



Dated: 04.06.2024

KP BUDGET 2024-25

SUBJECT: SALIENT FEATURES OF KP SALES TAX ON SERVICES ACT, 2022

The Provincial Assembly has passed the Khyber Pakhtunkhwa Finance Bill, 2024 on 30th May 2024. In order to avoid any confusion and misinterpretation, salient features of the budgetary measures pertaining to KP Sales Tax on Services for Financial Year 2024-25 are explained as under:

LEGISLATIVE CHANGES:

- i. Definitions of Additional Collector, Collection Agent, Inspector and Regulation have been inserted in section 2 of the Act;
- ii. Definition of Tax Fraud has been expanded to include instances of non-declaration and non-payment of tax charged and collected;
- iii. A typo mistake has been corrected in section 10 of the Act;
- iv. Section 14A pertaining to Special Procedure for collection of tax through collection agent has been inserted. This insertion would enable the Policy Board to issue regulation relating to collection of tax through the collection agent not necessarily being a service provider or a service recipient in a particular transaction. Such collection agent will be required to collect tax from another person and deposit the same in the Government treasury;
- v. Provisions pertaining to adjustment/refund of input tax credit and input tax credit not allowed have been rationalized;
- vi. The enabling provisions for imposition of penalty in cases where no amount of tax is involved have been provided in section 27 of the Act ;
- vii. A typo mistake has been corrected in section 28 of the Act;
- viii. Provisions pertaining to imposition of penalty under section 53 of the Act have been rationalized for better enforcement particularly non-reporting of transaction through RIMS, non-production of records and violation of embargo;

- ix. Keeping view the high interest rates prevailing in the country, the default surcharge has been increased by one percentage point to discourage deliberate delayed payment of tax;
- x. Approval of the Collector or Management Committee has been mandatory for visiting premises of a taxpayer in terms of section 60 of the Act;
- xi. The Collector STS revising assessment order of an officer of the Authority under section 65 of the Act must send copy to the Management Committee within 07 days of passing such an order;
- xii. Section 75 has been substituted to accommodate for recovery of tax as declared by a taxpayer in his return or as calculated by the authorized officer at the time taking into custody records from the premises of a taxpayer; and
- xiii. Reward to Whistleblower has been introduced.

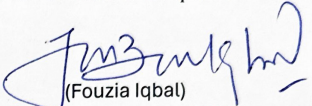
RELIEF MEASURES:

- i. Rate of tax for the hospitality sector has been reduced to 13% from 15% for the national and multinational chains of hotels and restaurants with the facility of input tax credit.
- ii. Similarly rate of tax local hotels, restaurants and guesthouses reduced to 6% but instalation of RIMS or IMRS has been made compulsory for all restaurants;
- iii. Rate of tax on exhibition, convention or carnival services and allied service has been reduced from 8% to 5% to encourage provisioning of such services, particularly in the tourists' areas of the province; and
- iv. A simplified fixed scheme has been introduced for the services provided by wedding halls, custom agents and lawyers.

REVENUE MEASURES:

- i. Tax rtae on certain categories of services were brought down to ultra low rate of 1% due to covid. Now that adverse impact of covid on businesses has completely been vanished, it is expedient to rationalize such rates to 2%;
- ii. Services pertaining to contractual execution of works were taxed at two rates i.e., 5% for persons having status of individual and AoP and 15% for companies. Numerous taxpayers in the category of individual and AoP applied to opt for standard rate so that such service providers and their recipients could adjust input tax. Keeping in view this anomaly, a single rate i.e., 15% has been fixed for all persons engaged in contractual execution of works;

- iii. Health insurance services have been made taxable @ 10% to provide sufficient funds for the Government initiative regarding free health services including Sehat Card Plus;
- iv. Inter-city and inter-provincial passenger travel services by road has been declared chargeable to sales tax at the reduced rate of 5% which would enable the Government to document this highly undocumented sector besides availability of funds for provisioning of better facilities to passengers travelling through public transport ; and
- v. Management services including asset and fund management services have been declared taxable @ 15%; and
- vi. Rate of tax on ride-hailing services has been increased to 5% to make it compatible with the rate prevailing in other provinces.


(Fouzia Iqbal)
Director General, KPRA