the time of the supply, which establishes that the goods are to be removed from Pakistan without being effectively used or enjoyed in Pakistan.
- (2) Subject to sub-section (1), supply of goods shall be zero-rated if it is made in the course of repairing, maintaining, cleaning, renovating, modifying, treating, or otherwise physically affecting other goods that are-
- (a) temporarily imported into Pakistan under a special regime for temporary imports specified in the Customs Act or any other provision of the customs laws dealing with temporary imports; or
  - (b) brought temporarily into Pakistan for the purpose of receiving the services, so long as the goods are removed from Pakistan after the services have been performed and have not been used in Pakistan for any purpose other than to enable the services to be performed:

Provided that the goods supplied are attached to or become part of those other goods, or become unusable or worthless as a direct result of being used to repair, renovate, modify or treat the other goods.

- (3) A supply of goods shall be zero-rated if it relates to the repair or replacement of goods under warranty and—
- (a) the supply is provided under an agreement with, and for consideration given by, the warrantor, who is a non-resident and is not a registered person; and
  - (b) the goods under warranty were previously subject to tax when imported.

(4) A supply shall not be zero-rated under this section if it is exported to a country specified by the Federal Government by notification in the official Gazette.

(5) The burden of proving that a taxable supply of goods is zero-rated under this section shall be on the supplier.

## Chapter-IV

### CALCULATION OF TAX PAYABLE ON SUPPLIES

#### *Part A - Calculation of net tax payable for a tax period*

**24. Payment of tax payable on supplies.**— (1) The output tax payable by a registered person shall be accounted for and paid, in such manner and mode as prescribed, at the time of filing the return for the tax period during which it became payable.

(2) The amount payable under sub-section (1) shall be increased or decreased by adjustments allowed or required in relation to the tax period, whether or not such adjustment is listed in the sub-sections below.

(3) The liability to pay an amount of tax arises by operation of this section and does not depend on the making an assessment of the tax due.

(4) Except as otherwise provided, the amount to be paid by a registered person under sub-section (1) shall be increased by all or any of the following, namely:—

- (a) an increasing adjustment required under **section 29** for an adjustment event;
- (b) an increasing adjustment required under **section 30** for a bad debt;
- (c) an increasing adjustment required under **section 31** for goods applied to a private purpose;
- (d) an increasing adjustment required under **section 332** on cancellation of registration;
- (e) an increasing adjustment required under section 36 for the tax that has been withheld
- (f) an increasing adjustment required under **section 34** where there is a change in the tax rate;
- (g) a default surcharge, fine, penalty, fee, or other sum imposed and payable under this Act.

(5) The amount to be paid by a registered person under sub-section (1) shall be reduced first by all or any of the following, namely:—

- (a) the amount of an advance payment of tax made by the person in accordance with **section 35**; and

- (b) an amount withheld from a payment to the person in accordance with **section 36**:

Provided that if the result of the subtraction is a negative amount, that amount shall be refundable without carry forward.

(6) Except as otherwise provided, after taking into account any decreasing adjustments required under sub-section (5), the amount to be paid by a registered person under sub-section (1) **shall** be further reduced by all or any of the following, namely:-

- (a) an amount equal to the input tax that may be accounted for and deducted in that tax period;
- (b) a decreasing adjustment allowable under **section 29** for an adjustment event;
- (c) a decreasing adjustment allowable under **section 30** for a bad debt;
- (d) a decreasing adjustment allowable under **section 33** on becoming registered; or
- (e) a decreasing adjustment allowable for a negative amount carried forward from a previous tax period in accordance with **section 37**.

#### *Part B – Adjustments*

**25. Deductions for input tax.**— (1) A registered person may deduct input tax only if, and to the extent that, the goods or services on which the input tax was imposed:

- (a) were supplied to or imported by the person; and
- (b) were purchased or imported by the person

for a creditable purpose.

(2) Goods or services are purchased or imported by a registered person for a creditable purpose if and only if—

- (a) they are purchased or imported in the course of the person's economic activity; and
- (b) for the purpose of taxable supplies made, or to be made by, the person.

(3) Where an **approved non-profit charitable organization** purchases goods or services, or imports goods, for a purpose other than exempt supplies made or to be made by such organization, the Board may, subject to such conditions, limitations, or restrictions as it determines, treat the goods or services as having been purchased or imported for the purpose of making taxable supplies.

**26. Restrictions on input tax deductions.**— (1) No deduction for input tax is allowed unless, at the time of filing the return in which the input tax is deducted, the person making the deduction holds,—

- (a) in the case of goods imported by the person, a bill of entry or goods declaration bearing the name and **active registration number** of the importer, and duly cleared by the customs under section 79 or section 103 of the Customs Act;

- (b) in the case of a supply of goods to the person: a valid tax invoice issued by the supplier;
  - (c) in the case of a supply of services to the person, if the supply is made in Pakistan, a valid tax invoice issued by the supplier.
- (2) Despite sub-section (1), the Board may allow a person to provide alternative evidence that it has incurred input tax for which a deduction is sought.
- (3) Where a supply of services that is not made in Pakistan is a taxable supply under a Provincial Value Added Tax law, the recipient of the supply may not deduct the input tax for that supply unless the recipient has also paid the output tax imposed on the supply.
- (4) No deduction for input tax is allowed for a taxable supply the price of which exceeds rupees fifty thousand, including tax, unless payment for the supply is made through verifiable banking instrument, including on-line or credit card payment showing transfer of money from a bank account of the recipient to a bank account of the seller.
- (5) No deduction for input tax incurred on a purchase or import is allowed if, or to the extent that—
- (a) the purchase or import is of a passenger vehicle, or of spare parts or repair and maintenance services for such vehicle, unless the person's economic activity involves dealing in or hiring out such vehicles and the vehicle was purchased for that purpose;
  - (b) the purchase or import is used to provide entertainment, to the extent of that use, unless the person's economic activity involves providing entertainment and the entertainment is provided in the ordinary course of that economic activity and is not supplied to a related person or employee; or
  - (c) the purchase is of a membership or right or entry for any person in a club, association, or society of a sporting, social, or recreational nature.

**27. Apportionment of input tax.—** (1) Where a registered person—

- (a) purchases goods or services or imports goods only partly for a creditable purpose; or
- (b) a restriction on deducting the input tax only partly applies,

the person may deduct only such proportion of the input tax as shall be prescribed by the Board.

**28. When input tax is deductible.—** The tax period in which the input tax may be accounted for and deducted is the later of,—

- (a) the tax period in which the input tax became payable; or
- (b) if the person did not deduct the output tax in that period, any one of the six succeeding tax periods.

**29. Post-supply adjustments for adjustment events.**— (1) For the purpose of this Act, an adjustment event occurs in relation to a supply of goods or services if—

- (a) the supply is cancelled;
- (b) the consideration for the supply is altered;
- (c) the goods or services (or part thereof) are returned to the supplier; or
- (d) the nature of a supply is fundamentally varied or altered in a such a way that the supply becomes, or ceases to be, a taxable supply.

(2) If an adjustment event occurs and the tax previously accounted for by the supplier is less than the tax properly payable on the supply, the supplier shall—

- (a) make an increasing adjustment, equal to the amount of the difference, in the tax period in which the adjustment event occurs; and
- (b) issue a valid debit note to the recipient of the supply.

(3) If the recipient is a registered person, the recipient may make a decreasing adjustment in the tax period in which the debit note is received, equal to the amount of the difference, reduced in accordance with [section 27](#) and any other rules restricting the person's entitlement to an input tax credit for the goods or services supplied.

(4) If an adjustment event occurs and the tax actually accounted for by the supplier exceeds tax properly payable on the supply, the supplier—

- (a) shall issue a valid credit note to the recipient of the supply; and
- (b) subject to [sub-section \(5\)](#), may make a decreasing adjustment, equal to the amount of the difference, in the tax period in which the adjustment event occurs or, if the person did not make the decreasing adjustment in that period, any one of the six succeeding tax periods.

(5) A decreasing adjustment is not allowed unless,—

- (a) if the recipient is a registered person, the supplier holds evidence that the recipient received the credit note; or
- (b) if the recipient is not a registered person, the supplier has repaid the excess tax to the recipient, whether in cash or as a credit against any amount owing to the supplier by the recipient.

