

VAT FAQs

Q 1. *What is difference between VAT and Sales Tax?*

Answer: VAT is levied on goods and services while sales tax is imposed generally on goods. Contrary to sales tax VAT has no cascading effect. VAT is a multistage tax, levied only on the value added at each stage in the chain of supply of goods and services with the provision of a set-off for the tax paid at earlier stages in the chain. Thus, VAT eventually becomes a single point tax.

Q 2. *What will be scope of VAT?*

Answer: VAT will cover supply (including import) of both goods and services at uniform rate of 15 percent unless exempted under the VAT law. The businesses whose annual turnover is less than Rs.7.5 million will be out of VAT net.

Q 3. *How VAT will be helpful in documentation of economy and improve revenue collection?*

Answer: Generally, all the commercial activities involving production and distribution of goods and provision of services are brought under tax net giving tolerance for a pre-fixed registration threshold level. This results in documentation of every body in the supply chain. Those who are not registered in the chain are not in a position to claim or deduct tax paid at purchase levels. VAT promotes economic documentation with the help of its in-built invoice-based credit mechanism. Tax invoice is blood line of VAT-induced documentation. VAT has self-enforcing features and documents business transactions through tax invoicing.

Q 4. *What will be impact of VAT on food prices?*

Answer: In Pakistan, most of the processed packaged/branded food items are already chargeable to sales tax. Basic food items being out of VAT net, there will be no tangible price increase in food items usually sold in processed packaged/branded form. Consumer prices of the food items which are currently being charged to sales tax on retail price basis are likely to fall because VAT will be

charged on actual sale or open market price, not on printed retail price basis. Retailers will be in position to discount their prices to attract consumers.

Q 5. *What is difference between goods and services?*

Answer: Goods are tangible supplies (materials, commodities and articles) and services are intangible supplies. VAT will regulate mixed supplies on the basis of their contractual character. Under VAT, services means anything that is not goods, immovable property or money. However, actionable claims, money, stocks and securities are not included in goods.

Q 6. *How general public responding to VAT*

Answer: Since standard rate is being decreased from 16% to 15% and registration threshold is being increased from Rs.5 million to Rs.7.5 million and most of the exemptions are being withdrawn, people are generally expecting that VAT will bring economic equity and price stability in the market.

Q 7. *What is reaction of Trade Bodies on introduction of VAT?*

Answer: Numerous VAT briefings have been given to the trade and industrial bodies and professional circles. After understanding the nature and dynamics of VAT and benefits to the nation of withdrawal of exemptions, opinion of the business lobbies is fast changing in favour of VAT.

Q 8. *Why VAT is preferable over GST?*

Answer: VAT is more broad-based, equitable and efficient and is without cascading (tax over tax) and hence, is preferable to narrow-based and cascading-ridden traditional sales tax.

Q 9. *What is IMF and World Bank stance regarding implementation of VAT?*

Answer: VAT will enable Pakistan to generate and mobilize domestic resources to meet its economic development and social welfare needs.

Q 11. *How VAT will protect vulnerable groups of the society?*

Answer: By increasing exemption threshold, decreasing standard tax rate and continuing exemption on basic food items, charities, public sector education and health besides withdrawing imposition of tax on retail price basis, vulnerable groups will continue to be protected. Through acceleration of development process with new VAT receipts, employment opportunities will increase and the overall income level of the low strata of society will progress. Besides, with increase in revenue income, state will be in better position to promote social welfare/wellbeing of the masses.

Q 13. *Is VAT prone to Tax frauds?*

Answer: Every tax is prone to fraud. VAT however, has edge over other consumption taxes as that VAT fraud cannot escape detection sooner or later. Proper monitoring always reduces opportunities for tax fraud. The world experience shows that VAT induces a strong tax culture.

Q 14. *What will be role of e-intermediaries in VAT?*

Answer: E-intermediaries, appointed by FBR under section 92 of the Federal VAT Bill, 2010, will electronically file tax returns, statements, declarations and other documents specified under VAT law on behalf of and under authorization from the registered persons.

Q 15. *What is level of preparedness of FBR in VAT implementation?*

Answer: Introduction of VAT in Pakistan being already overdue, FBR is fast preparing itself to replace the existing sales tax system with VAT with effect from 1st July, 2010. In this regard, necessary measures are being taken to increase FBR's infrastructural and operational capacity to undertake its VAT-related functions and responsibilities. Pakistan is a fortunate country that it has a over 20 years' experience of VAT-like sales tax management and adoption of pure VAT in Pakistan in lieu of existing sales tax is not likely to pose any unforeseen problem for its tax machinery.

