



KHYBER PAKHTUNKHWA

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KHYBER PAKHTUNKHWA REVENUE AUTHORITY

NOTIFICATION

Peshawar Dated, the 8th November, 2024.

THE KHYBER PAKHTUNKHWA SALES TAX ON SERVICES SPECIAL PROCEDURE (WITHHOLDING) REGULATION, 2024 (KPRa Regulation No. I of 2024)

KPRA/WH-REG/2024/1424.-- In exercise of the powers conferred under sub-section (2) of section 81 read with sub-section (2) of section 4, sub-section (2) of section 10, section 14, sub-section (3) of section 21, section 27, section 29, section 37 and section 39 of the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022 (the "Act") and further, read with all relevant provisions of the Act thereof, the Policy Board of the Khyber Pakhtunkhwa Revenue Authority is pleased to make the following regulation, namely:--

- 1. Short title, application and commencement.**-- (1) This Regulation may be called, the Khyber Pakhtunkhwa Sales Tax on Services Special Procedure (Withholding) Regulation, 2024.
 - (2) It shall apply to the withholding agents, listed under paragraph 3 of this regulation, receiving taxable services in, for, or in respect of the Province of Khyber Pakhtunkhwa (for use, consumption, enjoyment, or any other purpose therein).
 - (3) It shall come into force at once:
- 2. Definitions.**— (1) In this regulation, the following words and terms shall have meanings assigned to them hereinafter:
 - (i) "Act" means the Khyber Pakhtunkhwa Sales Tax on Services Act, 2022;
 - (ii) "Head of Account" means the Head of Account under detailed object B-02386--- Sales Tax on Services, Khyber Pakhtunkhwa wherein all the withheld tax amounts are to be deposited with or transferred to Provincial Consolidated Fund (Government);
 - (iii) "Paragraph" means paragraph of this regulation and sub-paragraphs, clauses or items shall be construed and referred to accordingly;

(iv) “**Unregistered Person**” for the purpose of this regulation, means a person involved in the provision of service as defined in clause (as) of section 2 of the Act but is not enrolled with Khyber Pakhtunkhwa Revenue Authority;

(v) “**Withholding**” means an obligatory process involving retention of tax, as per tax invoice or deduction of tax leviable but not levied on non-tax or commercial invoice, by a service recipient on or from the value of the "taxable service" paid, to be paid or payable to the service provider and deposit thereof with the Government as aforesaid:

Provided that in case of non-tax or commercial invoice, tax amount shall be calculated, treating the value given in such invoice as exclusive of tax, and the tax amount so calculated shall be withheld from within the invoice value and paid to the Government accordingly;

(vi) “**Withholding Agent**” shall have the same meaning as provided under clause (aan) of section 2 of the Act and declared in paragraph 3 of this regulation regardless of the location of his or its head office or location of the business premises or jurisdiction of his or its registration or enrolment.

Clarification: For the purposes of this definition, it is clarified that the expression "withholding agents" shall include their respective accounting offices which are responsible for authorizing payments against the taxable services received by them.

(2) The words, terms, and expressions used in this regulation but not defined herein shall have the same meaning as assigned to them in the Act or the Khyber Pakhtunkhwa Sales Tax on Services (Definitions) Rules, 2024 made thereunder so far as they are applicable or relevant to this regulation.

3. Withholding agents and their responsibility.-- (1) For the purposes of this regulation all recipients of taxable services, falling in any of the following categories are declared as withholding agents:

i. All Federal Government Departments and offices etc., who submit their bills (including payments made in respect of projects) for pre-audit or payment to the Accountant General Pakistan Revenues (AGPR), its Sub-office in Peshawar and District Accounts Offices in the Province;

ii. The Departments and Offices of the Ministry of Defence who either submit their bills (including bills in respect of projects) for pre-audit or compiled accounts of the Service Controllers and Regional Controllers of the Military Accountant General;

iii. All other Federal Government Departments, i.e., Director Budget and Accounts (PAK PWD), Chief Accounts Officer (Pakistan Railways), Director Accounts (Pakistan Post Office), and Central Directorate of National Savings who submit their monthly compiled accounts to AGPR.