(6) If the recipient is a registered person—

- (a) the recipient shall make an increasing adjustment in the earlier of the tax period in which the adjustment event occurs or the tax period in which the credit note is received; and
- (b) the amount of the increasing adjustment is,—

- (a) if the recipient was entitled to deduct all of the input tax on the original purchase, the amount of the difference;
- (b) if the recipient was entitled to deduct only a proportion of the input tax on the original purchase, an appropriate proportion of the amount of the difference; or
- (c) if the recipient was not entitled to a credit for the input tax on the original purchase, nil.

(7) For the purposes of clause (b) of **sub-section (5)**—

- (a) if a supplier refunds part or all of the price paid because of an adjustment event covered by clauses (a) to (c) of **sub-section (1)**, unless there is evidence to the contrary, the amount refunded should be presumed to include an amount of tax equal to the tax fraction of the amount refunded;
- (b) if a supplier refunds an amount because of an adjustment event covered by clause (d) of **sub-section (1)**, unless there is evidence to the contrary, the amount refunded should be presumed to be the amount of tax that is no longer payable.

**30. Post supply adjustments for bad debts.**— (1) This section applies if all or part of the consideration for a taxable supply has not been paid to the supplier.

(2) If all or part of the consideration for a supply is not paid to the supplier and the supplier has, in its books of account, written off the amount unpaid as a bad debt, the supplier may make a decreasing adjustment under section 29 as if there had been an adjustment event altering the consideration for the supply.

(3) The adjustment is allowable in the tax period in which the debt is written off as bad.

(4) Whether or not the supplier has written off the amount unpaid as a bad debt, if the amount has been overdue for more than **six** months the recipient shall make an increasing adjustment under **section 29** as if there had been an adjustment event altering the consideration for the supply for the supply.

(5) The recipient is not required to make an increasing adjustment under **sub-section (4)** if, and to the extent that the person,—

- (a) was not entitled to claim a deduction for the input tax in relation to the supply; or
- (b) has previously made an increasing adjustment in relation to the supply under **section 29**.

(6) If, after a supplier has made an adjustment for a bad debt, or a recipient has made an adjustment for an overdue debt, the recipient pays to the supplier part or all of the previously unpaid amount, further adjustments may be made in order to ensure that,—

- (a) for the supplier, the output tax paid is equal to the tax fraction of the consideration actually paid; and

(b) for the recipient, the input tax deductible is the appropriate proportion to the tax fraction of the consideration actually paid.

(7) The burden of proving that an amount was not paid and that the debt is bad shall be on the supplier.

(8) A supplier is not required to give a recipient a credit note in relation to a bad or overdue debt and a recipient's obligation to make an increasing adjustment does not require a credit note to have been issued.

**31. Adjustments for goods applied to a private purpose.**— (1) A registered person has an increasing adjustment if the person,—

(a) is or has been allowed an adjustment for input tax in respect of part or all of the input tax incurred on a purchase of goods, or on an import of goods, and the person; and

(b) applies those goods wholly to a private use from a particular time onwards.

(2) The amount of the increasing adjustment is the tax fraction of the open market value of goods at the time they are first applied to the private purpose.

(3) If the person was only allowed an adjustment for part of the input tax relating to the purchase or import of the goods or services, the increasing adjustment is reduced to reflect the extent to which no input tax credit was allowed.

(4) If a registered person applies to a private use goods produced by the person, the person has an increasing adjustment if the supply of those goods by the person would have been a taxable supply.

(5) For the purposes of this section, goods shall be considered to have been applied to a private use if fifty per cent or more of the use to which the person will put the goods will not be for the purpose of the person's economic activity.

**32. Adjustments on cancellation of registration.**— (1) A person whose registration is cancelled has an increasing adjustment in relation to assets on hand at the time the registration is cancelled if the person was allowed an input tax credit in respect of the purchase or import of those assets, or for goods or services which have been subsumed into those assets.

(2) The amount of the adjustment is equal to the tax fraction of the open market price of the assets on the day immediately preceding the cancellation.

(3) The adjustment shall be accounted for in the tax return for the final tax period.

**33. Adjustments on becoming registered.**— A person shall be entitled to make decreasing adjustment, if the person holds verifiable quantities of goods supplied by a registered person during a period of thirty days prior to applying for registration.

**34. Adjustments when rate changes.**— (1) A registered person shall make an increasing adjustment if, because of sub-section (4) of [section 9](#) and [clauses \(a\) and \(c\) of sub-section](#)



(1) of section 19, a registered person has accounted for tax in relation to a particular supply at a rate lower than the rate actually applicable to the supply.

(2) The amount of the increasing adjustment is the difference between the amount of tax actually accounted for and the amount of tax that is correctly payable in relation to the supply.

*Part C - Withholding and advance payments*

**35. Advance payment of tax on import of goods.-** The Board may require any person or class of persons to make advance payment of tax not exceeding twenty five percent of the rate specified in section 9 for prospective value addition of any goods or class of goods imported by such person or class of persons.

**36. Withholding by Government and Large Taxpayers.-** The Federal Government may specify any person or class of persons as withholding agent for the purpose of deduction and deposit of tax on the purchase of goods at the rate not exceeding twenty five percent of the rate specified in section 9.

**Chapter-V**

**REFUNDS**

**37. Carry forward and refund of negative net amount for a tax period.-** If, in any tax period, the amount payable under section 24 would be a negative amount because the sum of all the decreasing adjustments allowed in the tax period exceeds the sum of all the amounts of output tax and increasing adjustments for the tax period, the excess shall be carried forward and may be deducted in the following six tax periods in accordance with this section.

(2) A registered person shall be allowed a decreasing adjustment for an excess amount carried forward from a particular tax period (“the relevant tax period”) as follows,—

(a) in the following tax period: if, after taking account of all other decreasing adjustments, including decreasing adjustments carried forward from earlier tax periods, there remains an amount of tax payable, the person shall be allowed a decreasing adjustment for such part of the excess amount carried forward from the relevant tax period as would reduce the amount payable to nil; and

(b) the process described in paragraph (a) is continued until either—

(i) all of the excess amount carried forward has been deducted; or

(ii) part or all of the excess amount has been carried forward for six tax periods.

(3) If part or all of the excess amount has been carried forward for six tax periods without being deducted—

(a) and the amount does not exceed Rupees one thousand, the amount shall continue to be carried forward until it is reduced to nil; or

- (b) in any other case, the Board shall refund the amount, on application in the form and manner prescribed by the Board, within forty-five days of such application.

**38. Refunds without carry forward.-** (1) Notwithstanding [section 37](#), a registered person shall be entitled to a refund of a negative amount payable under [section 24](#) if the Board is satisfied that,—

- (a) fifty per cent or more of the person's turnover is or will be from supplies that are zero-rated exports;
- (b) fifty per cent or more of the person's expenditure on inputs is from purchases or imports that relate to making supplies that are zero-rated exports; or
- (c) in any other case, the Board is satisfied that the nature of the person's business regularly results in excess input tax credits:

Provided that the Board may require a negative amount of [one thousand rupees](#) to be carried forward in accordance with [section 37](#).

(2) Refund shall be paid by the Board, on application in the form and manner prescribed for a refund by the Board, within forty-five days of such application.

**39. Application and payment of refunds.-** (1) No refund is payable to a person under [section 37 or 38](#) unless and until the applicant has filed all tax returns up to the current tax period.

(2) If a refund is payable to a person, the Board may apply the refund first in reduction of any outstanding tax liability of the person under this Act, or against payment of any other taxes, levies, or duties collected by the Board, including any unpaid amounts under repealed tax laws.

(3) If the amount remaining after applying sub-section (2) does not exceed [one thousand](#), the Board may choose not to refund the amount and may instead require the registered person to treat the amount as a decreasing adjustment in a tax period specified by the Board.

