TAXPAK

Newsletter By
Tola Associates

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Chairman's Message

Assalam-o-alaikum. We hope this monthly issue of TaxPak finds you in good spirits and immaculate health! Tola Associates welcomes you to another edition of TaxPak, our monthly publication the purpose of which is to provide a monthly update on the ongoing tax related developments in Pakistan. Alhamdulilah, so far, we have been successful in our mission to educate about, and keep the public-at-large updated of these developments on a monthly basis.

Moreover, we would like to apprise the readers of what information you can expect in this document. This newsletter contains an elaboration of important Notifications and Circulars issued by the Federal Board of Revenue ("FBR") and its provincial counterparts. Moreover, Notifications from the Corporate regulatory body i.e., SECP are also discussed. As our main aim is to keep the masses updated regarding the developments in the Pakistani tax law, we usually discuss a (relatively) recent judgement passed by the courts of law. This edition of TaxPak discusses a judgment of the Hon'ble Lahore High Court ("LHC") wherein the Hon'ble LHC has held that held that a manufacturer cannot treat a recipient as a retailer solely due to non-registration as a wholesaler, and the actual status of recipients must be verified before applying tax under sections 236G and 236H of the Income Tax Ordinance, 2001.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Why Timing and Modes for Business Payments Are Important". The said topic gives a brief overview of why payment timing and mode are critical, affecting both input tax claims and deductible expenses.

All our readers are requested to visit our website www.tolaassociates.com, or download our mobile application in order to access previously published editions of TaxPak along with other publications, and to stay updated of future notifications. Lastly, we request our readers to circulate this e-copy within their circle, as our primary aim is to benefit the masses. Feedback is always welcomed.

Warm Regards,
Ashfaq Yousuf Tola - FCA, FCMA
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FEDERAL BOARD OF REVENUE ("FBR") NOTIFICATIONS

A. INCOME TAX NOTIFICATIONS

1) Amendment in Rule 81B (ATL) of the Income Tax Rules, 2002

The FBR vide S.R.O. 170(I)/2026 dated 8th January, 2026, is pleased to notify amendments in the Income Tax Rules, 2002. The draft amendments were earlier published vide S.R.O. 2423(I)/2025 dated 11th December, 2025.

Under the said notification, Rule 81B(9) of the Income Tax Rules, 2002 has been substituted as follows:

Quote

(9) In the case of a person on the active taxpayers' list of the Azad Jammu and Kashmir Central Board of Revenue or Gilgit-Baltistan Council Board of Revenue, the name of such person shall be included in the active taxpayers' list under section 181A of the Ordinance, if

(a) his temporary or permanent address is in the Azad Jammu and Kashmir or, as the case may be, in the Gilgit-Baltistan; and
(b) his temporary and permanent addresses are in Pakistan, the following procedure shall be adopted, namely:-

(i) the Commissioner Inland Revenue, having jurisdiction over the case on the basis of his temporary address mentioned on the CNIC, shall verify the non-existence of any employment or business in Pakistan through IRIS after making inquiry and seeking undertaking from such person; and

(ii) the concerned Commissioner of Azad Jammu and Kashmir Central Board of Revenue or Gilgit-Baltistan Council Board of Revenue, as the case may be, shall verify the employment or sole business existence in the Azad Jammu and Kashmir or the Gilgit-Baltistan through IRIS:

Provided that where the Commissioner Inland Revenue has any reason to believe that the person, whose name has been included under clause (a) or (b), is liable to file return of income under section 114 of the Ordinance and the person does not comply with the notice under sub-section (4) of section 114 of the Ordinance, his name shall be removed from the active taxpayers' list under section 181A of the Ordinance.

Unquote

This entails that persons appearing on the Active Taxpayers' List of AJK or Gilgit-Baltistan may be included in the ATL under section 181A of the Income Tax Ordinance, 2001, subject to verification of non-existence of employment or business in Pakistan through IRIS, and compliance with return filing obligations under section 114, failing which their names may be removed from the ATL.

For further insight: ***FBR***

2) Inland Revenue Reward Rules, 2021

The FBR vide S.R.O. 89(I)/2026 dated 21st January, 2026, has notified further amendments in the Inland Revenue Reward Rules, 2021. The said amendments were previously published vide S.R.O. 2485(I)/2025 dated 23rd December, 2025.

Under the said notification, Rule 6(ii) of the Inland Revenue Reward Rules, 2021 has been substituted as follows:

Rule 6, Clause (ii):

Quote

(ii) The amount of reward for meritorious services shall not be more than twenty-four salaries during the financial year in the case of each employee.

Unquote

This entail that the maximum reward payable for meritorious services to any employee under the Inland Revenue Reward Rules, 2021, is now capped at twenty-four salaries per financial year.

