CHAPTER 17

SALES TAX
SCOPE & REGISTRATION

The **scope of the Sales Tax Act, 1990**: supply, taxable and exempt goods, **value of supply**, time of supply, **rates** (18%, further tax 4%, Third Schedule, extra tax), who pays, **zero-rating vs exemption**, **registration**, suspension and **de-registration**. Law: STA 1990 as amended by Finance Act 2026.

CHAPTER ROADMAP

1	Basic concepts and definitions	supply · value
2	Scope and rates	s.3
3	Liability to pay	ss.3B · 8A
4	Zero rating and exemption	ss.4 · 13
5	Registration	s.14 · Rules 5 – 10
6	De-registration	s.21 · Rules 11 – 12B

DEFINITION

Taxable supply [s.2(41)]: a supply of **taxable goods** by an **importer, manufacturer, wholesaler (incl. dealer), distributor or retailer**, other than an **exempt** supply; it includes a **zero-rated** supply. Goods = every kind of movable property **except** actionable claims, money, stocks, shares and securities.

1 SUPPLY AND RELATED CONCEPTS

section 2

SUPPLY · s.2(33)

Sale or transfer of the right to dispose of goods as owner (incl. hire purchase); also **private or non-business use of goods the person manufactured**; **auction or disposal to satisfy a debt**; stock held when a person **ceases to be registered**; delivery of toll-manufactured goods to the owner. (If the person only **traded** the goods, input tax is simply inadmissible.)

TAXABLE ACTIVITY

Any economic activity, for profit or not — business, trade, manufacture, supply of goods or services, a one-off adventure — but **not** an employee's work, a hobby, or the equivalent of those by a non-individual.

REGISTERED PERSON

Registered **or liable to be registered**. A person liable but not registered pays tax on his supplies but **gets no input tax or other benefits**.

KEY DEFINITIONS

Manufacturer includes toll manufacturing, packaging, mixing, assembling and printing. **Retailer**: supplies to the general public. **Distributor**: appointed for an area. **Wholesaler** includes a dealer. **Due date**: 15th of the next month. **Tax period**: one month.

COTTAGE INDUSTRY · s.2(5AB)

All of: no industrial gas or electricity connection; in a **residential area**; **not more than ten workers**; annual turnover **not above Rs. 8 million**. Its **local supplies are exempt**.

TIME OF SUPPLY · s.2(44)

The **earlier** of delivery (or making available) and receipt of payment; hire purchase: date of the agreement; services: when rendered. A part payment is accounted for in the return of that period.

2 VALUE OF SUPPLY

section 2(46)

GENERAL

Money consideration **including all duties and taxes but excluding sales tax**. **In kind or part in kind**: the **open market price**. **Associates** at no / lower price: open market price.

DISCOUNTS

A **trade discount** counts only if the invoice shows the discounted price and tax and it follows **normal business practice**. **Early-settlement discounts** are not allowed; no discount on **Third Schedule** items.

IMPORTS

(**Customs value + customs duty + regulatory duty + FED**) × sales tax rate.

OTHER

Third Schedule goods: **retail price** (excluding sales tax). Doubtful value: Valuation Committee. Used vehicles bought from the public: **sale price minus purchase price**. Electricity from a distribution company: total billed amount.

3 RATES OF SALES TAX

section 3

NORMAL RATE

18% on taxable supplies by a registered person in a taxable activity and on **all imports**.

FURTHER TAX · 4%

On top of 18% on supplies to a person **not registered or not an active taxpayer**. Not charged on a list (SRO 648): **Third Schedule items**, supplies to **Government**, goods sold by retailers to end customers, **Fifth Schedule** supplies, sugar, electricity to domestic users, fuels, steel and edible oil sectors, etc.

THIRD SCHEDULE

18% of the retail price (printed on the pack, inclusive of all duties and taxes except sales tax). Imports of several items at **25%** (SRO 297 of 2023). Other imported luxury goods and large locally made vehicles also **25%**.

EXTRA TAX · s.3(5)

The Government may levy extra tax **not exceeding 18%** on specified goods or persons. **Capacity tax** (Tenth Schedule) is on production capacity.

RETAILERS · s.3(9)

Tier-1 retailers: normal 18%. All other retailers pay through their **electricity bill**: **5%** if the monthly bill is up to Rs. 20,000; **7.5%** if above. **Tier-1**: chain-store units; units in **air-conditioned malls** (not kiosks); cumulative electricity bill above **Rs. 1.2 million** in the previous 12 months; wholesale-cum-retailers or retailers with turnover above **Rs. 200 million**.

DIGITAL GOODS

2% withheld on the gross value of digitally ordered goods from within Pakistan — by the **courier** (cash on delivery) or the **payment intermediary** (digital payment). **Final** for cottage industry and non-Tier-1 retailers (no registration, no input tax); adjustable for others. Marketplaces, intermediaries and couriers file **monthly statements**.