**40. Refunds to diplomats, non-profit bodies, and other international bodies.-** (1) The Board may authorize the granting of a refund of part or all of the input tax incurred in relation to a purchase or import by-

- (a) a public international organization, foreign government, or any other person prescribed by the Federal Government to the extent the organization, government, or person is entitled to exemption from tax under an international assistance agreement;
- (b) a person to the extent that the person is entitled to exemption for tax under the Vienna Convention on Diplomatic Relations, or under another international treaty or convention having force of law in Pakistan or to which Pakistan is a signatory, or under recognized principles of international law; or

- (c) a diplomatic or consular mission of a foreign country established in Pakistan, relating to transactions concluded for the official purposes of such mission.
- (2) A claim for a refund under sub-section (1) shall be made in the form and manner, and at the time prescribed by the Board, and must be accompanied by such supporting documentation as the Board may require.
- (3) The Board shall, within two months after the date on which an application for a refund is made under this section,—
  - (a) make a decision in relation to the application and give the applicant notice of the decision, stating the amount refundable and providing reasons for any difference between that amount and the amount for which a refund was requested; and
  - (b) pay the amount refundable to the applicant.

## Chapter-VI

### REGISTRATION

- 41. Requirement to register.**— (1) A person is required to be registered under this Act from a particular day in any month if the person exceeds the registration threshold in the period of twelve months ending at the end of that month;
- (2) A person exceeds the registration threshold in a particular period if the total value of supplies made, or to be made, by the person in the course of an economic activity during that period is equal to or greater than **Rupees seventy five hundred thousand**.
- (3) For the purpose of this section:—
- (a) the following shall not be counted in the total value of a person's supplies, namely:—
    - (i) the value of a supply that is not taxable, or would not be taxable if the person were registered;
    - (ii) the value of a sale of a capital asset of the person;
    - (iii) the value of a supply made solely as a consequence of selling an economic activity or part of that economic activity as a going concern; or
    - (iv) the value of supplies made solely as a consequence of permanently ceasing to carry on an economic activity;
  - (b) the value of supplies made by an associated person shall be counted in the total value of a person's supplies if the Board is satisfied that it is appropriate to include such supplies due to the nature of the activities carried out by the associated person, the connections between the persons or between the economic activities carried on by them, and any other relevant factors

Provided that the Board must give the person notice of the requirement to include the value of the associated person's supplies and an opportunity to be heard.

**42. Voluntary registration.**— (1) A person who carries on an economic activity but is not required to be registered may apply for voluntary registration at any time.

(2) If a person is not required to be registered and applies for voluntary registration, the Board may register the person if the Board is satisfied that—

- (a) the person is making, or will make, supplies that would be taxable if the person were registered;
- (b) the person has a fixed place at which the person's economic activity is carried on;
- (c) there are reasonable grounds to believe that the person will keep proper records and file regular and reliable returns; and
- (d) if the person has commenced carrying on an economic activity, the person has—
  - (i) kept proper records in relation to his economic activity; and
  - (ii) complied with his obligations under other taxation laws, including the customs laws.

**43. Compulsory registration.**— (1) If the Board is satisfied that a person is required to be registered and that person has not applied for registration, the Board shall register the person and shall, no later than fifteen days before the day on which the registration takes effect, notify the person of the registration, the day on which it takes effect, and the registration number issued to the person.

(2) No person may be registered compulsorily without being given advance notice and an opportunity of being heard.

**44. Application for registration.**— (1) A person who is required to be registered shall apply for registration in such manner and mode as may be specified by the Board no later than fifteen days before the day on which the person becomes required to be registered.

(2) If the Board is satisfied that the person is required to be registered, the Board shall, within fifteen days of receiving the application—

- (a) register the person; and
- (b) notify the person of the registration, the day on which it takes effect, and the registration number issued to the person.

(3) Where a person who is not required to be registered applies for registration the Board shall, within fifteen days of receiving the application, notify the person of the decision on the application, and if -

- (a) the Board registers the person, the notice shall state the day on which the registration takes effect and the registration number issued to the person; or

- (b) the Board rejects the application, notify the applicant, stating the reasons for the decision and outlining the person's rights to object and appeal against the decision.
- (4) The Board shall issue every registered person with a registration number for the purposes of this Act.
- (5) A person shall have only one registration and only one registration number, which shall cover all economic activities carried on by the person without distinction.
- (6) A person who is required to be registered shall not be treated as a registered person if, the Board has failed to process an application submitted in accordance with sub-section (1).
- 45. Change in registration.**— A registered person shall, within fifteen days of the change occurring, notify the Board of a change in the name (including business name or other trading name), address, place or places of business, the nature of the economic activity carried on by the person, or any other information prescribed by the Board.
- 46. Cancellation of registration.**— (1) A registered person shall, within fifteen days of the date on which the person ceases making taxable supplies, apply to the Board to cancel its registration.
- (2) The Board may, by notice, cancel the registration of a person who has applied for cancellation under sub-section (1) if the Board is satisfied that the person has ceased or will cease making taxable supplies.
- (3) A registered person who is no longer required to be registered but continues to make taxable supplies may apply to the Board to cancel its registration.
- (4) The Board may, by notice, cancel the registration of a person who has applied for cancellation under sub-section (3) if the Board is satisfied that the person does not exceed the registration threshold, provided that the Board may require a person who has applied for voluntary registration to remain registered for at least twelve months from the day on which the registration commenced, except where the person has ceased its economic activity.
- (5) The Board may, by notice, cancel the registration of a person if the Board is satisfied that—
- (a) the person does not have a fixed place at which the person's economic activity is carried on;
  - (b) the person has not kept proper records of its business;
  - (c) the person has not filed regular and reliable returns; or
  - (d) the person has not complied with its obligations under other taxation laws, including the customs laws, and there are reasonable grounds to believe that the person will not keep proper records or file regular and reliable returns.
- (6) The Board shall, by notice, cancel the registration of a person who has not applied for cancellation if the Board is satisfied that the person is not carrying on an economic activity.

(7) The cancellation of a person's registration shall take effect from the day set out in the notice of cancellation.

(8) A person whose registration is cancelled shall—

- (a) immediately cease to hold out in any way that the person is a registered person;
- (b) immediately cease to use or issue any documents (including tax invoices, receipts, credit notes, and debit notes) that identify the person as a registered person; and
- (c) within fifteen days after the date of cancellation of the person's registration, file a final return and pay all tax due.

**47. Suspension of registration.**— (1) Subject to sub-section (3), –

- (a) the Board may suspend the registration of a person if it believes that the person
  - (i) is not entitled to be registered; or
  - (ii) has failed to comply with its obligations under this Act; and

(b) the suspension of registration shall be effected by removing the name of the person from the list of registered persons published on the Board's web site.

(2) The Board shall give notice to a registered person stating the reasons for the suspension and the remedial actions required to be taken by the person in such time as may be specified in the notice.

(3) In case the Board is not satisfied with the response of the person or does not receive any response in the specified time, the Board may suspend registration.

(4) Where, after sixty days, the suspension has not been withdrawn, the Board shall—

- (a) institute proceedings against the person in respect of the alleged non-compliance under this Act;
- (b) reinstate the person's registration; or
- (c) if neither of actions in clauses (a) and (b) is done, cancel the person's registration in accordance with sub-section (4) of section 46.

**48. List of persons registered for VAT** (1) It shall not be reasonable for a person to believe that another person is registered for VAT if that other person is not on the list placed on the website of the Board.

(2) It shall be reasonable for a person to believe that another person is registered for VAT if that other person is on the list placed on the website of the Board.

**CHAPTER-VII**  
**RECORDS, ACCOUNTS, INVOICING AND AUDITS**

**49. Tax invoices.** — (1) A registered person who makes a taxable supply to another registered person shall issue a serially numbered true and correct tax invoice for the supply.

(2) A tax invoice shall contain the information prescribed by the Board, including but not limited to—

- (a) the date on which it is issued;
- (b) the name , address and registration number of the supplier;
- (c) the name, address and registration number or national tax number (NTN) or Computerized National Identity Card Number (CNIC) of the buyer;
- (d) description, quantity and other relevant specifications of the goods or services supplied;
- (e) the total amount payable for the supply;
- (f) the rate of tax applicable to the supply; and
- (g) the amount of tax payable.

**50. Sales receipts.**— (1) A registered person who makes a taxable supply of a value not more than twenty-five thousand rupees to a person who is not required to be registered, may issue a sales receipt for the price of the supply.

(2) A sales receipt must contain the information prescribed by the Board, including but not limited to—

- (a) the date on which it is issued;
- (b) the name and registration numbers of the supplier;
- (c) a description of the goods or services supplied;
- (d) the total amount payable for the supply; and
- (e) an indication that tax is included in the amount paid.

