

ECONOMIC SERVICE CHARGE (ESC)

This article explains the law applicable to the Year of Assessment 2017/18.

Liability

Every person or partnership who/which is carrying on or carrying out a trade, business, profession or vocation, whether such person or partnership is liable to pay income tax or not, is required to pay ESC.

However, Cooperative Societies, aviation and shipping companies, local Government bodies, Government Departments, any distributor, any dealer in lottery, any Unit Trust or Mutual fund and Lak Sathosa is not liable for ESC.

Tax Base & Threshold

Every person or partnership should pay ESC if the liable turnover of a quarter exceeds Rs. 12.5 million for any quarter commencing on or after 01.04.2017.

ESC Rate

The rate applicable is 0.5% on relevant turnover. (with effect from 01.04.2016)

Liable Turnover

The amount due from every transaction whether actually received or not. But following are not included to the liable turnover.

- VAT
- Proceeds from sale of capital assets.
- Bad debts

ESC Liability of Filling Stations

For any quarter commencing on or after 01.04.2017, Turnover from sale of petrol, diesel or kerosene of any filling station is liable for ESC, if the aggregated liable turnover for any quarter exceeds Rs. 12.5 million.

However, the ESC should be calculated on 1/10th of the relevant turnover of petrol, diesel or kerosene and on whole amount of turnover from other products (lubricants etc) and service charges, if any.

Payment of Tax

ESC is payable on self-assessment basis in four quarters.

Quarter	Payment Date
1 st Quarter	on or before the 20th July

2 nd Quarter	on or before the 20th October
3 rd Quarter	on or before the 20th January
4 th Quarter	on or before the 20th April

Advance ESC & Set off of Tax

ESC is charged in advance at the importation of certain articles by the Customs on the CIF value certified by the Director General of Customs (irrespective of the threshold limit) as follows;

- on any article subject to Special Commodity Levy
- on gold, precious metals,
- on motor vehicles

ESC paid in advance to the Customs can be credited against the ESC liability of the same quarter where the date of clearance of the particular consignment falls. However, the balance liability of ESC, if any, should be paid on or before the 20th day of the subsequent month of the quarter ends.

ESC paid in advance and self-payment for the period commencing on or after 01.04.2016 can be set off against the Income Tax payable for the relevant year of assessment and excess, if any, can be carried forward to set off against the liability of two subsequent years of assessment.

However, the excess, if any, of the ESC paid until for the period ended with 31.03.2016 can be carried forward to set off against the liability of four subsequent years of assessment.

Submission of Returns

- Return of ESC should be furnished annually on or before 20th day of the month immediately succeeding the end of that year of assessment (i.e. 20th April 2018 for Y/A 2017/18).

Example 01

Sasiri (Pvt) Ltd. is in the business of manufacturing textiles to the local market. Turnover of each quarter of the year of assessment 2017/18 is given below:

Quarter	Turnover	Rs.
Quarter ending 30th June 2017	29,600,000	
Quarter ending 30th September 2017	10,500,000	
Quarter ending 31st December 2017	34,500,000	
Quarter ending 31st March 2018	82,000,000	
	156,600,000	

Assess Economic Service Charge (ESC) liability for the year of assessment 2017/2018.

Answer:

Quarter	Turnover (Rs.)	ESC liability (Rs.)
Quarter ending 30th June 2017	29,600,000	148,000
Quarter ending 30th September 2017	10,500,000	Not liable
Quarter ending 31st December 2017	34,500,000	172,500
Quarter ending 31st March 2018	82,000,000	410,000
	156,600,000	730,500

Example 02

Devrasa (Pvt) Ltd. is a leading food processing company. The following information is provided for the quarter ended 31st March 2018:

	(Rs.)
Sale of food - produced by the company	64,500,000
Sale of food – imported	12,560,000
Sale proceeds on office equipment	1,250,000
Interest income	400,000

Assess Economic Service Charge (ESC) payable for the quarter ended 31st March 2018.

Answer:

	Rs.
Sale of food - produced by the company	64,500,000
Sale of food – imported	12,560,000
Sale proceeds on office equipment – not liable	-
Interest income – not liable	-
	<u>77,060,000</u>
ESC @ 0.5%	<u>385,300</u>