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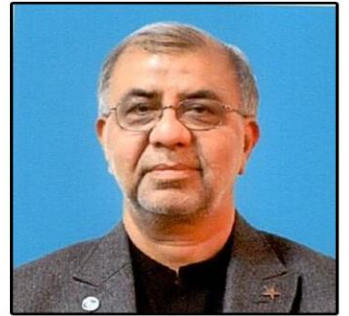
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Disclaimer

Chairman's Message

Assalam-o-alaikum everyone! First and foremost, we would like to extend our heartfelt wishes for a blessed Ramadan. May this holy month bring peace, joy, and prosperity to you and your loved ones. Ramadan Kareem! We further 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



a monthly update on the ongoing tax related developments in Pakistan. Alhamdulillah, 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 consists a discussion of two judgments. The first one has been passed by the Hon'ble Supreme Court of Pakistan ("SCP") wherein the Hon'ble SCP has held that subsequent blacklisting of suppliers does not invalidate input tax deductions claimed based on invoices issued by them prior to their blacklisting.

The second judgment discussed, was also passed by the Hon'ble SCP, wherein it was held that the transactions involving the transfer of raw materials between associated entities, without monetary consideration, shall not be classified as sales under Section 153 of the Income Tax Ordinance, 2001.

Towards the end of the newsletter, we have discussed our Topic of the month titled "**Property Valuations | Detailed Analysis**". The said topic an overview of the recent changes in property valuations by the Federal Board of Revenue (FBR) in Pakistan and cases where devaluations have occurred. This topic further explores the implications of these updates on tax treatments related to property transactions, including both disposal and acquisition.

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,
Chairman
Tola Associates.

FEDERAL BOARD OF REVENUE (“FBR”) NOTIFICATIONS

A. INCOME TAX NOTIFICATIONS

1) Amendment in SRO 1724(I)/2024 Regarding Valuation Tables of Immoveable Property of (Karachi)

Update in Property Valuation – S.R.O. 144(I)/2025

The FBR, vide S.R.O. 144(I)/2025, dated 11th February, 2025, has issued amendments to its previous Notification No. S.R.O. 1724(I)/2024, dated 29th October 2024, which pertained to the **Valuation of Immovable Properties of Karachi.**

After the table, the following shall be added:

1. Value Calculation:

- a) **Values in the Table:** The values listed in the valuation table are expressed in rupees.
- b) **Ground Floor + Additional Floors:** The valuation of a property is calculated based on the covered area of the ground floor, as well as any additional floors above the ground floor. Both areas are considered in the overall valuation.
- c) **Amenity Plots:** Amenity plots, such as parks or recreational areas, are valued at 50% of the value of the residential plots in the respective area.
- d) **Commercial Property Value:** For commercial property, the valuation is determined per square foot of the covered area on the ground floor as well as the additional floors (if any) of the property.
- e) **Industrial Property Value:** The valuation for industrial property is based on the entire plot area (both covered and uncovered), with the value calculated per square foot.
- f) **Additional Storey Value:** For residential buildings with more than one storey, the value of each additional storey (other than the ground floor) is increased by 25% of the value of the ground floor. This means that each additional storey will add a value that is 25% of the ground floor's value.
- g) **Property Category Assignment:** If a property does not fall under any of the categories listed in the property valuation table, it will be deemed to fall under the adjacent highest property category.

h) **Mixed-Use Land Valuation:** If the land is granted for multiple purposes, such as residential, commercial, and industrial use, the property valuation will be based on the average prescribed rate for all uses combined.

i) **Flats Definition:** A flat is defined as a covered residential unit that has a separate property unit number or sub-property unit number, distinguishing it from other types of properties.

j) **Additional Storey Charges in Residential Buildings:** In a residential multi-storey building, additional storeys will be charged if the storey contains at least a bedroom and a bathroom.

k) **Basement Value for Commercial Properties:** The value of basements in commercial built-up properties will be calculated as 20% of the value of the ground floor. This means basements are valued at a fraction of the ground floor value, specifically 20%.

l) **High Rise Definition:** A high-rise is defined as a building with more than five storeys above the ground. Any building that meets this criterion will be classified as a high-rise for valuation purposes.

2 Age-Based Reductions:

Residential buildings (including basements and first floors) are subject to value reductions based on age:

- Up to 5 years: No reduction.
- 5-10 years: 5% reduction.
- 10-15 years: 7.5% reduction.
- 15-25 years: 10% reduction.
- More than 25 years: Value is equal to that of an open plot.

Flats and apartments also have age-based reductions:

- Up to 5 years: No reduction.
- 5-10 years: 10% reduction.
- 10-20 years: 20% reduction.
- 20-30 years: 30% reduction.
- More than 30 years: 50% reduction.

Commercial properties:

- Up to 10 years: No reduction.
- 10-15 years: 5% reduction.
- 15-25 years: 8% reduction.
- More than 25 years: 10% reduction.

