

# National VAT 2010



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March 30<sup>th</sup> , 2010

# Sequence

- Tax to GDP Ratio**
- Benefits of VAT.**
- Supply Chain.**
- How GST is presently working.**
- Structure of VAT Law.**
- Salient Features of National VAT 2010.**
- Comparative Key Features.**

## Tax – GDP Ratios: FBR Revenue

FY	FBR Revenue	Direct Taxes	Sales Tax	Customs	Excise
1999-00	9.2	3.0	3.1	1.6	1.5
2000-01	9.4	3.0	3.7	1.6	1.2
2001-02	9.2	3.2	3.8	1.1	1.1
2002-03	9.6	3.1	4.1	1.4	0.9
2003-04	9.4	3.0	4.0	1.6	0.8
2004-05	9.0	2.8	3.6	1.8	0.8

Source: Fiscal Research Wing FBR, Islamabad.

## Mismatch between Sectoral Shares in Tax and GDP Composition

Sector	Share in GDP %	Share in Taxes %
Agriculture	20.9	1.2
Manufacturing	16.8	62.2
Services Sector	59.6	32.6

Source: Fiscal Research Wing FBR, Islamabad.

## Services Sector – Contribution of Sub-Sector in GDP & Taxes

Sector	Contribution in GDP	Contribution in Taxes
<b>Transport, Storage &amp; Communication</b>	<b>12.1%</b>	<b>4.5%</b>
<b>Finance &amp; Insurance</b>	<b>3.6%</b>	<b>3.9%</b>
<b>Construction</b>	<b>2.2%</b>	<b>2.9%</b>
<b>Whole Sale &amp; Retail</b>	<b>16.7%</b>	<b>2.8%</b>

Source: Fiscal Research Wing FBR, Islamabad.

# Findings

- **Major factors for low tax/GDP ratio.**
  - **Narrow tax base.**
  - **Agriculture sector contribution.**
  - **Wholesale and retail sector.**
  - **Transport, Storage & Communication.**

## **Additional Factors for Low Tax-GDP Ratio**

- **Large Scale Exemptions.**
- **Domestic Zero Rating of Consumption.**
- **Presence of Large Underground Economy and Informal sector.**
- **Leakages and Evasion due to Administrative Weaknesses – limited efficiency gains.**
- **Adverse Taxpayers' Perception – way the collected amount is being spent.**