**51. Credit and debit notes.**— A debit or credit note issued in accordance with section 29 shall contain the information prescribed by the Board, which shall be sufficient to identify the amount of any increasing or decreasing adjustments required or allowed under that section.

**52. Documentation issued by or to agents.**— (1) If a taxable supply is made by an agent on behalf of a principal and both the agent and principal are registered, any documentation required to be issued by the principal, including a tax invoice, or a credit or debit note, may be issued by the agent, using the name, address, and registration number of the agent.

(2) An agent who issues a tax invoice, or a credit or debit note, in accordance with sub-section (1) shall be treated for all purposes as if the agent were the supplier

(3) If a taxable supply is made to an agent acting on behalf of a principal and both the agent and principal are registered, any documentation required to be issued to the principal, including a tax invoice, or a credit or debit note, may be issued to the agent, using the name, address, and registration number of the agent.

(4) An invoice, or a credit or debit note, issued to an agent in accordance with sub-section (3) shall be treated as being in the name of the principal for the purposes of **section 26**.

**53. Prohibitions.**— (1) Only one original tax invoice may be issued for a taxable supply but the person who issued the original may provide a copy clearly marked as such to a registered recipient who claims to have lost the original.

(2) Only one original credit or debit note may be issued for a particular adjustment event in relation to a supply, but the person who issued the original may provide a copy clearly marked as such to a registered recipient who claims to have lost the original.

**54. Records and accounts.**— (1) A registered person shall keep such accounts, documents, and other records prescribed by the Board as are necessary to permit ready ascertainment of the person's tax liability and other obligations under this Act, and shall retain those records for—

- (a) at least six years from the end of the tax period to which they relate; or
- (b) until the final decision is made in any audit, recovery proceedings, dispute, prosecution, or other proceedings under this Act relating to that tax period.

(2) Without limiting sub-section (1), the records kept shall include copies of—

- (a) all tax invoices, credit notes, and debit notes issued and received by the person; and
- (b) all customs documentation relating to imports and exports of goods by the person.



**Chapter-VIII**  
**RETURNS AND DECLARATIONS**

**55. Tax returns.**— (1) A registered person shall file a tax return for each tax period no later than fifteen days after the end of the period.

(2) A tax return shall —

- (a) be filed with the Board;
- (b) be in the form prescribed by the Board, which may include electronic filing; and
- (c) contain the information specified by the Board.

(3) On application by a registered person, the Board may grant a person permission to file a tax return after the date specified in sub-section (1).

(4) A permission granted under sub-section (3) does not alter the due date for payment of tax due for the tax period.

**56. Amended tax returns.**— (1) If a registered person who has filed a tax return requests the Board to amend the return to correct any genuine omission or incorrect declaration made therein, the Board may allow the person to amend the original tax return and accept filing of the amended tax return.

(2) The request shall be in writing, specifying in detail the grounds on which it is made, and must be made within three years after the end of the tax period to which the tax return relates.

(3) Where before the receipt of notice for audit a request for an amendment to a tax return is filed by a registered person and any unpaid amount of tax is paid, along with the applicable default surcharge, no penalty shall apply.

**57. Minor corrections.**— (1) Subject to such conditions and limitations as it prescribes, the Board may allow a registered person to correct minor errors in a return for a tax period by making the relevant increasing or decreasing adjustment in the tax return for the subsequent tax period, without the imposition of any interest, default surcharge, or penalty.

(2) Such adjustments shall not be allowed if the amount of additional tax payable exceeds **one thousand**.

**58. Additional tax returns.**— The Board may, by notice, require a person, whether on that person's own behalf or as agent or trustee of another person, to file, within such time as the Board considers appropriate, such additional tax return for a tax period as the Board requires..

## **Chapter-IX**

### **AMINISTRATION AND RELATED MATTERS**

**59. Functions and powers.**— (1) Notwithstanding anything to the contrary contained in any law, the Board shall perform all such functions and exercise all such powers as are imposed or conferred upon the Board under this Act and a Provincial Value Added Tax law.

(2) The Board may, by name or designation, delegate or assign any function or power to an officer of the Inland Revenue, whether conditionally or otherwise, and subject to such limitations as the Board may, by notification in the official Gazette, specify.

(3) Except as otherwise specified by the Board, no officer of the Inland Revenue shall further delegate or assign any of the functions or powers delegated or assigned to such officer by the Board.

(4) The functions and powers, delegated or assigned by the Board to an officer of the Inland Revenue may, by notification in the official Gazette, be modified or withdrawn by the Board at any time.

**60. Directorates General.**— (1) The Board may constitute such directorates general as may be necessary to accomplish the objectives of this Act, consisting of Director General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and such other officers or officials as the Board may appoint.

(2) The duties, functions, jurisdiction and powers of the Directorates General stated in sub-section (1) and their officers shall be specified, varied and regulated by the Board in such manner or mode as may be deemed proper.

## **Chapter-X**

### **RECOVERY OR PAYMENT OF TAX**

**61. Recovery of arrears of tax.**— (1) Where any amount of tax is due from any person, the officer of Inland Revenue authorized by the Board or Commissioner in this behalf, may take all or any of the following actions to recover such amount, namely:-

- (a) deduct the amount from any money owing to defaulter at his disposal or under his control or under the control of any other officer of Customs or Inland Revenue;
- (b) require any person who holds or may subsequently hold any money for or on account of the defaulter to pay the amount;

- (c) stop removal of any goods from the business premises of the defaulter or the associated person till such time the recoverable amount is paid or recovered in full;
- (d) require any person to stop clearance of imported goods or manufactured goods;
- (e) attach bank accounts of the defaulter or his associated person;
- (f) seal the business premises of the defaulter till such time the recoverable amount is paid or recovered in full;
- (g) attach and sell or sell without attachment any moveable or immoveable property including taxation goods of the defaulter; or
- (h) recover such amount by attachment and sale of any moveable or immoveable property including taxable goods of the guarantor, person, company, bank or financial institution where a guarantor or any other person, company, bank or financial institution fails to make payment under such guarantee, bond or instrument.

(2) All requisitions or orders under sub-section (1) shall be issued in writing giving all relevant particulars of the defaulter.

(3) For the purpose of attachment under this section, the concerned moveable property including taxable goods may be seized and dealt with in such manner, including auction, as may be specified by the Board.

**62. Officer of Inland Revenue to act as Court in recovery matters.**— For the purpose of recovery of unpaid amounts of tax recoverable under this Act or the rules made thereunder, the officer of Inland Revenue shall have the same powers which a Civil Court has for the purpose of recovery of an amount due under a decree under the Code of Civil Procedure, 1908 (V of 1908), provided that in case of any matter, if there is conflict or variance in the Code and this Act or rules made thereunder, the latter shall prevail.

**63. Change in jurisdiction for recovery.**— Where any defaulter resides or his property is situated in the jurisdiction of another Commissioner Inland Revenue, the Commissioner in whose jurisdiction arrears are due may authorize such other Commissioner to make recovery of any or whole amount of such arrears as if these are due in his jurisdiction provided that once recovered, the amount shall be transferred to the Commissioner in whose jurisdiction the arrears were due.

(2) Nothing in sub-section (1) shall prohibit any defaulter to pay his arrears to the Commissioner in whose jurisdiction these were due at any stage of the process or proceedings for recovery by the other Commissioner.

**64. Estate in bankruptcy.**— If any registered person is declared bankrupt, his outstanding tax liability shall pass on to the estate in bankruptcy whether or not it continues to operate as a business.

**65. Recovery through a liquidator.**— (1) Every person (hereinafter referred to as a “liquidator”) who is -

- (a) a liquidator of a company;
- (b) a receiver appointed by a court or appointed out of court;
- (c) a trustee for a bankrupt; or
- (d) a mortgagee in possession,

shall, within fourteen days of being appointed and taking possession of an asset in Pakistan, whichever occurs first, give written notice thereof to the Commissioner Inland Revenue concerned.

(2) The Commissioner shall within three months of receipt of notice inform the liquidator, of the amount sufficient to provide for any tax which is or will become payable by the person whose assets are in the possession of the liquidator.