iv. All Departments and Offices of the Government including District Government Departments who submit their bills for pre-audit to the Accountant General Khyber Pakhtunkhwa or the District Accounts Offices in the Province.

v. All Provincial Government Departments including District Government Departments who submit their bills (including payments made in respect of projects) for pre-audit to the respective Accountant General Khyber Pakhtunkhwa or the District Accounts Offices in the Province.

vi. All departments of the Government who submit compiled accounts to the Accountant General Khyber Pakhtunkhwa.

vii. All Divisional Engineers of the Departments of Irrigation, Public Health Engineering, and Communication & Works including the Local and District Government Departments who submit accounts on the prescribed form to the Accountant General Khyber Pakhtunkhwa.

viii. All public sector organizations, institutes, corporations, universities, bodies, boards, projects, ventures, entities, enterprises, institutions, and authorities of the Federal, Provincial, District, or Local Government including special purpose institutions, whether their official status, character or position is pure government, semi-government, public, semi-public, autonomous, semi-autonomous, commercial, semi-Commercial or non-commercial who are making such payments directly at their own level through their internal accounting systems or offices.

ix. Companies as defined under clause (r) of section 2 of the Act including those located in the jurisdiction of or registered with any other tax authority for the purposes of payment of sales tax in respect of goods or services rendered or provided in the Province.

x. All those persons engaged in construction activities, who are procuring taxable services, in relation to the construction of Dams, Hydropower Projects, land or property, commercial construction of residential buildings, flats or apartments, commercial plazas, malls, towers, or complexes.

xi. Any other person or class of persons specified, declared or confirmed by the Management Committee, through predefined parameters as the Management Committee may prescribe, as a withholding agent through a notification in the official gazette.

- (2) The withholding agent, intending to purchase, acquire or receive taxable services in or for the Province, shall invariably indicate in the relevant advertisement, notices including prequalification or tender notices, booking orders or any other similar document, made or given in any mode or form, for such purpose, that sales tax to the extent as provided in this regulation shall be deducted and withheld from the payment to be made to the service provider and deposited in the Government Head of Account No. B-02386--Sales Tax on Services, Khyber Pakhtunkhwa.

Explanation: As and when the need arises for the audit of the propriety of due payments of withholding tax amounts by the government departments, public sector organizations or accounts offices, etc. during any financial year, the Authority may, instead of Conducting audit at its own level, require them for their self-audit of such tax amounts and payment thereof and to furnish an audit report along with a certificate to the Authority as to the propriety of the withholding tax amounts and payments thereof and such audit Shall be deemed to be an audit by the Authority.

provided that nothing shall bar the Authority for any verification, investigation or re-audit on this account;

Provided that nothing shall restrict or bar the Authority conduct or cause to be conducted audit of any withholding agent and all provisions of the Act and rules, regulations or other order instructions or guidelines issued thereunder, relating to the audit and allied matters, of a registered person, shall, mutatis mutandis, apply on the audit of withholding agents.

4. Services not subject to withholding.— The following services shall not be subjected to withholding:

- a. The telecommunication services (excluding such services as are provided or received by telecom companies to or from each other);
- b. The Banking and Courier Services (excluding such services as are provided or received by banking and courier companies to or from each other) and
- c. Such other services or class of services either with reference to description, service provider or service recipient or class or classes thereof or otherwise, as may be specified by the Management Committee conditionally or otherwise.

5. Compulsory application of full withholding.-- The following services shall be compulsorily liable to full withholding at applicable tax rates across the board:

- a) Advertisement services of all descriptions, categories and types,
- b) Services provided by either unregistered persons or registered persons who are inactive/non-active as per the Active Taxpayers' List available on the official website or portal of the Authority,
- c) Services provided or rendered to Federal or Provincial Government Departments or public sector institutions, organizations, entities and projects, etc. regardless of the rate of tax on such services,
- d) Services provided in the province by persons from outside the province if such persons are not registered with the Authority; and
- e) Services liable to tax under the Act at a reduced rate (less than the standard rate of tax).