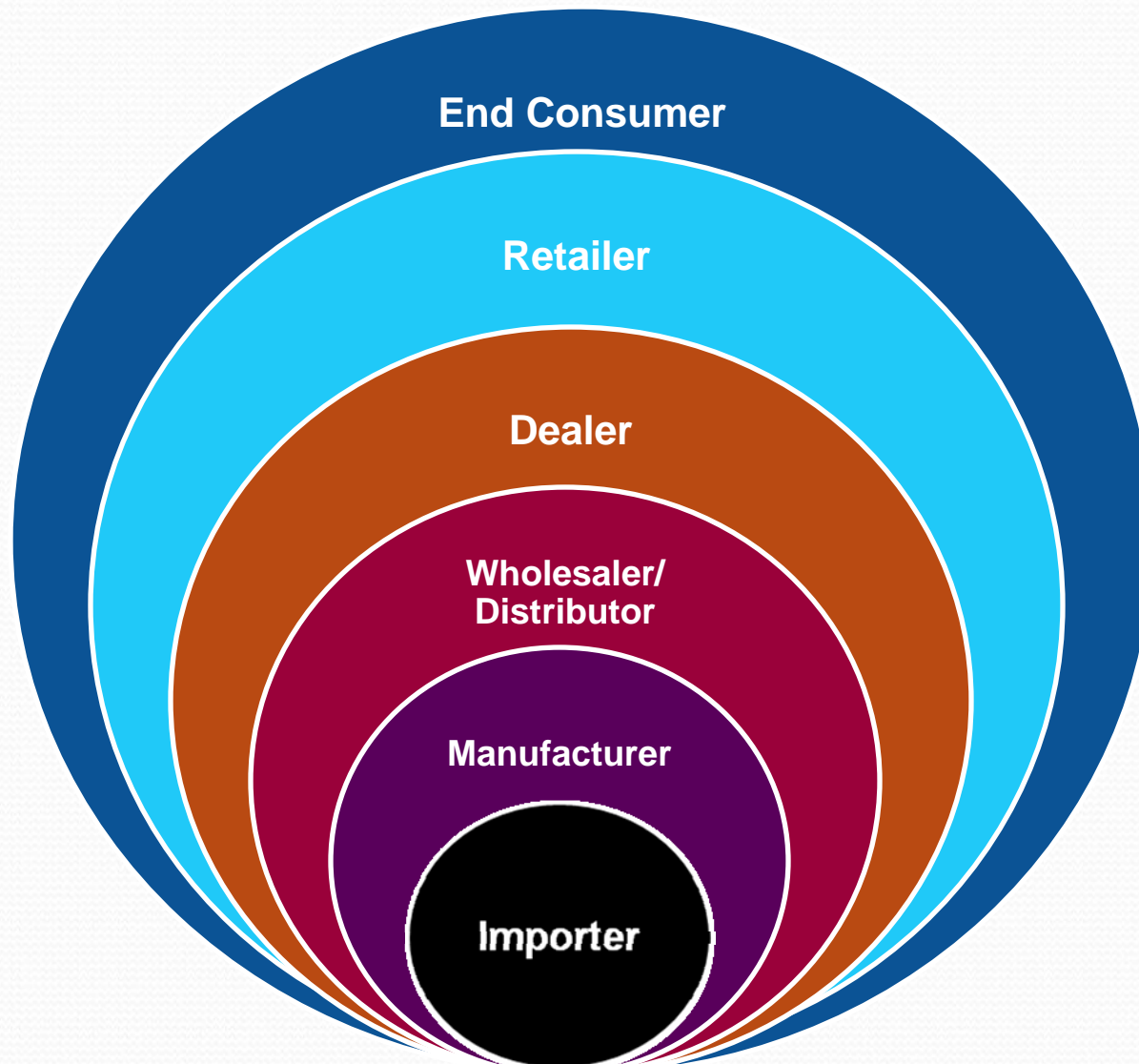
## **Benefits of VAT**

- **Broadening of Tax Base.**
- **Expeditious automated refunds.**
- **Reduces the role of Auditors.**
- **Lowering of tax rates with increase in tax base.**
- **Facilitates exports.**
- **Facilitates new investment.**
- **Documentation of Economy.**

## Introduction of VAT

Country	Year	Country	Year
France	1968	Nigeria	1994
Germany	1968	Nepal	1997
Indonesia	1985	Sri Lanka	1998
Ireland	1972	Uganda	1996
Kazakhstan	1992	Tanzania	1998
Kenya	1990	Bangladesh	1991
Korea	1977	Egypt	1991