3. Other Specific Changes:

- o The value of **commercial plots in Defence Housing Authority (DHA)** facing any **Khayaban** is increased by **15%**.
- o **Commercial built-up property** excluding the ground floor is reduced by **25%** in value.
- o The value of certain **residential plots** is reduced by **20%**:
 - Nala-facing plots.
 - Commercial-facing plots.
 - School, mosque, or graveyard-facing plots.
 - Rear plots (plots not visible from the road) and triangle plots.

For further reading: [FBR](#)

B. SALES TAX NOTIFICATIONS

1) Amendment in Sales Tax Rules, 2006

The Federal Board of Revenue (FBR), vide S.R.O. 164(I)/2025, dated 17th February, 2025, has made amendments to the **Sales Tax Rules, 2006** in exercise of the powers conferred by various sections of the **Sales Tax Act, 1990** ("STA" or "the Act"). The following changes have been implemented:

1. Rule 150ZEL:

- o (a) In sub-rule (5), the colon at the end of the statement has been replaced with a full stop, and the following **proviso** has been omitted:

"Provided that the Commissioner shall also take necessary action in terms of "S.No.24 in the Table of section 33 of the Act."

Following the removal of the abovementioned Provisio, the Commissioner is not obliged under Rule 150ZEL to impose a penalty under Rule 150ZEL in terms of S.No.24 in the Table of section 33 of the Sales Tax Act, 1990. A person who engages in fraudulent sales reporting, issues invoices without prescribed numbers or barcodes, or abets such actions shall be liable for a penalty of Rs. 500,000 or 200% of the tax involved, whichever is higher, and may face imprisonment up to two years or a fine of up to Rs. 2 million, or both, under **S.No. 24 in the Table of section 33 of the Act**.

2. Rule 150ZEO:

- o (i) In sub-rule (4), the previous condition on issuing unverified invoices (3 in a day or 5 in 7 days) has been **expanded** to include:

- If the store becomes **disconnected from the FBR database for 48 hours**,
 - If invoices during an offline period are not entered within **24 hours**,
 - If the device **fails to record invoices** during offline periods.
- o (ii) In **sub-rule (5)**, the wording regarding issuing an order to allow or disallow sealing of business premises has been **simplified** to: "either allow or disallow the sealing of such business premises."
- o (iii) **Sub-rule (8)** is introduced: "The business premises of a registered person may be sealed for any violation made by the registered person."

3. Rule 150ZEP:

- o (c) In **sub-rule (1)**, the term "**sub-section (9A)**" is replaced with "**section 3(9A)**" to maintain consistency with the Sales Tax Act.

4. Rule 150ZEQ:

- o A new rule has been added for the **procedure of de-sealing business premises for integrated tier-I retailers**:

- **Penalty Imposition:** The **Commissioner Inland Revenue** will impose a penalty after passing an order, as prescribed under **serial No. 24 of section 33** of the Act.
- **De-sealing Process:** The de-sealing order will be issued within **24 hours of penalty payment**, provided the **software bug has been fixed** and the requirements of **Chapter XIV-AA of Sales Tax Rules, 2006** are met.
- **Appeal Option:** The registered person has the option to file an appeal against the de-sealing order.
- **POS Software Audit:** A software audit of all **POS machines** must be completed within **3 working days** of de-sealing.
- **Sales Assessment:** The **exact quantity of under-declared sales** will be calculated during the audit, and a demand for the evaded tax will be created.
- **Re-sealing:** If the tax demand is not paid, the business premises will be re-sealed after **15 days**.

5. Rule 150ZER:

o(d) For clause (1), the following change is made:

- The **Commissioner Inland Revenue** will impose a penalty by passing an order as prescribed under **serial No. 25A** of section 33 of the Sales Tax Act.

For further insight: [FBR](#)

SALES TAX ON SERVICES NOTIFICATIONS

A. SINDH REVENUE BOARD (SRB)

1) Amendments in notification No. SRB-3-4/43/2023 dated 15th August, 2023---Retrospective effect to the exemption of SST in relation to K-IV project (Phase-I)

The Sindh Revenue Board (SRB), vide S.R.O. SRB/3-4/06/2025, dated 3rd February, 2025, has made amendments to its previous notification, S.R.O. SRB-3-4/43/2023 dated 15th August, 2023, which pertains to the **exemption of the whole of the sales tax on taxable services provided to the Water and Power Development Authority (WAPDA) for use in the construction and completion of the Greater Bulk Water Supply Scheme of the K-IV Project (Phase-I) being executed by WAPDA.** The following changes have been made:

A) For the word, brackets and digits "**sub-section (1) of section 10**", the word and digits "**section 10**" shall be substituted; and

B) After paragraph 2, the following new paragraph shall be added,

"This notification shall take effect from the **15th day of July, 2021**, with the condition that **no refund of Sindh sales tax** already paid or deposited (by the service provider or the service recipient) shall be allowed, whether by way of adjustment or otherwise."