Clarification: For the purpose of removal of any doubt, it is clarified that every person classified as a withholding agent under this regulation shall invariably withhold and deposit with the Government, the whole amount of tax in respect of a service received by him in the Province from a person registered in other provincial sales tax jurisdictions, including Islamabad Capital Territory but not registered with the Management Committee of the Authority.

6. Extent of withholding in other cases.-- In all other cases not covered under paragraphs 4 or 5 of this regulation, only fifty percent (50%) of the amount of leviable tax shall be withheld by the withholding agent and deposited with the Government as provided under this regulation.

7. Input tax adjustment under the withholding regime.-- (1) The persons who are registered with the Authority as regular taxpayers and are compliantly paying the provincial sales tax on services at the standard rate of 15% or at a higher rate shall be entitled to take admissible input tax adjustment in their monthly tax returns in case of services received by them from persons other than unregistered or inactive registered persons subjected to full withholding under this regulation.

(2) Under no circumstances shall the tax adjustment be admissible in case of withholding made on services chargeable to a reduced rate of tax or received from unregistered persons or inactive registered persons.

(3) The registered persons/service providers shall not be entitled to claim the tax credit on account of tax withheld by the respective service recipients/withholding agents until or unless the said amount of tax is declared and deposited by the service recipients/withholding agents.

Clarification: For removal of doubt, it is clarified that the reduced rate of tax includes the fixed rate of tax or the tax paid or payable on a fixed basis.

8. Deposit time of withheld tax amounts.-- (1) Where the withholding agent is registered exclusively with the Authority as a service provider under the Act, the withheld tax amount shall be deposited not later than the 15th day of the following month in which the withholding has been made or the date on which payment is made to the service provider, whichever is earlier:

(2) If a withholding agent is not registered with the Authority as a service provider under the Act but is registered with the Federal Board of Revenue (FBR) under the Sales Tax Act 1990, the withheld tax amount shall be deposited not later than 15th day of the following month in which the withholding has been made or the date on which payment is made to the service provider, whichever is earlier:

(3) In case of other withholding agents, not covered by sub-paragraphs (1) and (2) above, the withheld tax amount shall be deposited by the 15th day of the following month in which payment is made to the service provider.

9. Registration of withholding agents of different categories.-- (1) The persons who are already registered exclusively with the Management Committee of the Authority as regular taxpayers in the capacity of service providers, shall not be required to obtain any separate registration as withholding agent. If not already done, they may request the Authority through online means to make necessary additional insertion as withholding agent in the relevant category box of their original registration application available in the Authority's database.

(2) Subject to sub-regulation (4), a person who is not already registered with the Authority as a regular taxpayer but is required to comply as a withholding agent, shall apply (for registration as a withholding agent) with the Authority upon which he shall be electronically allocated user identification, password, and personal identification number for the provincial sales tax withholding purposes.

(3) Such person may subsequently, if legally or otherwise legitimately required for any valid reasons, apply to the Management Committee of the Authority for de-registration as withholding agent and every such de-registration shall be subject to due completion of the legal requirements, if any:

Provided that under no circumstances shall the responsibility of any person as withholding agent be affected or mitigated in the absence of registration or other system user-related particulars as aforesaid and any amount of tax withheld by such person shall be deposited with the Government in the manner prescribed in this regulation.

(4) The public sector withholding agents making tax payments through competent in-house accounting offices (self-accounting entities), shall obtain FTN from FBR (if not already obtained) and online apply to the Management Committee of the Authority for enrolment as withholding agent to get user ID, password for the purposes of payment of tax through PSID and CPR and fore-filing of the withholding statements to the Management Committee of the Authority.

(5) The public sector withholding agents making payments through accounting offices working under the control of the Controller General of Accounts, shall obtain FTN in terms of sub-paragraph (4) only for the purpose of e-filing of withholding statements after enrolment with and after obtaining or issuance of password from the Management Committee of the Authority.