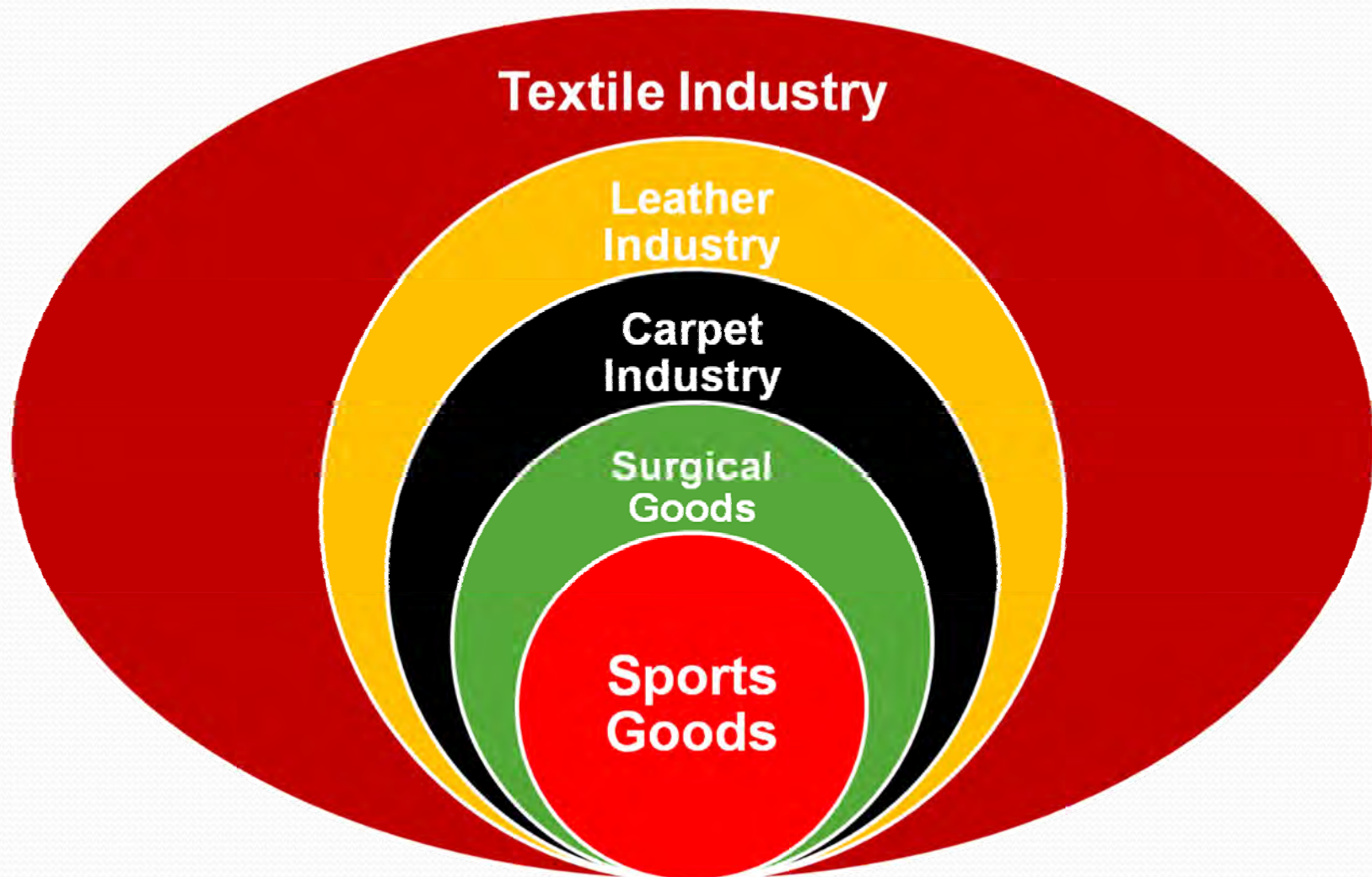
# Supply chain



## How GST is presently working

Regimes	Applicability	Example
Retail price-based	Not beyond manufacturers	3 <sup>rd</sup> Schedule items (17 categories of consumer items like juices, soft drinks, cigarettes, cosmetics, toiletries, etc.)
Fixed Tax Regime	Not beyond stage where fixed tax is charged	- Steel sector (not beyond re-roller)
Final Tax Liability	Not beyond final liability stage	- Commercial importers - Home appliances (not beyond manufacturers/importers) - CNG Stations (not beyond gas company)
Normal Regime	Not beyond wholesaler	- Wholesaler - Automobile sector - Govt. Suppliers - Reverse withholding domain

# How GST is presently working – Zero Rating



## How GST is presently working – Zero Rating

**SRO 549 for Finished Goods**

- Dairy Industry
- Stationery Industry
- Cooked and un-cooked meat based products
- Sewing Machines/Bicycles

