

SINDH SALES TAX ON SERVICES

Experiences & Lessons Learnt

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09 May 2012

“The difference between death and taxes is death doesn’t get worse every time Congress meets” - Will Rogers

OVERVIEW

- Experiences
 - ✓ Achievements
 - ✓ Shortfalls
- Lesson Learnt

EXPERIENCE



Achievements

- No case of corruption, harassment or nepotism witnessed during 1 year of operation
- Access available to all; no red tapism or prior appointments
- Excellent use of automation, IT, Websites, liaison with Trade Associations / PRAL / FBR Database
- Effective Enforcement & Administration vis.a.vis record-keeping, return filing, voluntary registration, and collection of arrears
- Compliance issues are minimal as Sindh Sales Tax Law is identical to Sales Tax Act 1990 & Federal Excise Act 2005

Achievements...

- Broadening tax base without any legal dispute
- Collection of 19 Billion cash receipt as compared to 12.8 Billion collected by FBR in previous year
- Response Time Excellent & Correspondence through emails also accepted
- Taxpayers Facilitation Focused, e.g., mechanism for revision of return much better than that of FBR. Also inadvertent withholding and deposit in FBR's Account not penalized
- Effective Helpline

Shortfalls

- Legislation contains omnibus & ambiguous provisions
- Certain classification of services ambiguous; scope could be beyond general perceptions. Avenues for unnecessary litigation !
 - ✓ *9809.0000: Contractual execution of work or furnishing supplies.*
 - ✓ *9814.2000: Contractor of building (including water supply, gas supply and sanitary works), electrical and mechanical works (including air conditioning), multi disciplinary works (including turn-key projects) and similar other works.*

Shortfalls...

Lack of Harmony with Federal VAT Laws, especially:

- ✓ Out-of-tax period adjustment allowed for 4 months instead of 6 years
- ✓ Input tax admissible on cash basis instead of accrual basis
- ✓ Input tax allowed on consumption basis instead of purchases
- ✓ Advance receipts are taxable
- ✓ Services rendered by unregistered person taxable in the hands of taxpayer; input tax not allowed
- ✓ Tax Compliances over burdening FBR registered withholding agents

Shortfalls...

Review of the description of services under First Schedule imminent to curb over-lapping situations, e.g.

- ✓ 9805.9200: Business support services
- ✓ 9819.1300: Commission agents
- ✓ 9819.6000: Designers
- ✓ 9819.9200: Public Relations Services
- ✓ 9819.9400: Technical Testing and Analysis Service
- ✓ 9822.2000: Maintenance or Cleaning Services

Shortfalls...

- The generic description of service does not identify the activity;
Revamping of Chapter 98 imminent
- Training of junior tax officers in understanding specialized business transactions particularly in relation to banking, insurance, terminal operators, etc.
- Frequency of notices even for immaterial tax amount

LESSONS LEARNT



Lesson Learnt

- Tax Base can be extended by effective monitoring instead of threats or maladministration; FBR faces serious criticism on this account
- Tax Officials' approach to be free from target pressures. Equity & Transparency is key to success
- Legal & Research Wing to be strengthened to avoid frivolous litigation
- Tax statute be harmonized with Federal VAT Laws
- New Services to be brought into tax net in gradual / phase wise manner with corresponding incentives

Lesson Learnt

- Respect spirit of self-assessment without abusive auditing
- Adjudication may be deferred for initial years until proper remedies e.g. establishment of Tribunal, STO, ADRCs are available
- Unbiased, quick and transparent assessment and appeal process help to develop trust in overall system
- Awareness – Use of Urdu in Advertisements; Publishing brochures for small units e.g. caterers, restaurants, marriage halls, lawns, stevedores, etc. may enhance tax collection

Lesson Learnt

- Permission for manual filing of returns in initial phase could enhance tax collection
- Continuous monitoring could shake taxpayers' confidence, as such remedial measures be instituted to put the administration on course. Invoice wise monitoring of withholding taxes should be on periodic basis.

THANK
YOU