(6) The provisions of section 31 read with all other relevant provisions of the Act or rules or regulations made thereunder shall *mutatis mutandis* apply to the cases where the withholding agent is required to be registered (including enrolled) and has not complied with the registration or other identical requirements under this regulation.

10. Procedure for accounting and deposit of withheld amount of sales tax on services under different accounting systems of the Federal and Provincial Government.-- (1) The Drawing and Disbursing Officer (DDO), while preparing the bill for payment by the accounting office, shall indicate the amount of sales tax to be withheld in terms of this regulation. The accounting office responsible for making the payment shall adopt the procedure as specified below:

i. In case of acquisition of taxable services by the withholding agents falling in paragraph 3 (1) (i) of this regulation, the Accountant General Pakistan Revenue (AGPR), its sub-office Peshawar or District Account offices in the Province, while making payment, shall deduct from the payable amount, the amount of provincial sales tax at the prescribed rate and credit the amount so deducted during a calendar month to the head of Account "G-05122" Sales Tax on Services (Khyber Pakhtunkhwa).

a. On the last date of each month, AGPR sub-office Peshawar shall issue an advice to the Central Accounts Section of State Bank of Pakistan (SBP) authorizing payment from Central Account-I into the Provincial Account-I of the Government equal to the amount as credited in the said head of account. A copy of the advice shall also be furnished to KPRA.

b. On receipt of clearance memo from SBP, AGPR sub-office Peshawar will incorporate Journal Entry in the Federal Account as under:

Debit G-05122 – Sales Tax on Services (Khyber Pakhtunkhwa) Credit F01101-
Non- Food Account (Central Account-1)

c. On receipt of the Clearance Memo from SBP, the Accountant General Khyber Pakhtunkhwa shall incorporate the Journal Entry;

Debit F01101- Non-Food Account (Provincial Account-1) Credit B-02386 Sales-
Tax on Services (Khyber Pakhtunkhwa).

Intimation thereof shall be sent to KPRA by the 15th of the following month.

- ii. In case of acquisition of taxable services by the withholding agents falling in paragraph 3 (1) (ii) & (iii) of this regulation, the Military Accountant General (including the Service Controllers and Regional Controllers) and other federal departmentalized (self-accounting entities) while making payment (federal transaction), shall deduct from the payable amount, the amount of sales tax on services Khyber Pakhtunkhwa and credit to the Head of Account "G-05122" Sales Tax on Services (Khyber Pakhtunkhwa).
- a. On the last date of each month, each departmentalized accounts office shall issue a cheque in favor of "Director General KPRA" and deposit the same along with a Challan form in the NBP/SBP. The head of account B-02386 Sales Tax on Services (Khyber Pakhtunkhwa) shall be mentioned on the Challan form. A stamped copy of the same shall also be furnished to the Authority by the 15th of the following month.
- b. The National Bank of Pakistan/SBP will credit the amount in the Provincial Non-Food Account-I and Debit the Non-Food (Central Account-1)
- c. On Issuance of Cheques departmentalized entity will pass the Journal entry:
- Debit G-05122 – Sales Tax on Services (Khyber Pakhtunkhwa); Credit G10419 - Exchange Account Between Civil and Defence; or Credit G104 - Remittance Account (relevant Code)
- d. On receipt of paid cheques from NBP/SBP, the concerned District Accounts office, in the Federal Account shall:
- Debit G10419- Exchange Account between Civil and Defence; or
Debit G104- Remittance Account (relevant Code);
Credit F01101- Non-Food Account (Central Account-1);
- e. On receipt of Challan From the NBP/SBP, the concerned district account office/Treasury office Peshawar in the provincial accounts will pass the journal entry:
- Debit F01101- Non-Food Account (Provincial Account-1);
Credit G10419- Exchange Account between Civil and Defence; or
Credit G104- Remittance Account (relevant Code)
- Intimation thereof shall be sent to KPRA by the 15th of the following month.
- iii. In case of acquisition of taxable services by withholding agents falling in paragraph 3 (1) (iv) of this regulation, the Accountant General Khyber Pakhtunkhwa or the District Accounts Officers while making payment, shall deduct from the payable amount, the amount of provincial sales tax and account for the amount deducted at source during a month to the Head of Account "B-02386 Sales Tax on Services Khyber Pakhtunkhwa". The Accountant General Khyber Pakhtunkhwa shall send an intimation in this regard to the Authority by the 15th of the following month.
- iv. In case of acquisition of taxable services by withholding agent falling under paragraphs 3 (1) (v) and 3 (1) (vi) of this regulation, the concerned Drawing and Disturbing Officer, while making payment, shall deduct from the payable amount, the amount of provincial sales tax and account for in the monthly account. The amount so deducted shall be accounted for to the Head of Account "B-02386 Sales Tax on Services Khyber Pakhtunkhwa".