For further insight: ***FBR***

B SALES TAX NOTIFICATIONS

1) Condonation of Time Limit Under Section 74 of the Sales Tax Act, 1990

The FBR vide S.R.O. 14(I)/2026 dated 7th January, 2026 has amended Notification No. S.R.O. 1444(I)/2024 dated 12th September, 2024, whereby the Commissioner Inland Revenue having jurisdiction was empowered to condone time-limits prescribed under the Sales Tax Act, 1990 and the rules made thereunder.

Under the said amendment, condition (e) of Notification No. S.R.O. 1444(I)/2024 has been amended as follows:

Quote

In the aforesaid notification, in condition (e), for the words "three years", the words "two years" shall be substituted.

Unquote

This entails that while the authority of the Commissioner Inland Revenue to condone procedural delays under section 74 of the Sales Tax Act, 1990 continues, the maximum period for which such delay may be condoned now stands reduced from 3 years to 2 years.

*For further insight: **FBR***

C CORPORATE NOTIFICATIONS (SECP)

1) Amendments to Research Analyst Regulations, 2015

The SECP, vide S.R.O. 7(I)/2026, is pleased to direct that certain amendments be made in the Research Analyst Regulations, 2015. The draft amendments were previously published through S.R.O. 1449(I)/2025 dated 4th August, 2025. These amendments pertain to registration, qualification, conduct, disclosure, and compliance requirements for research analysts and persons associated with them in Pakistan's capital market.

*For further insight: **SECP***

2. IFRS 9 ECL Exemption Extension

The SECP, vide S.R.O. 25(I)/2026, is pleased to notify that certain companies holding financial assets due or ultimately due from the Government of Pakistan in respect of circular debt shall be exempted from applying the Expected Credit Losses method under IFRS-9 for financial years ending on or before 31st December, 2026. Such companies shall instead follow the relevant requirements of IAS 39 – Financial Instruments: Recognition and Measurement during the exemption period. This partially modifies the previous S.R.O. 1784(I)/2024 dated 4th November, 2024.

For further insight: ***SECP***

3. Amendments in First Schedule (Table B,C,D,E) Companies Act,

The SECP, vide S.R.O. 56(I)/2026, is pleased to authorize the Executive Director (LRD) to hear appeals under clause (b) of Section 480 of the Companies Act, 2017. This authorization applies to companies other than listed and licensed companies, excluding companies licensed under section 42 of the Act. This notification supersedes the earlier S.R.O. 1170(I)/2020 dated 2nd November, 2020.

For further insight: ***SECP***

CASE LAW: HON'BLE LAHORE HIGH COURT HOLDS THAT A PERSON CANNOT BE TREATED AS "RETAILER" MERELY ON ACCOUNT OF NON-REGISTRATION AS "WHOLESALER"; THE ACTUAL STATUS OF RECIPIENTS MUST BE ASCERTAINED BEFORE APPLYING TAX COLLECTION UNDER SECTION 236G & 236H OF THE INCOME TAX ORDINANCE, 2001.

INTRODUCTION

The Hon'ble Lahore High Court ("LHC") decided a reference application filed under section 133(1) of the Income Tax Ordinance, 2001 ("ITO" or "the Ordinance") arising out of the order dated November 09, 2017 passed by the Appellate Tribunal Inland Revenue, Lahore ("ATIR").

The applicant, a manufacturer of sugar, was served with a show-cause notice in 2015 under the sections 236G & 236H of the ITO (inserted through Finance Act, 2013) alleging failure to collect tax on sales made to wholesalers/retailers at the rate of 0.5% of the gross amount of sales. The notice culminated into an order-in-original treating sales to unregistered persons as supplies to retailers, and requiring collection of tax under section 236H.

The applicant challenged the findings of the Tribunal, contending that unregistered persons/buyers cannot automatically be treated as retailers.

ARGUMENTS BY THE COUNSEL FOR THE APPLICANT

The learned counsel submitted that the definition of "wholesaler" under section 2(47) of the Sales Tax Act, 1990 ("STA") shows that recipients of sugar sold by the applicant squarely fall within the definition of a wholesaler and that the assessing authorities only relied on portions favorable to their viewpoint.

It was further argued that the definition of "wholesaler" is inclusive and non-exhaustive, and each portion is separate, distinct and disjunctive

Further, Rule 4, Chapter I of the Sales Tax Rules, 2006 ("the Rules") provided separate registration and deregistration requirements for retailers. Non-registration alone could not automatically reclassify a bulk purchaser as a retailer.

ARGUMENTS BY THE COUNSEL FOR THE RESPONDENTS

The learned counsel for respondents Nos. 2 to 4 contended that the recipients, being unregistered, should be treated as retailers, and the applicant was accordingly required to collect tax under section 236H of the ITO.