(3) Subject to the order of any court of law, the liquidator shall not, -

- (a) without prior leave of the Commissioner, part with any asset held as liquidator;
- (b) set aside out of the proceeds of sale of any asset, the amount informed earlier or subsequently agreed by the Commissioner;
- (c) be liable to the extent of the amount set aside for the tax liability of the person who owned the asset;
- (d) be personally liable to the extent of any amount required to discharge tax liability under this section unless sale proceeds are less than liability; and
- (e) be personally responsible to comply with Commissioner’s instructions issued under this Act or rules made thereunder

**66. Tax liability in case of private companies or business.**— Where any private company or business is wound up and any tax chargeable on the company or business, whether before or in the course or after its liquidation, in respect of any tax period or periods cannot be recovered from the company or business, every person who was the owner of, or partner in or director of the company or business during the relevant period or periods shall, jointly and severally, be liable for the payment of such tax.

**67. Condonation of time-limit or conditions.**— The Board may conditionally or otherwise condone any time, period or condition specified under any of the provisions of the

Act or rules made thereunder or empower generally or otherwise any Commissioner to condone any of such time, period or condition.

**68. Instalments of arrears.**— The Board or the Commissioner may grant permission to any defaulter to pay his arrears in suitable instalments along with default surcharge as and if payable and cancel any such permission in case of default in payment of any instalment.

## **Chapter-XI**

### **AUDIT AND ENFORCEMENT**

**69. Audit by officer of Inland Revenue.**— (1) The officer of Inland Revenue, authorized in this behalf by the Board may conduct audit, including forensic audit, of any registered person on giving advance notice provided that such notice may be dispensed with by the Commissioner where tax fraud is suspected.

(2) Each of the audit observations of the officer of Inland Revenue shall be conveyed to the concerned registered person and finalized on examining the viewpoint of such registered person, to be furnished within such period as may be specified by the said officer.

(3) If no viewpoint is received from a registered person during the specified period, any contravention specified in the audit observation shall be adjudicated.

(4) The show cause notice shall stand abated where a person has before the finalization of adjudication, deposited the unpaid amount of tax along with default surcharge and penalty due under this Act.

**70. Special audit.**— (1) The Board may on such terms and conditions as may be agreed upon with the accountant, appoint an accountant for conducting a special audit, including forensic audit, of records or refund claims of any registered person or class of registered persons whether or not such registered person or class of registered persons has been audited earlier by any officer of Inland Revenue, or other department.

(2) The accountant appointed under sub-section (1), shall have such powers of an officer of Inland Revenue as may be specified by the Board.

**71. No multiple departmental audits in normal circumstances -** (1) No registered person shall be audited by the officers of any LTU, or as the case may be, RTO twice for the same period unless the Commissioner has any reliable information or otherwise believes about any tax fraud by any registered person during the said audited period and specifically orders for re-audit.

(2) The audit by the Inland Revenue or as the case may be, special audit shall be in addition to the audit conducted by any other government department or agency.

**72. Arrest and prosecution.**— (1) An officer of Inland Revenue not below the rank of an Assistant Commissioner Inland Revenue after taking prior permission from the Board may arrest for prosecution, any person suspected or believed to have committed tax fraud or

other offence liable to prosecution in accordance with the relevant provisions of the Code of Criminal Procedure, 1898 (Act V of 1898)

(2) Where a person suspected or believed to have committed a tax fraud is a company, every director or officer of such company, suspected or believed to have been personally responsible for the commission of such tax fraud may be arrested and such arrest shall not absolve the company from any tax liability or other obligations under this Act and rules made thereunder;

**73. Procedure for arrest.**— (1) The arrest of each person shall be made in accordance with the provisions of the Code of Criminal Procedure, 1898 (Act V of 1898).

(2) A proper “Register of Arrests” shall be maintained in each LTU, or as the case may be, RTO and produced before the Special Judge on demand.

**74. Compounding of offences.**— (1) Where any person has committed a tax fraud or other offence liable to prosecution, the Commissioner may either before or after the commencement of any proceedings or action towards the determination or recovery of tax liability or prosecution, conditionally or otherwise compound the offence if such person pays the amount of tax due along with default surcharge and penalty as specified by the Commissioner.

(2) Trial for tax fraud shall be conducted by a Special Judge.

(3) Where a trial has commenced before the Special Judge, compounding of offence under sub-section (1) shall be undertaken with the permission of the Court.

**75. Power to call for information or documents and access to records and premises.**—

(1) An officer of Inland Revenue duly authorized in this behalf by the Board may, for the purposes of this Act, -

- (a) enter any premises or place where any stocks, records, accounts or documents required under this Act and rules made thereunder are kept or maintained;
- (b) inspect stocks, records, accounts, documents including those which are required to be maintained under any of the Federal, Provincial or local laws;
- (c) take into his control such records, accounts or documents or any part thereof, in original or copies thereof in any form against a signed receipt;
- (d) require any person to answer any question or furnish such explanation or information including the information regarding sources of funds or assets with which any business is funded as may be necessary; and
- (e) call for any information or assistance from any Federal Government or a Provincial Government department, local bodies, autonomous bodies, corporations, associations or trade bodies or similar other organizations or institutions.

(2) An officer of Inland Revenue may require any person to furnish such information or such statement or document as is required in connection with any investigation, enquiry, audit or verification under this Act and rules made thereunder.

(3) The Board may require any person, association, trade body, department, company or organization, to provide any information or data held by that person, association, trade body, department, company or organization, which, in its opinion is required for the purposes of formulating policy, taking any decision or administering the relevant laws under its jurisdiction.

## **Chapter-XII**

### **ADJUDICATIONS, APPEALS AND REFERENCES ETC.**

**76. Powers of adjudication in case of imported goods.-** In the case of imports, all powers and processes of adjudication, appeal, reference to High Court and all allied matters shall be exercised or conducted under the Customs Act and, for this purpose, the relevant provisions of the Customs Act shall mutatis mutandis apply, including the jurisdiction and powers of the adjudicating authorities under the Customs Act.

**77. Powers of adjudication.-** (1) Cases involving assessment of tax and determination of tax liability, including those

- (a) detected through audit; and
- (b) inadmissible refund,

shall be adjudicated by such officer of Inland Revenue not below the rank of Assistant Commissioner in the LTU or, as the case may be, RTO as may be authorized by the Commissioner through a general or special order.

(2) Cases of non-filing or late-filing of returns or short-payment of tax may be adjudicated upon by such officer of Inland Revenue as may be authorized by the Commissioner.

(3) Cases involving rejection of refund shall be adjudicated by the officer of Inland Revenue authorized to sanction refund.

(4) The Commissioner may assume power to adjudicate any case falling under the jurisdiction of any officer of Inland Revenue subordinate to him.

(5) The Board may change the jurisdiction or powers of any officer of Inland Revenue or class of such officers

**Explanation-** In this sub-section, the expression "tax" means the principal amount of tax other than default surcharge and in case where only default surcharge is involved, the amount of default surcharge.

(6) The provisions of sub-section (3) of section 91 shall apply to the cases adjudicated under this section.

**78. Powers of the Board and Commissioner Inland Revenue to reopen cases.—** (1) The Board or Commissioner may on its or his own or otherwise examine the record of any case or proceedings for the purpose of satisfying itself or himself as to the legality or propriety of any decision or order passed therein by any subordinate officer of Inland Revenue and pass such order as it or he may think fit:

Provided that -

- (a) no order imposing or enhancing any penalty or fine or requiring payment of a greater amount of tax than originally determined shall be passed unless the affected person has been given an opportunity of showing cause and of being heard; and
- (b) no case shall be so examined where an appeal is pending before the Appellate Tribunal.

(2) No order shall be made under this section after the expiry of five years from the date of the original decision or order.

**79. Appeal to Commissioner Inland Revenue (Appeals).—** (1) Any person, other than the Inland Revenue, aggrieved by any adjudication order passed by an officer of Inland Revenue up to the rank of Additional Commissioner may, within thirty days of the date of receipt of such order, prefer an appeal to the Commissioner (Appeals).

Provided that an appeal preferred after the expiry of thirty days may be admitted by the Commissioner (Appeals) if he is satisfied that the appellant has sufficient cause for not preferring the appeal within the specified period.

(2) The appeal shall be accompanied by a fee of one thousand rupees to be paid in a manner specified by the Board.