- v. In case of acquisition of taxable services by the withholding agents falling in paragraph 3 (1) (vii) of this regulation, who are making payments directly at their own level through their internal accounting systems, the concerned Drawing and Disbursing Officer shall be responsible to deduct and deposit the amount of sales tax in time with the Government through CPR (after first generating PSID as per system-based process).
- vi. In case of acquisition of taxable services by federal government departments, organizations, institutes, bodies, projects, ventures, entities, bodies, authorities, etc. which are using assignment accounts, the concerned Drawing and Disbursing Officer shall be responsible for deducting and depositing the amount of sales tax in time with Government through CPR (after first generating PSID as per system-based process).

(2) Where under any emergency or exceptional circumstances, any accounting office finds it difficult or impractical to make payment as aforesaid, it may deposit the tax through a cheque or cheques with the authorized bank branch (National Bank of Pakistan) in the relevant head of account at its own level under intimation to the Director General of the Authority or alternatively it may send such cheque either to the withholding agent for direct deposit, or to the Director General of the Authority for deposit purposes.

(3) Each of the accounting offices or as the case may be, withholding agent referred to in sub-para (1) of this paragraph, shall within fifteen days of the issuance of this regulation inform the Collector of the Authority about the name, designation and official telephone number (besides mobile number, if available) of its/his officer/official responsible or deputed to make deductions and deposits of provincial sales tax amounts on its/his behalf so that the Collector of the Authority may maintain regular facilitative coordination with such officer/official for smooth compliance to this regulation.

(4) For each month, the concerned Drawing and Disbursing Officer of the withholding agent shall electronically prepare and file a withholding statement by the 20th of the following month.

REITERATION NOTE: For the purpose of clarity and emphasis, it is reiterated that the head of account for the purpose of payment or deposit of Khyber Pakhtunkhwa sales tax on services with the Government of Khyber Pakhtunkhwa is "*detailed object B-02386--- Sales Tax on Services, Khyber Pakhtunkhwa*" wherein all the withheld tax amounts are to be deposited with the Government as prescribed under this regulation.

11. Monthly withholding statements by other withholding agents.-- The withholding agents other than those covered under paragraph 10 or those who are registered with the Authority as regular taxpayers shall, for each month, electronically prepare and file a statement by the 18th of the following month as specified and available on the Authority's official website and in case no withholding transaction has taken place in any month, a nil statement shall be filed.

12. Conditions for withholding from unregistered service providers.-- (1) Where any withholding agent procures taxable service from a person not registered with the Authority as a service provider, he shall, besides deducting 100% of the leviable Provincial sales tax, invariably take:

a. a copy of the National Identity Card (CNIC) from an unregistered individual service provider, or

b. National Tax Number (NTN) issued under the Income Tax Ordinance, 2001 (XLIX of 2001) in case the unregistered service provider is a partnership or a company.

(2) The information about the NIC and NTN shall be provided to the Authority through the very next statement, declaration, or return filed under or in pursuance of or for the purposes of this regulation.

13. Issuance of withholding certificates.-- Upon request by the service provider from whom tax withholding has been made, the withholding agent shall issue a withholding certificate and a copy of every such certificate shall invariably be sent to the Deputy Collector (Withholding) of the Authority:

Provided that if the service provider is not registered with the Authority, he shall be stated as unregistered, and where such service provider is not registered with the Authority but is registered with other sales tax jurisdictions, the number of the registration and the name of the registering tax authority shall be mentioned.