Q 16. *Will the VAT implementation increase cost of compliance?*

Answer: There will be no increase in compliance cost of those who are already registered and operating under sales tax regime and will automatically switchover to VAT. The new taxpayers will however,

have to incur nominal expense on VAT compliance. Due to IT-based VAT processes, VAT compliance cost usually remain low for the taxpayers who discharge their tax obligations regularly on fair lines.

Q 17. *What is response of provinces regarding VAT?*

Answer: The Provinces have already tabled the Provincial VAT Bills in their respective assemblies.

Q 18. *What is plea of Sindh regarding VAT collection on services?*

Answer: Entrustment to Federal Government (FBR) of the functions to collect and enforce Provincial VAT alongside Federal VAT under an integrated tax regime, may not be construed to transfer of taxing powers in respect of services covered under Provincial VAT. Collection and enforcement does not amount to imposition. The Federal Government too is very clear on this constitutional question.

Q 19. *Would VAT implementation result into high inflation rate?*

Answer: Because of absence of tax cascading and in-built invoice-based input-credit mechanism, VAT is almost non-inflationary as compared to traditional sales tax, VAT is neutral to production and consumption choices. It eventually stabilizes prices in the market.

Q 20. *Would exports be zero rated in VAT regime.*

Answer: All exports of goods and services shall be zero-rated under VAT. The input tax involved therein shall be refunded expeditiously.

Q 21. *Would there be any exemptions under VAT.*

Answer: Upfront VAT exemptions are available under the First Schedule each of the Federal and Provincial VAT Bills. Exemptions will generally cover basic foods items, charities, public sector education and health and international commitments.

Q 22. *How exempt goods are different from zero-rated goods?*

Answer: Exempt supplies are input-taxed and zero-rated supplies enjoy effective exemption because the input tax involved therein is creditable/refundable.

Q 23. *What are meanings of the forensic audit in VAT?*

Answer: Forensic audit involves a specialized examination of (mostly documentary) evidence to determine the accuracy or truthfulness of any assertion for judicial or quasi-judicial determination of any fact. VAT Rules will explain the concept of forensic audit under VAT regime.

Q 24. *Don't you think that discretionary powers of VAT officials regarding recovery and raiding business premises are prone to misuse?*

Answer: Under section 61 read with section 90 of the Federal VAT Bill 2010, recovery process commences only after the undischarged tax liability has been adjudged or determined through adjudication observing all the principles of natural justice. Detailed recovery

rules shall be included in the VAT rules. There is no concept of physical raids under the proposed VAT system. Section 75 of the Federal VAT Bill 2010 speaks of the lawful access of the authorized VAT functionaries to records and premises only for tax matters.

Q 25. *How VAT refunds will be made by FBR?*

Answer: VAT refunds will be paid through Expeditious Refund Payment System. This system has already been installed for industrial exporters from the tax period April, 2010 onwards. This system will be upgraded to make electronic refund payments directly in the bank accounts of the taxpayers. The scope of this new refund system will be expanded to cover all other categories of refund claimants in due course.

Q 26. *Would VAT result in increase of cost of doing business?*

Answer: Reduced VAT rate instead of multiple higher sales tax rates will in fact ease out the cash flow of compliant businesses.

Q 27. *Inflation may promote smuggling what are FBR plans in this regard?*

Answer: FBR is already working on formulating and implementing an effective anti-smuggling strategy so that economic equity guaranteed by VAT is not distorted by smuggling. Increase in business documentation under VAT will rather discourage smuggling and motivate transfer of investments from irregular to regular business regimes.

Q 28. *What is concept of consideration?*

Answer: As provided under section 4 of the Federal VAT Bill, 2010, "consideration" means the total of the following amounts:

- (a) the amount in money paid or payable by any person, whether directly or indirectly, in respect of, in response to, or for the inducement of the supply; and
- (b) the open market price of anything paid or payable in kind, whether directly or indirectly, by any person in respect of, in response to, or for the inducement of the supply.

Consideration includes the amounts of Federal and Provincial taxes (including VAT) paid or payable by the supplier. However, price discounts/rebates available under open market conditions are permissible under VAT.