4 LIABILITY TO PAY

sections 3(3), 3B, 8A

WHO PAYS

Supply in Pakistan: the **person making the supply**. Imports: the **importer**. The Board may shift liability to the recipient for specified goods.

EXCESS TAX COLLECTED · s.3B

Tax collected in error or in excess and **passed on to the consumer** must be paid to the Federal Government (no refund claim). Part still on **unsold stock** with the customer is returned to him. **Burden of proof** is on the collector.

JOINT LIABILITY · s.8A

A registered buyer who **knew or had reasonable grounds to suspect** that the tax would go unpaid is **jointly and severally liable** with the supplier; the department must prove it.

5 ZERO RATING AND EXEMPTION

sections 4 and 13

	Zero-rated supply	Exempt supply
Meaning	Taxable supply charged at **0%**: goods **exported**, **Fifth Schedule** goods (EPZ raw materials, diplomats, DTRE exporters, Gwadar Free Zone), ship stores, emergency notifications	Supply or import of goods in the **Sixth Schedule** or exempted by Government SRO
Invoice	**Issued**, tax shown at 0%	**No** sales tax invoice
Registration	**Required**	A person making **only** exempt supplies is **not** required to register
Input tax	**Refundable**	**Inadmissible** — neither adjustable nor refundable
Exceptions to zero rating	Goods exported but **re-imported**; entered for export but **not exported**; exported to a country specified by the Government	–

6 REGISTRATION

section 14 · Rules 5 – 10

WHO MUST REGISTER

A **manufacturer** (not a cottage industry) · a **retailer** liable to tax (not one paying via electricity bill) · an **importer** · an **exporter** who wants a **refund** · a **wholesaler, dealer or distributor** · persons required by other federal / provincial laws · persons selling online (except cottage / non-Tier-1).

COERCION

Compulsory registration after a notice (STR-6; reply → hearing; silence → registered, intimated by courier). Non-registrants: **gas and electricity may be discontinued** (s.14AB); **bank accounts** barred (14AC, after 3 show-cause notices); **property transfer** barred (14AD); **sealing**, seizure, receivers (14AE).

APPLICATION · Rule 5

Online on **Form STR-1** before making taxable supplies, with bank account certificate, utility numbers, **GPS-tagged photographs** of premises (and machinery for manufacturers), and business balance sheet for single-owner persons. Yearly **biometric re-verification** in July.

TEMPORARY · RULE 5A

A person importing machinery to start as a manufacturer: temporary registration for **60 days**, issued within **72 hours**; **no sales tax invoices**; monthly **STR-7** return; **no refunds**; input tax carried forward; post-dated cheque to customs.

CHANGE OF PARTICULARS · Rule 7

Notify on STR-1 within **14 days**.

TRANSFER · MULTIPLE · Rules 8, 10

Board may transfer registration between RTOs; keep **one** registration, surrender others.

7 DE-REGISTRATION, SUSPENSION AND ACTIVE STATUS

section 21 · Rules 11, 12, 12A, 12B

GROUNDS · Rule 11

Ceases business · supplies become **exempt** · **transfers or sells** the business · **merger** · fails to file returns for **six consecutive months** (after notice and hearing). Application on **STR-3**; order within **60 days**; final return under s.28; past liabilities unaffected.

SUSPENSION · Rule 12

On fake invoices, tax fraud, refusal of access, activity above **5 × capital + liabilities**, etc.: **suspension without prior notice**. **Show cause notice within 7 days** (else void ab initio); hearing within 15 days; revocation within 30 days of reply; **blacklisting order within 90 days** of the hearing notice (else suspension void). **Three consecutive months** of non-filing: automatic suspension. No input tax on a suspended person's invoices.

NON-ACTIVE · s.2(1A) · Rule 12A

Suspended / blacklisted; **two consecutive** sales tax returns missed; **income tax return** not filed; withholding statement not filed. A non-active person cannot **file GDs, issue invoices, claim input tax or refund** or use concessions; nobody may buy from him. Restored (Rule 12B) by filing, an RTO / LTO recommendation and a **Board order**.

8 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Value in kind
Open market price — not the consideration received.