(3) The Commissioner (Appeals) may after hearing the parties to the appeal, pass such order as he thinks fit, confirming, varying, altering, setting aside or annulling the order appealed against; provided that he shall not remand the case for outright *de novo* consideration at original stage.

(4) An order under sub-section (4) shall be passed not later than ninety days from the date of filing of appeal, which period may be extended further for ninety days by the Commissioner (Appeals) for reasons to be recorded in writing.

(5) In deciding an appeal, the Commissioner (Appeals) may make or cause to be made such further audit, enquiry or verification as may be necessary.

**80. Appeal to Appellate Tribunal.—** (1) Any person including the officer of Inland Revenue not below the rank of an Additional Commissioner authorized by the Commissioner in this behalf, aggrieved by -

- (a) an adjudication order or decision passed or made by the Commissioner (Appeals);



- (b) any such order or decision passed or made by the Commissioner under assumed jurisdiction of his subordinate officer; and
- (c) an order or decision passed or made by the Board or the Commissioner under section 78,

may, within sixty days of the receipt of such decision or order, prefer an appeal to the Appellate Tribunal.

(2) The Tribunal may admit an appeal preferred after the expiry of sixty days if it is satisfied that there was sufficient cause for not presenting it within the specified period

(3) The appeal, other than an appeal filed by the Additional Commissioner, shall be accompanied by a fee of one thousand rupees paid in a manner specified by the Board.

(4) The Tribunal, after hearing the parties to the appeal, may pass such order in relation to the matter before it as it thinks fit.

(5) Any interim order of the Appellate Tribunal staying recovery of tax, shall cease to have effect on the expiry of a period of six months following the day on which it was made unless the case is finally decided, or the interim order is withdrawn by the Tribunal earlier.

(6) In no case, any order staying recovery of tax shall be extended or revalidated by the Appellate Tribunal on any ground after the expiry of a period of six months.

(7) The Appellate Tribunal shall send a copy of its order disposing the appeal to the appellant and to the concerned Commissioner of Inland Revenue of LTU, or as the case may be, RTO.

(8) An order disposing of an appeal under this section shall be passed within six months of filing of appeal.

(9) The Appellate Tribunal shall have power to regulate its own procedure and the procedure of its benches in all matters arising out of the exercise of its powers or of the discharge of its functions, including the places at which the benches shall hold their sittings.

(10) The Chairman or any other member of the Appellate Tribunal authorized in this behalf by the Chairman may, sitting singly, dispose of any case which has been allocated to the bench of which he is member where -

- (a) in any disputed case, other than a case where the determination of any question having a relation to the rate of tax or to the value of taxable supply for the purposes of assessment is in issue or is one of the points in issue, the difference in tax involved or the tax involved does not exceed two million rupees; or
- (b) the amount of fine or penalty involved does not exceed two million rupees.

**81. Reference to the High Court.—** (1) Within ninety days of the communication of the order of the Appellate Tribunal, the aggrieved person or the officer of Inland Revenue not below the rank of an Additional Commissioner authorized by the Commissioner in this

behalf may prefer an application in the prescribed form along with a statement of the case to the High Court, stating any question of law arising out of such order.

(2) The statement to the High Court referred to in sub-section (1), shall set out the facts, the determination of the Appellate Tribunal and the question of law, which arises out of its order.

(3) Where, on an application made under sub-section (1), the High Court is satisfied that a question of law arises out of the order referred to in sub-section (1), it may proceed to hear the case.

(4) A reference to the High Court under this section shall be heard by a bench of not less than two judges of the High Court and, in respect of the reference, the provisions of section 98 of the Code of Civil Procedure, 1908 (Act V of 1908) shall apply, so far as may be, notwithstanding anything contained in any other law for the time being in force.

(5) The High Court upon hearing a reference under this section shall examine the question of law raised by the reference and deliver judgment thereon specifying the grounds on which such judgment is based and the order of the Appellate Tribunal shall stand modified accordingly.

(6) The Court shall send a copy of its judgment under the seal of the Court to the Appellate Tribunal.

(7) The cost of any reference to the High Court shall be in the discretion of the High Court.

(8) Where recovery of tax has been stayed by the High Court by an order, such order shall cease to have effect on the expiry of a period of six months following the day on which it is made unless the reference is decided, or such order is withdrawn by the High Court earlier.

(9) Section 5 of the Limitation Act, 1908 (IX of 1908), shall apply to an application made to the High Court under sub-section (1).

(10) An application under sub-section (1) by a person other than the Additional Commissioner authorized by the Commissioner shall be accompanied by a fee of one hundred rupees.

**82. Bar on payment of refund etc.—** Where an officer of Inland Revenue suspects or believes that any claim for adjustment, refund, repayment or drawback of tax has been made on the basis of any document suspected not to be genuine, true or correct, he may reject such claim through the process of adjudication without prejudice to any other action which may be taken against the claimant under the law.

**83. Alternative dispute resolution.—** (1) Notwithstanding any other provisions of this Act any registered person aggrieved in connection with any dispute pertaining to—

- (a) the liability of tax against the registered person, or admissibility of refunds, as the case may be;

- (b) the extent of waiver of default surcharge and penalty;
- (c) the quantum of input tax adjustment admissible under this Act;
- (d) relaxation of any procedural or technical irregularities and condonation of any prescribed time limitation; and
- (e) any other specific relief required to resolve the dispute,

may apply to the Board for the appointment of a committee for the resolution of any hardship or dispute mentioned in detail in the application, which is under litigation in any Court or an Appellate authority, except in cases where First Information Reports (FIRs) have been filed under the Act or criminal proceedings have been initiated or where an interpretation of a question of law having larger revenue impact is, in the opinion of the Board, involved.

(2) The Board may, after examination of the application of a registered person, appoint a Committee within thirty days of receipt of such application in the Board, consisting of an officer of Inland Revenue not below the rank of an Additional Commissioner and two persons from the panel as may be notified by the Board consisting of retired District and Sessions Judge, chartered or cost accountants, advocates, representatives of trade bodies or associations, or any other reputable taxpayers, for the resolution of the dispute.

(3) The Committee constituted under sub-section (2) shall examine the issue and may if it deems fit, conduct inquiry, seek expert opinion, direct an officer of Inland Revenue or any other person to conduct an audit and make recommendations within ninety days of its constitution in respect of the dispute. If the Committee fails to make recommendations within the said period, the Board may dissolve the Committee and constitute a new Committee which shall decide the matter within a further period of ninety days. If after the expiry of that period the dispute is not resolved, the matter shall be taken up by the appropriate forum for decision.

(4) The Board may, on the recommendations of the Committee, pass such order, as it may deem appropriate within forty-five days of the receipt of the recommendations of the Committee.

(5) Notwithstanding anything contained in sub-section (4), the Chairman of the Board may on the application of an aggrieved person, for reasons to be recorded in writing, and on being satisfied that there is an error in the order or decision, pass such order as may be deemed just and equitable.

(6) The registered person may make payment of tax as determined by the Board in its order under sub-section (4) or by the Chairman under sub-section (5), and such order of the Board or the Chairman shall be submitted before the forum, Tribunal or the Court where the matter is sub-judice for disposal thereof.

(7) The Board shall prescribe the procedure for carrying out the purposes of this section.

**84. Appearance by authorized representative.**— A registered person required to appear before the Appellate Tribunal or any officer of Inland Revenue in connection with any

proceedings under this Act and the rules made thereunder may, in writing, authorize any person having such qualification or qualifications as may be prescribed by the Board to represent him or appear on his behalf.

**85. Correction of clerical errors, etc.**— Clerical or arithmetical errors or other bona fide mistakes in any notice, assessment or adjudication order or decision may, at any time, be corrected by the officer of Inland Revenue who issued or made such notice, order or decision or by his successor in office after giving a notice to the person affected by such correction.

**86. Issuance of certificate or duplicate documents.**— A certificate or a duplicate of any certificate or relevant official document may on request and on payment of a fee of twenty five rupees, be furnished to the registered person applying for the same to the Commissioner.

**87. Bar of suits, prosecution and other legal proceedings.**— (1) No suit shall be brought in any Court including the High Court in its original civil jurisdiction to set aside or modify any order passed, any assessment made, any tax levied, any penalty imposed or collection of any tax made, audit, enquiry or investigation conducted under this Act or rules made thereunder or against any action taken by an officer of Inland Revenue in connection with such matters.