**SRO 863 for Raw Materials**

- Stationery Industry
- Dairy Industry

## How GST is presently working

**Tax Rates**

**Twelve Different Rates**

**Exemptions**

- **Import and local supply**
- **Industry base exemptions**
- **Individual exemptions**
- **Areas exemptions**

## Structure of VAT law

**Definitions**

**Conceptual Provisions**

**Record  
Keeping/Filing of  
Returns**

**Refund  
Recovery  
Provisions**

**Miscellaneous**

**Schedules/  
Notifications**

## **Salient Features of National VAT 2010**

- **International compatible.**
- **Two sets of VAT Laws: Federal and Provincial.**
- **Federal VAT covers goods and Federal list services (transport of persons and cargo by rail, air and sea).**
- **Abolition of Federal Excise Duty on services.**

## **Salient Features of National VAT 2010**

- **Enhanced registration threshold (Rs.7.5 m instead of 5 m).**
- **Self assessment and voluntary compliance.**
- **Zero-rating to exports only.**
- **Exemptions to essential food commodities, charities, public sector education/health and international or sovereign commitments etc.**
- **No issue of origin and destination.**

## **Salient Features of National VAT 2010**

- **No fixed tax, No reduced tax, No retail price-based tax and No special tax scheme.**
- **Expeditious VAT refunds.**
- **VAT in FATA/PATA, Gilgit - Baltistan and J&K.**
- **Collection & Enforcement by Federal Government (FBR).**
- **Uniform tax rate of 15%.**

## Standard VAT Rate on Introduction

Country	VAT Rate	Country	VAT Rate
France	20.6	Nigeria	5
Germany	16	Nepal	10
Indonesia	10	Sri Lanka	12.5
Ireland	21	Uganda	17
Kazakhstan	20	Tanzania	20
Kenya	18	Bangladesh	15
Korea	10	Egypt	15

## **Exempt Supplies and Imports Under National VAT THE FIRST SCHEDULE**

- **Unprocessed peas, wheat and wheat flour.**
- **Ice and waters excluding those for sale under brand names or trade marks.**
- **Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.**
- **Books (including brochures, leaf let and similar printed matters-news papers and periodicals excluding material wholly devoted to advertisements.**
- **Holy Quran in whatever form or on whatever media**
- **Diapers for adults patients).**
- **Ambulances and firefighting trucks.**
- **Dextrose and saline infusion giving sets -----**
- **Artificial parts of the body.**
- **Intra-ocular lenses and glucose testing equipment.**
- **Contraceptives and accessories thereof.**
- **Precious metals other than a first supply of precious metal.**
- **Personal wearing apparel and bonafide baggage.**