Q 29. *What is concept of input and output adjustments?*

Answer: The actual concept is input tax adjustment, which means that to work out net tax liability, the amount tax paid on the purchases is deducted from the amount of tax charged on sales of taxable goods or services. This is also known as tax credit. Sections 25 to 34 of the Federal VAT Bill, 2010 relate to adjustments under different circumstances.

Q 30. *Would imposition of VAT result in cultivating multiple taxation?*

Answer: No. VAT does not provide for tax over tax (cascading). VAT will replace the whole existing sales tax and Federal excise duties on services.

Q 31. *What are businesses that are not supposed to charge VAT?*

Answer: The businesses who deal in exempt goods or services as well as those whose annual turnover falls below Rs.7.5 million shall not be required to be registered or charge VAT.

Q 32. *How a VAT registration can be verified?*

Answer: On its website, FBR will, as required under section 48 of the Federal VAT Bill, 2010, regularly maintain an updated list of active registered persons under VAT regime. Such information is even currently available under sales tax regime.

Q 33. *How VAT is worked out.*

Answer: Under section 18 read with clause (xiv) of section 2(1) of the Federal VAT Bill, 2010, VAT can be calculated as follows:-

$$\frac{R}{100+R} \times \text{Consideration for Supply}$$

Where "R" is the tax rate

Q 34. What are tax rates under VAT?

Answer: VAT has only one standard rate i.e. 15%. The other rate is zero percent which is applicable on exports or zero-rated supplies.

Q 35. If the Input is used partly for making taxable goods and partly for exempted goods, will input tax credit will be available?

Answer: In such cases input tax adjustment shall be apportioned and be available only to the extent of taxable supplies (creditable purpose) as laid down in section 27 of the Bill. Apportionment formula in this shall be given in VAT Rules.

Q 36. What will be tax implications on sale of old and used goods or scrapped machinery?

Answer: If not sold to another registered person as ongoing economic activity, such machinery and goods shall be charged to VAT on tax fraction basis as laid down in section 21 of the Federal VAT Bill, 2010.

Q 37. What should be done in case goods are returned from purchaser to seller?

Answer: Input tax adjustment is admissible in cases where supply is cancelled as laid down in section 29 of the Federal VAT Bill, 2010.

Q 38. What are the circumstances in which refund of input tax credit is permissible?

Answer: Where supplies are exported or zero-rated in terms of section 12 of the Federal VAT Bill 2010 and if the part of any adjustable input tax amount remains carried forward without being deducted against any output tax as laid down in section 37(3) of the Bill. Procedures for all categories of VAT refund shall be prescribed in VAT Rules.

Q 39. *What treatment will be meted out if a business or a part of business is transferred?*

Answer: In terms of section 20 of the Federal VAT Bill, 2010 read with entry at S.No.1 of the Second Schedule thereof, where any business or part thereof is transferred as ongoing concern, to another registered person, it shall be treated as zero-rated supply, otherwise the buyer shall first pay applicable VAT and shall then be entitled to adjustments on his registration in terms of section 33.

Q 40. *What is turnover threshold for VAT registration?*

Answer: As laid down in section 41 of the Federal VAT Bill, 2010, registration threshold is Rs.7.5 million per annum.

Q 41. *What is cash basis for accounting for VAT?*

Answer: Under section 26(4) of the Federal VAT Bill, 2010, input tax deduction on cash purchases is available only if the value of such a purchase including VAT amount is equal to or below Rs.50,000/-.

Q 42. *What is invoice basis for accounting for VAT?*

Answer: Tax invoice is required to be issued for every taxable supply made by a registered person to another registered person. The mandatory particulars of a tax invoice are given in section 49(1) of the Federal VAT Bill, 2010. However, under section 50, a registered person may issue a sale receipt for a supply to a person not required to be registered provided the value of such supply does not exceed Rs.25,000/-.

Q 43. *How long a registered must keep record?*

Answer: As provided in section 54 of the Federal VAT Bill, 2010, period for keeping VAT records is at least six years. However, in case of audit, recovery proceedings, dispute, prosecution or other proceedings, this period extends till such time final decision is made.

Q 44. What is a VAT audit and how a tax payer will be selected for audit?