2 Third Schedule
18% of retail price; no further tax; no discount.

3 Import value
Customs value + customs duty + **regulatory duty** + FED.

4 Further tax
4% for unregistered **or non-active** buyers; Government supplies excluded.

5 Zero vs exempt
Zero-rated: invoice, registration, refund. Exempt: none of these; input tax lost.

6 Cottage industry
All four conditions; local supplies **exempt**.

7 Suspension
Notice in **7 days**; blacklisting within **90 days**; 3 months non-filing → automatic suspension.

8 Non-active vs de-registration
Non-active: **two** missed returns; de-registration: **six** months.

CLASSIFY IT · TAXABLE, ZERO-RATED OR EXEMP

1	Goods exported	ZERO-RATED
2	Supply to a diplomatic mission	ZERO-RATED
3	Local supply by a cottage industry	EXEMPT
4	Goods listed in the Sixth Schedule	EXEMPT
5	Supply of cement in retail packing	THIRD SCHEDULE
6	Normal taxable goods to a registered buyer	18%
7	Same goods to an unregistered buyer	18% + 4%
8	Supply by an agriculturist or a bank (not a listed supplier)	NOT TAXABLE

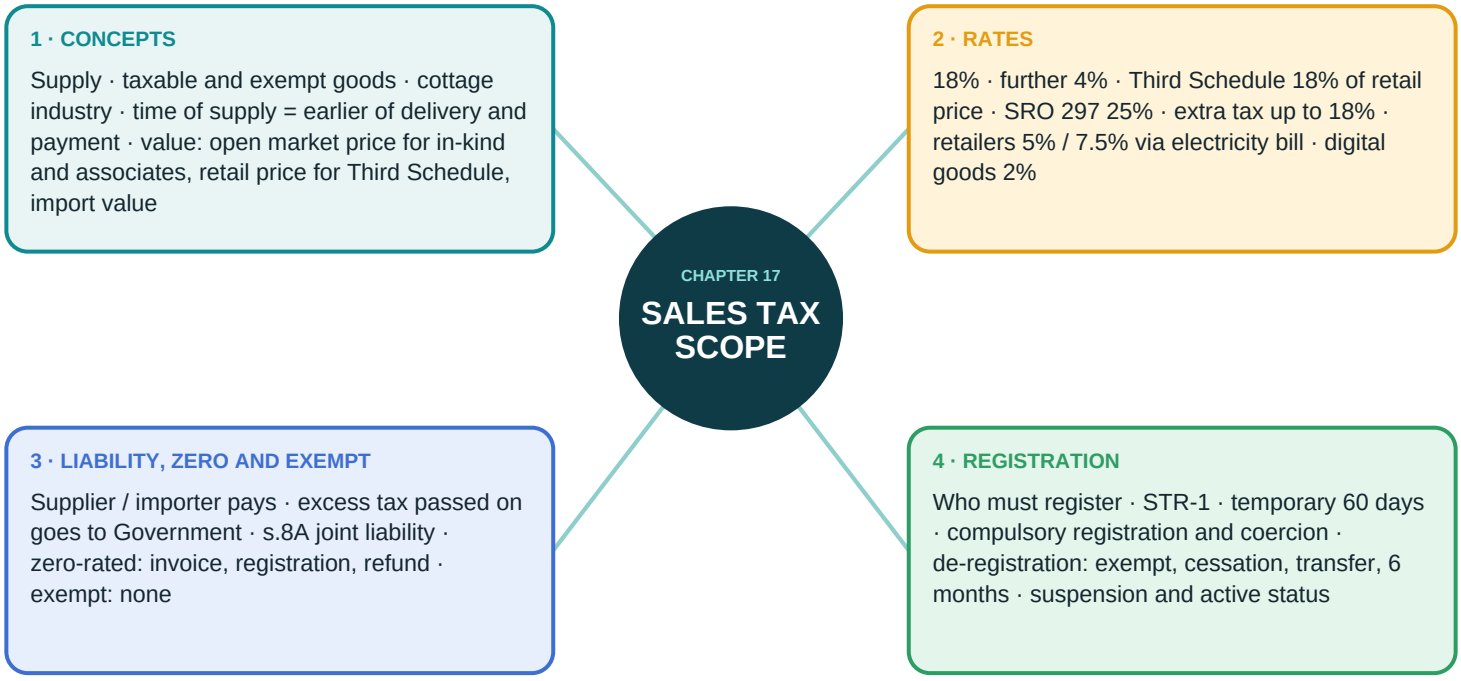
CLASSIFY IT · MUST REGISTER?

1	Manufacturer, not a cottage industry	YES
2	Distributor with turnover Rs. 3 million	YES
3	Importer	YES
4	Exporter wanting a refund	YES
5	Person making only exempt supplies	NO
6	Cottage industry	NO
7	Retailer paying tax through his electricity bill	NO
8	Commercial exporter claiming no refund	NO

LISTS TO KNOW

Rates	Retailers	Digital goods	Temporary registration	Suspension
18% · further 4% · extra up to 18%	5% / 7.5% via electricity bill	2% withheld	60 days	notice in 7 days

REVISION MAP



Value
Open market price rules.

Rates
18% plus further tax.

Zero rated
Registered, refundable.

Register
Who and how.