CHAPTER 18

DETERMINATION OF SALES TAX LIABILITY

The **sales tax liability equation** (output less input), **debit and credit notes**, which **input tax is inadmissible**, the **banking-channel and 180-day rules** (s.73), the **90% cap** (s.8B), **refunds**, **best judgment**, **recovery** and **limitation**. The calculation chapter of sales tax. Law: STA 1990 as amended by Finance Act 2026.

CHAPTER ROADMAP

1. **Determination of liability** — ss.5 – 7 · 73
2. **Output tax and notes** — ss.2(20) · 9 · Rules 19 – 23
3. **Input tax** — ss.2(14) · 8 · 8A · 8B
4. **Refunds** — s.10
5. **Assessment and recovery** — ss.11D – 11H · Rules 157 – 158

EQUATION **Liability for a tax period** = **output tax** on taxable supplies **± debit / credit notes** − **admissible input tax** (excluding further tax). The balance is **payable**, **carried forward** or **refundable**.

1 DETERMINING THE LIABILITY

sections 5, 6, 7

CONDITIONS FOR INPUT TAX

A **tax invoice in his name with his registration number** (utility bills with registration number and address); for imports a **cleared goods declaration** in his name; for auction purchases a **treasury challan**; and the supplier has **declared the supply or paid the tax**. Advance payment: advance-receipt invoice. Unclaimed input tax: any of the **next six periods**.

CHANGE IN RATE · s.5

Supplies: the rate **in force at the time of supply** — separate returns (or one two-rate return) for the two parts of a month. Imports: the rate on the date the **goods declaration is presented** (home consumption: s.79; warehouse: s.104); advance GD: manifest date; unpaid for 7 days after a s.104 GD: date of actual payment.

TIME AND MODE · s.6

Imports: as if customs duty. Supplies: by the date declared at filing; deposit in a Board-designated bank.

2 BANKING CHANNEL AND SUPPLY TO UNREGISTERED PERSONS

section 73 · section 23

THREE CONDITIONS

(1) Payments above **Rs. 50,000** (excluding utilities) to one supplier in a period go through the **banking channel**; (2) from the buyer's **business bank account** to the supplier's **business bank account** (a credit card works only if verifiable from both accounts); (3) credit purchases paid within **180 days** of the invoice.

IF NOT MET

Buyer: **no input tax, refund or zero rating**; reverse input tax in the month after 180 days lapse. Supplier: no claim if the amount is not received in his bank account. **Mutual adjustment** of payables and receivables counts **with the Commissioner's prior approval**. Part cash / part kind: allowed if the kind is taxable, recorded, and the balance (even below Rs. 50,000) is by crossed instrument.

UNREGISTERED BUYERS

Section 73 does not apply to supplies **to** unregistered persons; the supplier deposits the cash in his business account. A manufacturer / importer's invoice to an unregistered **distributor** must show the **CNIC / NTN** — else input tax attributable to such supplies is disallowed pro rata.

3 OUTPUT TAX, DEBIT AND CREDIT NOTES

sections 2(20), 9 · Rules 19 – 23

OUTPUT TAX

Tax on **supplies of goods**; FED in sales tax mode; provincial / ICT sales tax on **services** rendered.

NOTES · RULES 19 – 22

For **cancellation, return, change in nature or value**. Registered buyer issues a **debit note**; the supplier then claims it as a credit note. **Both notes are mandatory** to reduce output tax or raise input tax, and must be issued within **180 days** of the supply (extendable by another 180). Return by an **unregistered** person: supplier's credit note with the **Commissioner's prior approval**.

DESTROYED GOODS · RULE 23

Permission of the Collector and supervision by an officer not below Assistant Collector; **input tax on destroyed goods is lost**.

Fresh example · one month	Value (Rs.)	Tax at 18% (Rs.)
Taxable supplies	40,000,000	
Less: sales returns (notes issued within 180 days)	(2,000,000)	
Output tax on 38,000,000		6,840,000
Purchases from registered suppliers	30,000,000	
Less: purchase returns	(1,000,000)	
Input tax on 29,000,000		(5,220,000)
Input tax on factory electricity		(300,000)
Sales tax payable (input of 5,520,000 is below the 90% cap of 6,156,000)		**1,320,000**

4 INPUT TAX AND INADMISSIBLE INPUT

sections 2(14), 8, 8A, 8B

INPUT TAX · s.2(14)

Tax on goods supplied to or **imported** by the person; FED in sales tax mode on goods or services acquired; **provincial sales tax** on services received (unless barred).

INADMISSIBLE · s.8

Goods or services not used for **taxable supplies** · goods with **extra tax** · tax **not deposited by the supplier** · **fake invoices** · purchases not verifiable in the chain · **personal or non-business** use · **building and construction materials** permanently attached to immovable property · **vehicles, furniture, furnishings, office equipment** (but **electronic cash registers are allowed**) · agricultural machinery at 7% · items bought for resale are not caught.

JOINT LIABILITY · s.8A

A buyer who **knew or had reasonable grounds to suspect** the supplier's tax would go unpaid is **jointly and severally liable**; the department proves it.

RESIDUAL INPUT

Taxable + zero-rated + exempt supplies: apportion residual input **by value of each supply**. **Exempt share is lost**; the **zero-rated share is refundable**; adjustments are provisional monthly and finalised yearly.