Answer: Statutory provisions for VAT audit are available in sections 69, 70 and 71 of the Bill. These provisions are to be read with section 54. VAT audit is thus an examination of the records and accounts of a registered person for ascertaining the accuracy of the tax liabilities and other obligations discharged by such person. Detailed audit-related procedures shall be given in VAT Rules coming risk-based audit selection criteria.

Q 45. What happens when a person registered in VAT does not submit returns?

Answer: VAT liability increases due to addition of default surcharge under section 88 of the Federal VAT Bill, 2010. Besides a penalty of Rs.5,000/- is invoked and if the return is not filed within fifteen days of the due date, a penalty of Rs.1,000/- for each day of default is payable under Serial No.2 of the Third Schedule of the Bill, read with section 89 thereof.

Q 46. Am I supposed to pay VAT on gifts and promotional material?

Answer: Yes, if you are engaged in carrying on any economic activity that involves or intended to involve the supply of taxable goods and services. Economic activity is defined under section 5 of the Federal VAT Bill, 2010, which may be read with sections 9, 10 and 41 thereof.

Q 47. What is treatment when a person liable to registered in VAT is not registered?

Answer: He is registered compulsorily under section 43 of the Federal VAT Bill, 2010. Procedure for compulsory registration on objective lines shall be given in the VAT Rules.

Q 48. When and how registration of a person is cancelled?

Answer: Procedure for cancellation of VAT registration is given in sections 46 and 47 of the Federal VAT Bill, 2010. Registration can be cancelled in the following events:

- (i) where a registered person ceases to make taxable supplies;
- (ii) where a person is no longer required to be registered (e.g. falling below registration threshold);
- (iii) where the supplies made by a registered person otherwise become exempt from VAT despite that a person continues making such exempt supplies. However, a person who is making taxable as well as exempt supplies is required to be registered; and
- (iv) where a person has failed to comply with the VAT obligations or is otherwise not entitled to be registered.

Q 49. *What are the books and record kept for VAT?*

Answer: Under section 54 of the Federal VAT Bill, 2010, VAT records include tax invoices (both for purchases and sales), credit/debt notes and customs documents relating to imports and exports. Details for simplified VAT records and book keeping shall be provided in VAT Rules.

Q 50. *Who is a retail dealer?*

Answer: VAT law as such does not differentiate between retailer/retail dealer and wholesaler/dealer. Nor it defines manufacture or manufacturer. Every person of whatever business category is required to get VAT registration if he is engaged in carrying out an economic activity of making supplies of taxable goods and services.

Q 51. *When tax becomes payable on supplies?*

Answer: As per section 24 of the Federal VAT Bill, 2010, tax is payable at the time of filing a return. However, non-filing of a return does not absolve a person of the obligation to discharge his tax liability under the VAT law. A complete procedure for filing of VAT returns and payment of tax shall be given in VAT Rules.

Q 52: There is no distinction between poor and middle/upper class under VAT. How would you justify?

VAT exemptions on basic food items, charities and public sector health and education, will basically benefit the lower strata of society. Meanwhile, domestic resource mobilization through economic documentation and consequential increase in state earnings will stimulate equitable socio-economic development in society. Just taxes always redistribute resources from rich to poor without hurting opportunities for prosperity at individual level.

Q 53: Why a supplier should be penalized and implicated if fake information is provided by buyer?

Under section 89 of the Federal VAT Bill, 2010 read with Third Schedule thereof, no penalty has been proposed for a supplier on any such account. Law always protects the bonafide sellers having no knowledge about any mis-conduct of their buyers. The concept of absolute joint or several responsibility has not been incorporated in the VAT law.

Q 54: Job of business community is to undertake economic activity not collection of unnecessary information from purchaser, how you see it?

VAT law does not place any extra burden upon the business community to collect any unnecessary information from their buyers. Only such basic information has been prescribed for VAT invoicing purpose as is minimally necessary to identify exchange, movement or supply of goods and services between different hands.

Q 55: Why Government is not considering to remove deficiencies in GST rather than introducing new tax?

The existing sales tax system substantially distorted on several accounts. Over the passage of time, it has become complex, inefficient and regressive. Thus, a simple, efficient and progressive form of sales tax is a need of the day. VAT does provide a model of such modern form of sales tax. VAT is much more transparent and equitable than traditional and obsolete forms of sales tax. VAT is not a new tax but a modern and simple substitution of the existing sales tax.

