THE FEDERAL TAX OMBUDSMAN
ISLAMABAD

Complaint No.11407/KHI/ST/2024
Dated: 18.12.2024* R.O. Karachi

Mr. Muhammad Irtiza Khan,
Shop # 04, Ali Arcade, SB-41
Block 7, Gulistan e Jauhar,
Karachi ...*Complainant*

Versus

The Secretary,
Revenue Division, ... *Respondent*
Islamabad.

Dealing Officer	:	Mr. Badruddin Ahmad Quraishi, Advisor
Appraising Officer	:	Mr. Muhammad Nazim Saleem, Advisor
Authorized Representative	:	Mr. Zia Ahmed, Advocate
Departmental Representative	:	Nemo

FINDINGS/RECOMMENDATIONS

The above-mentioned complaint was filed in terms of Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) on the failure of the department (Deptt) to issue clarification related to taxability at a reduced rate of rusks, buns, raisin buns and sheermal placed under the eighth schedule to the Sales Tax Act 1990 (the Act) through the amendment under Finance Act 2024.

2. Briefly, the complainant is an advocate by profession and seeks clarification for his clients related to the taxability of rusks, buns, raisin buns, and sheermal under a reduced rate @ 10% as per amendment through Finance Act 2024 whereas similar items i.e; all types of bread, naan and chapattis are exempt from sales tax under section 13(1), Sixth Schedule, Table 2, Entry no.54 to the Act. The complainant approached Member Sales Tax Policy FBR, Member Legal, CCIR RTO-1, Karachi, and the CIR, Zone-II, RTO-1 Karachi but failed to get any response; hence this complaint.

* Date of registration in FTO Sectt

3. The complaint was referred to the Secretary, Revenue Division for comments in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. The Deptt failed to submit any written comments.

4. It is observed that before the amendment through the Finance Act 2024; the following classifications and exemptions were applied on these goods:

Sixth Schedule to the Act

Table-2 (Local Supplies only)

Serial No	Description	Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969
7	vermicelli, sheer mal, bun, and rusk excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.	Respective Heading
54	All types of breads, nans and chapattis	Respective Heading

Through amendments to the Finance Act 2024, entry no.7, Table-2 to the Sixth Schedule was removed and it was placed at entry no. 87, Table-1 of the Eighth Schedule to the Act which is reproduced below:

Eighth Schedule

Table-1

S. No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969	Rate of Sales Tax	Condition
87	Local supply of vermicelli, sheer mal, bun, and rusk	Respective Heading	10%	

	excluding those sold in bakeries, and sweet shops falling in the category of Tier-1 retailers.			

5. As per the complaint, all products except rusks fall under the same HS Code 19.04 (bread, bun, naan, and roti) in the First Schedule to the Customs Act. However, rusks are classified under HS Code 1905.4000. There are no definitions for these products and all these products undergo similar manufacturing processes. The only difference lies in their physical form /shape (e.g. roundness). The change in the form does not constitute manufacturing as it does not create a new product. Practically all these items are kind of bread. The amendment through the Finance Act 2024 has left taxpayers unable to determine how to accurately classify and report sales of these products to file sales tax returns.

6. In short, the complainant seeks clarification on the intended tax treatment of different kinds of bread items particularly overlapping between entry 54 of Table-2 to the Sixth Schedule and entry 87 of Table-1 to the Eight Schedule to the Act and the correct method for reporting sales of these products in sales tax returns to ensure compliance with the provisions of Law.

7. Moreover, as per the "Macro Poverty Outlook for Pakistan", released by the World Bank on 09.02.2025, limited growth in real wages and employment will keep the poverty rate near 40 percent through the fiscal year 2026. At the same time, monetary poverty will remain high. It can be observed everywhere in cities, the daily wage workers/laborers start their day consuming bun or rusk and a cup of tea in the morning. Therefore, FBR may consider the reversal of taxability of items like bun, rusk etc which are basically forms of bread and consumed by the lower strata of the population for their survival, in the Budget Proposal of 2025.

FINDINGS:

8. Failure of the department to issue a clarification despite several requests by the complainant on the taxability of basic items of necessity like bread, bun, rusk, naan, and roti is tantamount to maladministration under section 2(3) (ii) of FTO Ordinance.

RECOMMENDATIONS:

9. FBR to direct:-

(i) the Member (Tax Policy) FBR to respond to the clarification sought by the complainant on the taxability of basic items of necessity like bread, bun, rusk, naan, roti etc. and the correct method for reporting sales of these products in sales tax returns to ensure compliance with the relevant provisions of Law;

(ii) to examine allowing the exemption from sales tax on local sales of bun & rusk in the budget proposal for 2025; and

(iii) report compliance within 30 days

(Dr. Asif Mahmood Jah)
(Hilal-i-Imtiaz)(Sitara-i-Imtiaz)
Federal Tax Ombudsman

Dated: 24:2:/2025

Approved for Reporting