90% CAP · s.8B

Input tax adjustable **up to 90% of output tax** for the period; **fixed assets / capital goods are outside the cap**. The Board may raise or lower the limit by compliance with digital integration. A **Tier-1 retailer not integrated**: adjustable input tax **reduced by 60%**.

Fresh example · apportionment (residual input Rs. 1,200,000)	Supplies (Rs.)	Share of input (Rs.)
Taxable supplies to registered persons	6,000,000	720,000
Zero-rated supplies (exports)	3,000,000	360,000 (refundable)
Exempt supplies	1,000,000	120,000 (inadmissible)
Total	10,000,000	1,200,000

5 REFUNDS

section 10

REFUND OF INPUT

Excess input attributable to **zero-rated supplies or exports**: refund within **45 days** of the claim. Excess against other supplies: **carried forward**. Refund is paid **after adjusting outstanding** tax, surcharge and penalty.

SUSPECTED INADMISSIBLE CLAIMS

Proceedings within **60 days**; extendable to **120 days** by an officer not below Additional Commissioner; the Board may extend further, **never beyond nine months**.

6 ASSESSMENT, RECOVERY AND LIMITATION

sections 11D, 11E, 11G, 11H

BEST JUDGMENT · s.11D

Failure to file on notice or to produce records after a show cause notice. **Abates** if the return is filed within **60 days** of the order with tax, default surcharge and penalty.

MINIMUM LIABILITY · RULES 157 – 158

Notice to file within **15 days**. If not filed: the **highest tax paid in any of the previous 12 months**; else average sales declared for income tax; else **three or more factors** (location, type of business, items, employees, capital, utility bills, capacity). Withdrawn if the return and tax, additional tax and penalty follow within **one month**.

RECOVERY · s.11E

Tax not levied, short paid, inadmissible input or unlawful refund: show cause notice by an officer not below Assistant Commissioner, then order with **penalty and default surcharge**. Tax not levied is recovered as the **tax fraction a ÷ (100 + a)** of the amount received (18/118). Input may be disallowed without evidence.

LIMITATION · s.11G · FACELESS · s.11H

Show cause notice within **5 years** of the end of the financial year of the relevant date; order within **180 days** (+ up to **90**); stay, ADR and up to **60 days** of adjournments excluded. Audits (ss.25, 72B), s.11E orders and s.57 rectification may be **faceless**; E-hearing, officer identity confidential.

7 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Input documents

Tax invoice **in his name with his registration number**; a plain bill is not enough.

2 Section 73

Above **Rs. 50,000**: banking channel, **business account to business account**, paid within **180 days**; utilities exempt.

3 Notes

Both debit and credit notes, within **180 days**; unregistered buyer: credit note needs Commissioner's approval.

4 Inadmissible

Fake invoices, personal use, building materials, vehicles, furniture, office equipment — but **not ECRs**.

5 Residual input

By value of taxable : zero-rated : exempt; exempt share lost; zero-rated share refunded.

6 90% cap

Input up to **90% of output**; **capital goods outside**; Tier-1 non-integration: **−60%**.

7 Refund

45 days for exports / zero-rated; suspected claims 60 → 120 days → max 9 months.

8 Limitation

Notice **5 years**; order **180 days** (+ 90); best judgment abates in **60 days**.

CLASSIFY IT · INPUT TAX ALLOWED?

1	Raw materials for taxable goods, valid invoice	ALLOWED
2	Fake invoice	NOT ALLOWED
3	Cement for the factory building	NOT ALLOWED
4	Electronic cash register	ALLOWED
5	Office furniture	NOT ALLOWED
6	Goods for the director's personal use	NOT ALLOWED
7	Credit purchase paid after 240 days	NOT ALLOWED
8	Factory electricity bill paid in cash	ALLOWED

CLASSIFY IT · LIMIT OR PERIOD?

1	Banking channel threshold per supplier	RS. 50,000
2	Payment on credit purchases	180 DAYS
3	Debit / credit note period	180 DAYS
4	Unclaimed input tax can be claimed in	6 PERIODS
5	Refund of zero-rated input	45 DAYS
6	Input adjustable up to	90% OF OUTPUT
7	Show cause notice within	5 YEARS
8	Best judgment abates if return filed in	60 DAYS

LIMITS TO KNOW

Banking rule	Notes	90% cap	Refund	Notice · order
Rs. 50,000 · 180 days	180 days (+180)	capital goods outside; Tier-1 −60%	45 days	5 years · 180 days

REVISION MAP

1 · LIABILITY
Output − input ± notes · tax invoice in own name · six periods to claim missed input · rate in force at supply · s.73 banking and 180-day rules

2 · OUTPUT AND NOTES
Output tax incl. FED and provincial / ICT service tax · debit and credit notes both required within 180 days · unregistered return needs approval · destroyed goods lose input

CHAPTER 18
SALES TAX LIABILITY

3 · INPUT TAX
Inadmissible list (fake, personal, building, vehicles, furniture, office equipment except ECR) · residual input by value · 90% cap · capital goods outside · Tier-1 non-integration −60%

4 · REFUNDS AND ASSESSMENT
Refund 45 days · suspected claims 60 / 120 days / 9 months · best judgment 60-day abatement · minimum liability · s.11E tax fraction · limitation 5 years / 180 days

Liability
Output less input.

s.73
Banking and 180 days.

Input
List of exclusions.

Limits
90% cap, 45-day refund.