Q 56: Promulgation of VAT Act, 2010 in haste may prove counter productive?

Pakistan has more than 20 years' experience of sales tax of VAT like taxation. VAT will replace sales tax with broad tax base. Thus, Pakistan already has an established infrastructure and good tax management system, which is being further improved for the purpose of VAT. The tax reforms started several years back have brought large scale improvements and refinements in Pakistan's tax machinery. VAT will improve consumption tax system in the country more progressively and futuristically.

Q 57: Why rich farmers are not imposed VAT tax?

Agriculture as such is not a manufacturing activity. Nor it is an economic activity involving supply of goods and services as such. Commercial trading of agricultural produce will, unless exempted, be covered under VAT. Moreover, VAT being an expenditure tax is also borne by the farmers' community when they purchase VAT-taxed goods and services either for agricultural purposes or for their personal consumption. The more they spend, the more they pay VAT on their consumption.

Q 58: Why discussing VAT with Chambers & Business community is necessary?

Being representative bodies, Chambers and other business associations operate as bridge between the tax managers and the taxpayers. They motivate their members for tax compliance, Presence of trade and industrial associations is a good source to promote tax culture through representation. Hence, the confidence reposed in and shown by the trade bodies in the need to replace the existing distorted sales tax system is considered to be a prerequisite to ensure smooth public recognition of the VAT system. Besides, the suggestions and advices given by these trade bodies also help refine the system in the light of real-world business practices of the market.

Q 59: What are your views regarding perception that VAT implementation would lead to expansion of informal economy?

Broad-based VAT based upon the principles of equity and welfare instead discourage black economy and stimulate transfer of investments from illegal regimes to legitimate regimes. Black economy surges when tax system lacks in equity and justice. VAT is based upon the principles of equity and justice.

Q 60: Is the enforcement of VAT a feasible idea?

In countries like Pakistan, where sales tax system is already existent, VAT introduction is a feasible proposition. VAT is nothing but a refined and modern form of sales tax without cascading or multiple taxation.

Q 61: Would VAT implementation increase gap between pre-tax income and post tax consumption?

VAT is an expenditure tax and is neutral to production or consumption choices. It is charged only on such component of income as is spent on the purchase and consumption of taxable goods and services. VAT does not affect one's ability to earn; it rather encourages to earn more. It not only redistributes income transparently but also increases income levels.

Q 62: To how much extent it is true that VAT implementation will lead to transfer of resources from productive sector of economy to public sector diminishing economic efficiency?

State expenditure out of tax earnings in fact transfers funds from public to private sector by increasing employment opportunities through development and welfare promotion. Taxes like VAT bring efficiency in the national economic system. Public sector commercial/business organizations (parastatals) also pay VAT on their economic activities involving supply of taxable goods and services.

Q 63: Would it not be difficult for a less educated shopkeeper to maintain business record?

The businesses whose annual turnover is less than Rs. 7.5 million will be out of VAT. VAT does not prescribe any watertight records. It only identifies the type of record and leaves the manner and style of its maintenance to the discretion of the taxpayer. Besides, VAT generally provides for very simple records.

Q 64: What is ancillary or incidental supply?

The concept of ancillary or incidental supplies has been explained in section 17 of the Federal VAT Bill, 2010. Artificial splitting of supplies relating to any contracted transaction is discouraged under the VAT law so that disputes as to their tax treatment do not occur.

Q 65: What is progressive or periodic supply?

Progressive or periodic supply is defined under section 16 of the Federal VAT Bill, 2010. Progressive or periodic supplies are to be treated as a series of separate supplies.

Q 66: How “association of person” is different from “associated person”

Association of persons (AOP) is defined under section 2(iii) of the Federal VAT Bill, 2010 and associated person is defined under section 3 thereof. AOP refers to a group of persons, while the concept of “associated persons” defines relationship between two persons. Adoption of this concept is a result of harmonization of inland taxes laws & administration.

Q 67: What is qualification requirement of an authorized representative.

Qualifications for authorized representatives for VAT purposes shall be specified in VAT Rules as required under section 84 of the Federal VAT Bill, 2010. In this regard, tentative idea may be taken from rule 59 of the existing Sales Tax Rules, 2006 (SRO 555(I)/2006, dated 05.06.2006).

Q 68: What is default surcharge?