(2) No suit, prosecution, or other legal proceeding shall lie against the Board, Federal government or against any officer of Inland Revenue in respect of any order passed or action taken in good faith under this Act or rules made thereunder.

(3) Under no law for the time being in force, any investigation or inquiry shall be undertaken or initiated by any governmental agency against any officer of Inland Revenue or official for anything done in his official capacity under this Act, rules, orders, instructions or directions made or issued thereunder unless prior written approval is taken from the Board and for reasons to be recorded, the Board may decline to give any such approval in any case or class of cases.

### Chapter-XIII

#### OFFENCES AND PENALTIES

**88. Default surcharge.**— (1) In addition to the tax payable under this Act, a person shall, in respect of a particular tax period, pay simple default surcharge at the rates specified in sub-section (2) if the person has underpaid an amount of tax or over-claimed an amount of a refund under this Act, whether because the person—

- (a) failed to account for or pay an amount of output tax payable under this Act;
- (b) failed to make an increasing adjustment as required under this Act;
- (c) claimed a decreasing adjustment not allowable under this Act;
- (d) been granted permission for late payment or permission to pay tax by installments; or

- (e) for any other reason underpaid or over-claimed an amount under this Act.
- (2) The following rates of default surcharge shall be payable on the amount of principal tax that should have been paid but was not paid for the tax period, or the amount of the refund that was claimed but should not have been claimed for the tax period,—
  - (a) in case of tax fraud, two percent per month till such time as the principal tax liability is discharged; or
  - (b) in any other case one percent per month for the first six months and thereafter one and a half percent per month until such time the principal tax liability is discharged.
- (3) The period for calculating default surcharge shall commence from,—
  - (a) in case of an amount refunded to the person, the day on which the refund was paid; or
  - (b) in the case of an amount not paid by the person, the day following the day on which the amount should have been paid.

**89. Offences and penalties.**— (1) A person who commits an offence described in column (2) of the Third Schedule of this Act shall, in addition to and not in derogation of any punishment to which the person may be liable under any other law, be liable to pay the penalty mentioned against that offence in column (3) thereof

(2) Imposition of any penalty or fine under this section shall not affect the liability for tax or default surcharge, of a person on whom such penalty or fine has been imposed.

(3) The question as to whether any penalty or fine including extent thereof, is to be imposed in any case under sub-section (1) shall be in the discretion of the adjudicating officer, tribunal or court concerned provided that penalty or fine shall not be completely forgone where commission of a contravention or an offence has been proved.

**90. Recovery of tax not charged, levied or paid or inadmissible adjustment or refund.**— (1) Unless any person otherwise voluntarily pays all his tax liabilities including default surcharge and penalties, no amount of tax not charged, levied or paid including inadmissible adjustment, or refund of tax, shall be determined before recovery without issuance of show cause notice within six years in case involving any collusion or deliberate act and within three years in case of bonfide inadvertence, error or misconstruction from the relevant date.

(2) In case other than inadmissible adjustment or refund or deliberate non-payment of due tax, where actual amount shall be recovered along with other dues like default surcharge and penalty, the tax shall be recovered as tax fraction of the value of supply besides other like dues.

(3) The process of adjudication shall be completed within a period of ninety days which may be extended for another period of ninety days and no adjournment shall be granted to the registered person except on just cause shown.

**Explanation.** - The expression “relevant date” shall mean the day,-

- (a) immediately after the due date for payment of tax; and
- (b) on which inadmissible adjustment or refund was taken

**Chapter-XIV**  
**MISCELLANEOUS**

**91. Use of computerized system.** - (1) The Board may generally or otherwise specify the computerized system for use to carry out the purposes of this Act and rules made thereunder, including the receipt of applications for registration, returns or other declarations, statements or information required in this behalf, from such date and for such registered person or class of registered persons as may be specified.

(2) The Board may make rules on any matter or matters necessary to regulate the conduct and transactions of business in relation to the submission of returns or other information to the Board or the Commissioner by the persons required to transmit or receive any information through computerized system, including their authorization, de-authorization and security of information and data.

**92. Appointment and authorization of e-intermediaries.**— (1) The Board may conditionally or otherwise appoint a person to electronically file any returns, declarations or statements and other specified documents prescribed from time to time on behalf of a registered person or class of registered persons.

(2) Any registered person can authorize such an e-intermediary to electronically file his returns or documents etc and all such returns and documents shall be deemed to have been filed by such registered person.

(3) Where this Act requires anything to be done by a registered person and if such thing is done by an e-intermediary authorized by him, unless the contrary is proved, it shall be deemed to have done with the knowledge and consent of such registered person and he shall be liable and accountable accordingly.

(4) Where an e-intermediary authorized by a registered person on his behalf, knowingly or willfully submits a false or incorrect return, document, declaration, statement or information with an intent to avoid payment of tax due or any part thereof or to claim any adjustment or refund of tax or other entitlement that is not due to the registered person, such e-intermediary shall be jointly and severally responsible for recovery of the amount of tax short paid or the amount adjusted or refunded in excess as a result of such fake, false or incorrect submission without prejudice to any other action as may be taken against him under the law.

**93. Compensation for delayed refunds.**— Where a refund due is not made within the time specified therefore, there shall be paid to the claimant in addition to the amount of refund due to him, a compensation at the per annum KIBOR of the amount of refund due, from the date following the expiry of the specified time provided that no such compensation shall be paid for the period during which refund remained disputed in adjudication, litigation or otherwise or under investigation, enquiry, audit or verification for any official reason.

**94. Powers to make rules, issue instructions and orders etc.** - (1) The Board may, through a notification in the official Gazette, make rules covering all allied and ancillary

matters necessary for the implementation and enforcement of the provisions of this Act, including-

- (a) registration and deregistration;
- (b) filing of returns, declarations, summaries and statements;
- (c) record-keeping, accounts, and related documentation;
- (d) tax invoices, credit and debit notes;
- (e) refunds and repayments;
- (e) audit and alternate dispute resolution;
- (f) charging of fees for processing, documentation and proceedings for any official act;
- (g) recovery of arrears, including compounding of offences; and
- (h) application of information technology including appointment and management of e-intermediaries;

(2) The rules made under this Act during any financial year shall be placed before the National Assembly along with the annual budget.

(3) The Board may specify any officer of Inland Revenue to be an appropriate or competent or authorized or designated or nominated officer for the purpose of any of the provisions of this Act or rules made thereunder.

(4) The Board may issue standing orders, public notices or other instructions to ensure smooth and efficient functioning of the work under this Act or the rules made thereunder.

## **Chapter-XV**

### **TRANSITION**

**95. Repeal and savings.-** (1) The Sales Tax Act, 1990 and the Sales Tax Act, 1951 (III of 1951) are hereby repealed.

(2) Any appointment, notification, order, scheme, rule, form or bye-law made or issued under the repealed Act or Regulation, shall, so far as it is not inconsistent with the provisions re-enacted, continue in force, and be deemed to have been made or issued under the provisions so re-enacted, unless and until it is superseded by any appointment, notification], order, scheme, rule, form or bye-law made or issued under the provisions so re-enacted.

(3) For the purposes of deciding matters covered under or carried over from the repealed Act or rules made thereunder any reference to Collector, Additional Collector, Deputy Collector, Assistant Collector, Superintendent, Senior Auditor and an officer of Sales Tax wherever occurring in the repealed Act and the rules, notifications, clarifications, general orders or orders made or issued thereunder, shall be construed as reference to Commissioner,

Additional Commissioner, Deputy Commissioner, Assistant Commissioner, Superintendent, Senior Auditor and an officer of Inland Revenue, respectively.

(4) Where, on the day immediately preceding the day on which this Act comes into force, a person is registered under the Sales Tax Act, 1990,—

- (a) the registration of that person under that Act shall be deemed to have been effected under this Act;
- (b) the registered office of the person under that Act shall be deemed to be the registered office of the person under this Act;
- (c) the person shall be deemed to be registered—
  - (i) if the person exceeds the registration threshold: under [section 41](#); or
  - (iii) if the person does not exceed the registration threshold: under [section 42](#).

(5) A person who becomes registered under [section 42](#), as a result of sub-section (1), may apply for cancellation of registration and if the Board is satisfied that the person does not exceed the registration threshold, the Board shall cancel the person's registration.