QUESTION FOR DETERMINATION

A. Whether the Appellate Tribunal has erred in law to hold that in terms of Section 2(47) of the Sales Tax Act, 1990 (the "ST Act") read with Rule 4 Chapter 1 of the Sales Tax Rules, 2006 (the "ST Rules") a person could only be treated as wholesaler if he has been authorized to act as an agent for sale?

B. Whether, based on the facts and circumstances of the case, the Appellate Tribunal has erred in law to hold that unregistered persons/buyers under the ST Act must be treated as retailers and cannot be treated as wholesalers?

FINDINGS OF THE HON'BLE LAHORE HIGH COURT

The Hon'ble LHC examined sections 2(47) and 2(28) of the STA, along with Rule 4 of Chapter I of the Rules, and observed that the legislature clearly envisaged wholesalers and retailers as distinct categories, depending on the characteristics of the business and the quantities of commodities dealt with. The term "wholesaler" carries its ordinary commercial meaning, referring to a person who buys goods in bulk for resale to traders who then sell them in smaller quantities.

Similarly, the term "retailer", as defined in section 2(28) of the Act, refers to a person supplying goods to the general public for consumption purposes. The proviso to the section further clarifies that combining retail with other types of business activities does not alter this definition. The Hon'ble LHC noted that the consequences of non-registration were provided for in the ITO, but these were ignored by the assessing officer. Treating an unregistered person as a retailer without first determining the actual business status of the recipient is unsafe and legally impermissible.

Relying on the case of Olympia Industries (Pvt.) Ltd. v. Assistant Collector, reported as 2002 PTD 776, the Hon'ble LHC held that registration status alone cannot redefine the actual commercial role of the buyer. In view of the above, the questions referred were answered in the affirmative, in favor of the taxpayer. The impugned order of the Hon'ble ATIR was set aside, and the matter was remanded to the assessing officer to ascertain the actual status of the recipients.

KEY TAKEAWAY

A manufacturer cannot treat a recipient as a retailer solely due to non-registration as a wholesaler for the purpose of tax collection under sections 236G & 236H of the ITO. The actual commercial status of the buyer must be ascertained. Wholesale and retail are distinct categories under law, and non-registration does not automatically change the nature of the recipient.

TOTM: WHY TIMING AND MODES FOR BUSINESS PAYMENTS ARE IMPORTANT

Timing often decides whether a tax deduction or input adjustment survives scrutiny. In Pakistan, the Sales Tax Act 1990 and the Income Tax Ordinance 2001 adopt different approaches toward payment timelines and conditions for claiming purchases and expenses. If you advise clients or manage finance for a business, you need to track not only what was purchased, but when and how it was paid.

Under the Sales Tax Act 1990, the right to claim input tax arises when a registered person holds a valid tax invoice and the goods or services are used in taxable activity. In principle, input tax is claimable in the tax period in which the invoice is received, subject to prescribed conditions. However, the law restricts claims where payment is not made through prescribed banking channels in cases where the value exceeds the threshold notified by the Federal Board of Revenue. If your client pays a large supplier in cash, the input tax claim risks disallowance.

The Act also links input adjustment to actual supply and documentation. A blacklisted supplier, an inactive registration, or a fake invoice can result in denial of input tax even if payment has been made. In addition, input tax must be claimed within the statutory time limit from the date of the invoice. If a business discovers an unclaimed invoice after the limitation period or the payment of any claimed invoice is delayed beyond the allowed time limit, the cost of that oversight becomes permanent. For many companies, missed input claims and delayed payments translate into direct erosion of margins.

Income tax rules focus more sharply on payment modes. Section 21 of the Income Tax Ordinance 2001 disallows certain expenditures unless they are paid through banking channels where the amount exceeds the prescribed limit. Cash payments beyond the allowed threshold do not qualify as deductible expenditure. This rule affects routine items such as freight, commission, and supplier payments. A business that maintains informal cash practices will see its taxable income increase simply because it ignored the mode of payment requirement.

The Ordinance also defers deduction of certain expenses until actual payment. For example, unpaid liabilities such as bonus or commission to employees, payments of supplies to vendors, etc. are added back in the year after the expiry of the allowed time period. Similarly, tax deductions at source must be properly withheld and deposited. Failure to withhold or deposit withholding tax can convert an otherwise genuine expense into a non deductible item.

These differences create practical planning points. For sales tax, you should verify invoice validity, supplier status, and banking compliance before claiming input. For income tax, you should review high value payments, year end accruals, and withholding compliance before finalizing accounts. A quarterly internal review often prevents year end surprises.

When you align accounting systems with statutory payment conditions, you protect both cash flow and reported profit. In the current enforcement environment, documentation and payment discipline are not optional. They determine whether an expense reduces tax liability or becomes an avoidable cost.

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