Default surcharge is explained in section 88 of the Federal VAT Bill. Conceptually, it is an additional tax liability accruing on failure to pay principal tax amount due under the law.

Q 69: Please define credit and debit note?

The concepts of credit and debit notes have been used in sections 29 and 51 of the Federal VAT Bill, 2010. The procedure and formats of such notes shall be specified in the VAT Rules. Under the present sales tax regime, the provisions for credit/debit notes are available under Chapter III of the Sales Tax Rules, 2006.

Q 70: What will be role of alternative dispute resolution Committee in VAT?

Section 83 of the Federal VAT Bill, 2010 relates to alternative dispute resolution. ADR committees in fact arbitrate tax disputes between the public and the tax authorities. The idea of ADR has been incorporated into the Pakistan's tax laws to enhance the level of "neutrality" in the tax administration system.

71. How exemptions in VAT are harmful?

Exemptions create cascading and adversely impact consumption and investment choices. In case of exempt items, input tax continues to be incorporated in price without credit at subsequent stages of supply chain and cannot be invoiced out for adjustment purposes. Exemptions create inefficiencies and discriminations in the economy. Continuity of exemptions stimulates exemptions for backward and forward supply linkages eventually resulting in “exemption creep” which adversely impacts tax base and creates further inequities and inefficiencies in the economy.

72. How VAT implementation will stabilize prices of the essential commodities?

VAT is neutral to consumption choices and does not factor price fluctuations. Demand and supply is not influenced by uniform VAT with the result that prices are stabilized with the consistent and uninterrupted growth of demand and supply in the open and competitive market conditions. VAT mitigates imperfections of fair market competition.

73. How implementation of VAT will support sick industry?

VAT does not create discriminations or subjective preferences in investment choices and hence does not impact business decisions. Independence of business decisions diversifies both investment and consumption. With such diversifications, aggregate demand increases, which eventually helps sick industries to recover in open competitive market environment.

74. Is VAT contrary to Strategic Trade Policy Framework 2009?

The gist of Strategic Trade Policy for Pakistan is to promote exports through industrial modernization, diversification of exports and creating new markets abroad for Pakistani exportables. Since VAT grants expeditious input tax adjustments on the acquisition of capital goods and ensures rapid payments of refunds on exports, rendering exports competitive in the international market the proposed VAT system in Pakistan will in fact facilitate the actualization of the Strategic Trade Policy Framework 2009.

75. What are forums of redressal of grievances available to a person registered in VAT?

VAT disputes are generally resolved through quasi-judicial process of adjudication. A complete system of adjudications at original and appellate stages is given in Chapter XII of the Bill. “Alternative Dispute Resolution System” is part of the VAT grievance redressal system. Original adjudication orders are first appealable before the Commissioner, Inland Revenue (Appeals), whose orders are appealable before the Appellate Tribunal. Orders of the Appellate Tribunal are appealable before the High Court on questions of law. Judgments of the High Court can be appealed against in the Supreme Court.

76. How VAT is investment friendly?

Due to diversification of consumption choices and increase in aggregate demand, new investment opportunities grow. Besides, input tax adjustment in respect of all direct and indirect inputs used or useable in connection with economic activity involving supply of taxable goods and services, reduces the investment cost. Simplicity of VAT procedures and absence of physical controls together with enhanced applications of IT reduces the cost of compliance and cost of doing business. VAT is universally considered to be an investment / business friendly tax.

77. How VAT provides a level playing field for registered traders.

All traders are taxed at uniform rate and those operating under exemption threshold either sustain equalization tax or are unable to invoice out their input tax. VAT has self-enforcing features and that is the reason that a provision for voluntary registration is always available under the VAT system.

78. Would there be different dates for filing of returns for different economic activity when registered persons number is very large?

Standard due date for filing VAT return will be the same for all VAT payers. However, keeping in view the diversity in business accounting practices, FBR has been authorized to grant permission to file return after standard due date. If need be, such practices will be accommodated in VAT Rules. In this regard, sections 2(ix), 55 and 94 of the Bill are relevant.

79. When tax becomes payable on supplies?

Section 19 of the Bill answers this question. Tax becomes payable at the earliest time of supply, issuance of tax invoice or when any part of the consideration for a taxable supply is received. For progressive and periodic supply, sub section (2) of section 19 and clause (xxix) of section 2 of the Bill may be seen. The payable tax is accounted for and paid at the time of filing of return as provided in section 24 of the Bill. VAT Rules will further give details of these processes/procedures.