(6) The Board shall, on the day this Act comes into force, publish a list of persons registered for VAT in accordance with [section 48](#).

**96. Adjustment for input tax** (1) Where, on the day this Act comes into force, a person who was registered under the Sales Tax Act, 1990 becomes registered under this Act, the person may claim a decreasing adjustment in relation to any amounts that were input tax as defined under that Act, if—

- (a) the input tax was incurred on goods or services purchased or imported by the person no more than twelve months prior to the day on which this Act comes into force;
- (b) the person has not previously deducted that input tax, or part of that input tax;
- (c) the person acquired the goods or services on which the input tax was incurred for what would have been a creditable purpose had this Act been in force at the time of the acquisition; and
- (d) the person's registration is not suspended under this Act.

(2) A decreasing adjustment allowed under sub-section (1) is in addition to those listed in [section 24](#).

(3) A registered person wishing to claim one or more decreasing adjustments allowed under sub-section (1) shall,—

- (a) claim all such adjustments only in one tax period, which must be one of the first six tax periods ending after the day on which this Act comes into force;



- (b) must be supported by the documentation that would have been required to support a deduction under the Sales Tax Act, 1990; and
- (c) may be disallowed by the Board if the Board is not satisfied that the person is entitled to the adjustment.

**97. Removal of difficulties.-** If any difficulty arises in giving effect to the provisions of this Act, the Board may issue such order not inconsistent with provisions of the Act, as may appear necessary to remove the difficulty.

**THE FIRST SCHEDULE**  
(see section 11)  
**Exempt supplies and imports**

Serial No.	Description
(1)	(2)
1	Unprocessed peas, wheat and wheat flour.
2	Ice and waters excluding those for sale under brand names or trademarks.
3	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.
4	Books (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising.
5	The Holy Quran in whatever form or on whatever media.
6	Diapers for adults (patients).
7	Ambulances and fire-fighting trucks.
8	Dextrose and saline infusion giving sets along with empty non-toxic bags for infusion solution, and dextrose and saline infusion giving sets.
9	Artificial parts of the body.
10	Intra-ocular lenses and glucose testing equipment.
11	Contraceptives and accessories thereof.

- 12 Precious metal, other than a first supply of precious metal after refinement that is zero-rated under the Third Schedule.
- 13 Personal wearing apparel and bona fide baggage imported by overseas Pakistanis and tourists exempt from customs duties under the Customs Act.
- 14 Import of goods chargeable to zero-rate of customs duty under relevant headings specified in headings 99.01, 99.02, 99.03, 99.05, 99.06, 99.07, 99.08, 99.09, 99.10, 99.11, 99.12, 99.13, 99.14, 99.15, 99.16, 99.18, 99.19, 99.20, 99.21, 99.22, 99.24, 99.25 and 99.38 of the Pakistan Customs Tariff.

For the purpose of this Schedule, the term “unprocessed” shall include low value added activity such as sorting, drying, or bulk packaging, provided the value added does not exceed 5% of the total value of the import or the supply.

## **THE SECOND SCHEDULE**

(see section 12)

### **Zero rated supplies**

Serial No.	Description
(1)	(2)
1	To the extent that it consists of a supply of goods or a supply of Federal list services that would otherwise be taxable under this Act, the sale or transfer of an economic activity, or part thereof, as a going concern by a registered person to another registered person is zero-rated.
2	A supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan, as specified in section 24 of the Customs Act, 1969 (IV of 1969).
3	Such basic pharmaceutical and medical supplies as are specified by the Board.
4	A supply of precious metals, if— <ol style="list-style-type: none"> <li>(a) it is the first supply of that precious metal after its refining by, or on behalf of, the supplier; and</li> <li>(b) the person who refined the precious metal is a refiner of precious metal; and</li> <li>(c) the purchaser of the supply is a dealer in precious metal.</li> </ol>

5 A supply of international transport services.

### THIRD SCHEDULE

[ see section 89 (1) ]

S#	Offence	Penalties
(1)	(2)	(3)
1	Failure to obtain registration or non-compliance of compulsory registration.	Ten thousand rupees or five percent of the tax involved whichever is higher provided that in case of non-compliance of compulsory registration, the minimum penalty shall be one hundred thousand rupees.
2	Late filing or non filing of return.	Five thousand rupees provided that if a return is not filed within fifteen days of the due date, a penalty of one hundred rupees for each day of default shall be paid.
3	Failure to issue tax invoice.	Five thousand rupees or three percent of the amount of tax involved, whichever is higher.
4	Failure to notify changes of address or increase in business capacity of material nature in the particulars of registration.	Five thousand rupees.
5	Failure to deposit tax.	Ten thousand rupees or five percent of the amount of tax involved, whichever is higher provided that :  i) if the amount of tax or any part thereof is paid within fifteen days from the due date, penalty of five hundred rupees for each day of default shall be paid;  ii) if the amount of tax due is not paid even after the expiry of a period of sixty days of issuance of the notice for such a payment by a competent officer of Inland Revenue, the defaulter shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine not exceeding

- the amount of tax involved, or with both.
- iii) no penalty shall be payable if any miscalculation is made for the first time during a year:
- |    |   |   |
|----|---|---|
| 6  | Non-maintenance or defective maintenance of records.  | Ten thousand rupees or five percent of the amount of tax involved, whichever is higher.   |
| 7  | Where a registered person without any reasonable cause fails to produce records, -<br>a) on receipt of first notice;<br>b) on receipt of second notice; and<br>c) on receipt of third notice.   | (a) five thousand rupees;<br>(b) ten thousand rupees; and<br>(c) fifty thousand rupees.   |
| 8  | Failure to furnish any information required under this Act or the rules made thereunder.  | Ten thousand rupees.  |
| 9  | Any person who, -<br>a) submits a false or forged document to Board; or<br>b) destroys, alters, mutilates or falsifies the records including a tax invoice; or<br>c) makes false statements, false declaration, false representation, false personification, gives any false information or issues or uses a document which is forged or false. | Twenty five thousand rupees or one hundred percent of the amount of tax involved, whichever is higher provided that such person shall further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years, or with fine not exceeding the loss of tax involved, or with both.    |
| 10 | Denying or obstructing the access of any officer of Inland Revenue to the business premises, registered office or to any other place where records are kept, or otherwise refusing access to the stocks, accounts or records or fails to present the same when required by such officer.  | Twenty five thousand rupees or one hundred percent of the amount of tax involved, whichever is higher provided that such person shall further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine not exceeding the amount of tax involved, or with both. |
| 11 | Committing, causing to commit or attempting to commit tax fraud, or abetting or conniving in committing of tax fraud.   | Five hundred thousand rupees or one hundred percent of the amount of tax involved, whichever is higher provided that such person shall further be liable, upon conviction by a Special Judge, to imprisonment for a term  |

- which may extend to five years, or with fine not exceeding the loss of tax involved, or with both.
- 12 Violation of any embargo placed on removal of goods in connection with recovery of tax. Twenty five thousand rupees or ten percent of the amount of tax involved, whichever is higher provided that such person shall further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to one year, or with fine not exceeding the loss of tax involved, or with both.
- 13 Obstructing the officer of Inland Revenue in the performance of his official duties. Twenty five thousand rupees or one hundred percent of the amount of tax involved, whichever is higher, provided that such person shall further be liable upon conviction by a Special Judge to imprisonment for a term which may extend to one year or with fine not exceeding rupees fifty thousand or with both.
- 14 Failure to fulfill any of the conditions, limitations or restrictions specified or prescribed in a notification issued under any of the provisions of this Act . Five thousand rupees or three percent of the amount of tax involved, whichever is higher.
- 15 Obtaining repayment, drawback, adjustment or refund on the basis of fake, untrue or incorrect documents. Fifty thousand rupees or fifty percent of the amount of tax involved provided that such person shall further be liable, upon conviction by a Special Judge, to imprisonment which may extend to five years or with fine not exceeding rupees one hundred thousand or with both.
- 16 Contravention of any of the provisions of this Act for which no specific penalty has been provided in this Act. Ten thousand rupees or three percent of the amount of tax involved, whichever is higher
- 17 Repetition of an offence for which a penalty is provided under this Act. Twice the amount of penalty provided under the Act for such offence.