14. Adjudication for failure or default in tax withholding.-- (1) Where any person or withholding agent or as the case may be, Drawing & Disbursing Officer whether registered as such or not, has failed to comply with the withholding obligation under the Act, including section 14 thereof or this regulation or has failed to withhold the due tax payable to the Government or has withheld such tax but has failed to timely deposit the tax so withheld, the officer of the Authority, authorized under the Act shall proceed against such person by issuing show cause notice under section 27 of the Act to assess, determine and recover the principal amount of tax due along with imposition of penalty and default surcharge under relevant provisions of the Act:

Provided that where during the pendency of the adjudication, it is reported, found or ascertained that the tax amount covered in the show cause notice has been deposited with the Government, the proceedings shall abate to the extent of the amount so deposited without prejudice to the liability, full or part, on account of default surcharge or penalty as may be payable or otherwise determined under the Act.

(2) For the purpose of this regulation, the failure to file a monthly statement thereunder shall be treated as failure to file a monthly return and shall be liable to penal action or penalty accordingly.

(3) The audit provisions of the Act shall *mutatis mutandis* apply for the purposes of audit of withholding agents.

15. Miscellaneous matters.-- (1) The Drawing & Disbursing Officer of the public sector withholding agents shall be personally responsible for ensuring that all due and withholdable tax amounts are duly withheld and deposited or caused to be deposited with the Government as prescribed under this regulation and the required statements are duly and timely filed with the Authority.

(2) The registered taxpayers (service providers) of the Authority who have provided taxable services to the withholding agents and their tax has been withheld and deposited by such agents, shall be entitled to avail admissible credit/adjustment of the tax, so deducted only on the basis of withholding certificates issued to them by the concerned withholding agents.

(3) All the Federal and Provincial Government Departments, either registered or not with the authority as withholding agents, shall invariably provide assistance to the authority in the integration of their computerized system and procedures including the Financial Accounting & Budgeting System, SAP or any other systems implemented internally, with the system/ portal/ decision support system or any other database of the Authority.

(4) While the obligation of the registered taxpayers of the Authority for the maintenance of records is principally governed under section 35 of the Act, the withholding agents shall similarly maintain all relevant records and documents of all their withholding transactions including invoices, proofs of tax payments, statements and withholding certificates etc. for a period of five years.

(5) Every withholding agent shall be under legal obligation to cooperate with and provide free access to the records and documents maintained or kept by him under this regulation to the authorized officer of the Authority not below the rank of Assistant Collector, for the purpose of any verification, inspection, audit or for any other official purpose and produce copies thereof as and if so, required by such Officer.

(6) Where any difficulty arises in giving effect to any of the provisions of this regulation, the Management Committee of Authority may direct such solution-oriented actions to be done as may be considered appropriate, plausible and necessary to remove such difficulty.

(7) Where any special or exceptional circumstances so warrant, the Policy Board of the Authority may, for reasons to be recorded in writing, exempt any service provider or class of service providers from the application of this regulation and allow the collection and payment of tax directly by the concerned service provider or as the case may be, service providers.

(8) The provisions of the rules, regulations, notifications, general orders or notices or clarifications issued under the Act, shall apply to the extent of matters and issues not specifically covered under this regulation.

16. Repeal & Savings—The Khyber Pakhtunkhwa Sales Tax on Services (Withholding) Regulation, 2020 shall stand repealed from the date of coming into effect of this regulation.

(1) Where the Authority or any of its officers have taken any action or has made any decision or orders in the exercise of the procedures specified under any of the provisions of the said repealed regulation, such actions, decisions, orders and clarifications issued, if any, shall be deemed to have been validly issued so far as they serve the purpose of the Act.

(2) Any proceedings of assessment of tax already initiated or under process or related to the period prior to the date of effect of this regulation shall be initiated, concluded or finalized in accordance with the repealed regulation.

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DIRECTOR GENERAL

Khyber Pakhtunkhwa Revenue Authority