80. When tax becomes payable when sold on credit?

The procedure for payment of VAT on credit sales remains the same as is applicable to cash sales. Once supply is made, tax becomes due for payment, no matter whether consideration is received or not. In this regard, the event of supply is important so far as the liability to pay tax is concerned. This is an international practice.

81. Would discounts be available in VAT regime?

All discounts and rebates conforming to the accepted business practices are permissible if accounted for at the time of supply. VAT Rules will explain how such bonafide discounts and rebates are to be accounted for in invoicing regime. For the time being, sub section (1) of section 4 of the Bill may be consulted.

82. Is registration in VAT necessary if a trader is exclusively dealing in exempt supply?

No. But a provision for voluntary registration has been made in section 42 of the Bill. Procedure for voluntary registration will be explained in VAT Rules.

83. What will be mechanism of controlling inflated refund claim?

The newly developed Expeditious VAT Refund Payment System based upon modern IT applications will automatically conduct cross matching of input and output tax invoices and payments of tax. Thus no possibility of filing inflated refund claim will exist in VAT regime.

84. Would registration of new businesses in VAT be centralized or localized?

Chapter-VI of the Bill deals with VAT registration regime. VAT registration will be managed centrally at FBR level. However, the role of the LTUs and RTOs for physical verifications, as and where needed, will continue to matter under VAT regime. Detailed registration procedures will be prescribed in VAT Rules.

85. How smuggling effects VAT collection and implementation?

Smuggling is inimical to all kinds of tax systems. However, VAT has several such self-regulatory mechanisms which makes VAT an anti-smuggling measure on its own. The several privileges available under VAT compliance carry an in-built strength to create disincentives against smuggling. Moreover, proper VAT implementation plan is always accompanied by an effective anti-smuggling campaign. FBR is also working out a strong anti-smuggling strategy. Application of broad-based VAT on goods and services across the board upto retail stage level, itself discourages irregular investments like those in smuggling.

86. When does a foreigner become eligible to claim a VAT refund.

Clause (b) of sub-section (1) of section 23 of the Bill zero rates the supply of goods made to a foreign tourist or visitor, who takes such goods for use out of Pakistan. Procedure for such zero rating will be covered in VAT Rules.

87. Comment that a comprehensive VAT widens tax net, makes tax evasion difficult?

VAT has several self-enforcing features. When input tax payments increase due to tax base-broadening, those who do not carry out their economic activities under VAT are automatically motivated for VAT compliance so that they can confine VAT liabilities only to the extent of “value added” or “value addition” made at their stage in the supply chain.

88. If assets are transferred to other country would VAT be applicable as it is not export?

Actionable claims, money, stocks, shares and securities are not covered in the definition of goods vide section 2(xv) of the Bill. Export of taxable goods and services by registered persons is zero rated under VAT. Sections 12, 23 and 37 and Second Schedule of the Bill may be seen to understand the statutory scheme of zero rating. In nutshell, exports are not taxed under VAT. A person transferring his assets, other than taxable goods and services exported by a registered person, shall not attract VAT at the time of such transfer. However, no refund of VAT paid at any earlier stage of the acquisition of such assets shall be admissible.

89. Whether sale of my personal car will attract VAT?

No. Direct sale of personal property not being a part of any economic activity involving supply of taxable goods and services will not be liable to VAT. However, car dealers will pay VAT on their commissions or brokerage charges if their annual turnover for such business is Rs.7.5 million or more (above exemption threshold).

90. How delinquent businesses will be brought under VAT net?

FBR has already started rigorous campaign to motivate the businesses to comply with the VAT laws after their enactment when it becomes due. In this regard, measures like nationalistic motivation, VAT education, VAT-related departmental facilitation, use of third party data, survey, determination of exemption threshold and compulsory registration shall be undertaken. Still it is understood that VAT has in-built self-enforcement characteristics, which will automatically incentivize businesses towards voluntary compliance. Besides, schemes like free distribution of VAT accounting/book-keeping software and electronic cash registers and VAT paying consumers' cash reward will further create and strengthen tax culture in the country. FBR is actively working on all such measures and schemes. Overall VAT implementation strategy revolves around a balanced approach between voluntary compliance and enforcement (imposed compliance).