## **Some Exempt Supplies and Imports Under GST**

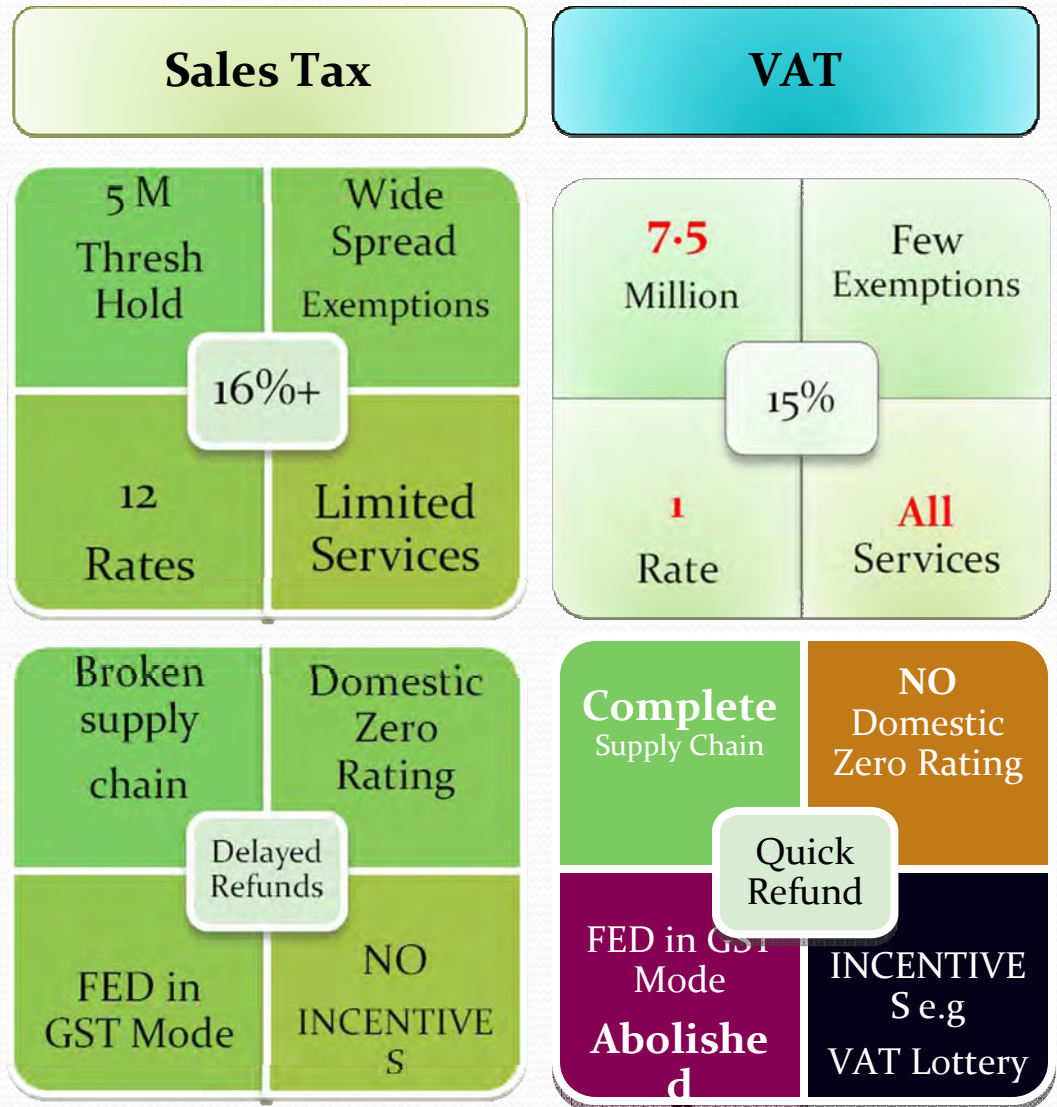
- **Agricultural including live stock, poultry and aquaculture.**
- **Food and medicines (including ambulances).**
- **Defense stores.**
- **Aircrafts, ships and navigation / aviation equipments.**
- **Ingredients of poultry & cattle feed.**
- **Off-highway use dump trucks & concrete mixers.**
- **Raw materials for diapers.**
- **CKD kits of single cylinder agri-diesel engines.**
- **Fertilizers**
- **Pesticides and their ingredients.**
- **Agricultural machinery including livestock, dairy, poultry horticulture & floriculture.**
- **Medical equipments.**
- **Hotel industry machinery.**
- **Capital goods engineering sector) & their imputes.**
- **Service sector capital goods including retail chain stores).**
- **Broadcasting equipments.**

# **Zero-Rated Supplies VAT 2010**

## **THE SECOND SCHEDULE**

- **Such basic pharmaceutical and medical supplies as are specified by the Board.**
- **The sale or transfer of an economic activity or part thereof, as a going concern by a registered Person to another registered person is zero-rated.**
- **A supply of store and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan.**
- **A supply of international transport services.**
- **A supply of precious metals, if it is first supply after its refining only to person who is a refiner of precious metal and to purchaser who is a dealer of precious metal.**

# Comparative Key Features





**Thank you**