For further insight: [SRB](#)

Case Law 1 : Commissioner Inland Revenue, Lahore vs. M/s Eagle Cables (Pvt) Ltd, Lahore: Whether Subsequent Blacklisting of Suppliers Invalidates Input Tax Deductions

Background:

This case revolves around a sales tax dispute between the Commissioner Inland Revenue, Lahore (Petitioner), and M/s Eagle Cables (Pvt) Ltd, Lahore (Respondent), regarding input tax deductions claimed by the Respondent. The Respondent was accused of improperly claiming input tax deductions based on invoices from suppliers, who were later blacklisted by the Federal Board of Revenue (FBR). The issue brought before the Lahore High Court was whether these input tax claims were in violation of Section 8(1)(d) of the Sales Tax Act, 1990 ("STA").

Key Legal Issues/Questions Before the SCP:

1. Whether the subsequent blacklisting of suppliers affects the validity of input tax deductions claimed based on invoices issued by them prior to their blacklisting?

Arguments of the Petitioner's Counsel:

The Petitioner's counsel claimed that the Respondent had violated Section 8(1)(d) by claiming input tax deductions based on invoices from suppliers that were later blacklisted. The Deputy Commissioner of Inland Revenue claimed that the invoices used by the Respondent were allegedly from suppliers whose status had been blocked after the transactions. The Petitioner argued that these actions contravened the provisions of the STA, as the suppliers were blacklisted after the fact, rendering the invoices invalid.

Arguments of the Respondent's Counsel:

The Respondent's counsel defended the input tax claims by asserting that at the time of the transactions, both suppliers were active and properly registered with FBR. They emphasized that the Respondent had verified the suppliers' status before the purchases were made. Payments for these transactions were processed through legitimate banking channels, complying with the legal requirements under Section 73 of the STA. The Respondent argued that the blacklisting of the suppliers after the transactions did not invalidate the invoices, as the claims were made in good faith and in line with the applicable tax laws.

Conclusion:

The Supreme Court dismissed the petition filed by the Commissioner Inland Revenue, Lahore, and upheld the Lahore High Court's decision. The Court ruled that the Respondent's claim for input tax adjustments was valid, as the suppliers were active and registered at the time of the transactions and that payments were made in accordance with Section 73 of the STA. The Court noted that the subsequent blacklisting or suspension of the suppliers did not automatically invalidate the invoices issued during their active status. The Court concluded that the Petitioner's demand lacked merit and affirmed the decision of the Lahore High Court. The leave to appeal was refused.

Case Law 2 : Commissioner Inland Revenue, Lahore Vs. M/s Azam Textile Mills Limited, Lahore: Do Transactions Between Associated Entities Without Payment Qualify as 'Sales' Under the Income Tax Ordinance, 2001?"

Background:

This case concerns a dispute over the classification of certain transactions conducted by M/s Azam Textile Mills Limited (the taxpayer) with its associated entity, M/s Saritow Spinning Mills Limited. In the tax year 2003, the taxpayer's tax return was selected for an audit under Section 177 of the Income Tax Ordinance, 2001. During the audit, the taxation officer identified discrepancies related to the transfer of raw materials between the respondent and its associated entity. The officer categorized these transactions as sales under Section 169 of the Ordinance and issued an amended assessment order, creating a tax demand.

The taxpayer contested this view, explaining that the transactions in question were transfers of raw materials between group companies and not actual sales. The raw materials were procured collectively by the group, and the transfers between the companies were done without any monetary exchange. Despite this explanation, the Commissioner (Appeals) upheld the amended assessment order. However, the Appellate Tribunal Inland Revenue (the Tribunal) ruled in favor of the taxpayer, concluding that the transactions could not be classified as sales, as there was no monetary consideration involved.

Dissatisfied with this decision, the department sought the opinion of the Lahore High Court under Section 133 of the Income Tax Ordinance, 2001, regarding whether the Tribunal was justified in deleting presumptive tax on these inter-company transfers of raw materials. However, after careful deliberation, the Lahore High Court concluded that there was no justifiable reason to categorise the alleged transactions as sales. Therefore, the department appealed against the order dated 16.03.2022 passed by the Lahore High Court, Lahore in PTR No.260/2012.

Key Legal Issue/Question before the SCP:

Whether the transactions involving the transfer of raw materials between associated entities, without monetary consideration, should be classified as sales under Section 153 of the Income Tax Ordinance, 2001.

Arguments of Petitioner's Counsel (Commissioner Inland Revenue):

The petitioner's counsel argued that the transactions in question should be classified as sales, as the taxpayer had recorded the transactions in its sales ledger and the net amounts appeared in the profit and loss account. The petitioner also referenced Section 153(6) of the Income Tax Ordinance, 2001, claiming that the transfer of raw materials to the sister concern should be subject to presumptive tax.

Arguments of Respondent's Counsel (M/s Azam Textile Mills Limited):

The respondent's counsel contended that the transactions did not constitute sales, as no monetary consideration was involved in the transfers of raw materials. The goods were transferred within the group without any payment, which the respondent argued could not be classified as a sale. The respondent also highlighted that the inter-company transfers were conducted as part of the group's centralized operations and that the transactions lacked the essential element of sale – payment.

Decision of the Hon'ble Supreme Court of Pakistan:

The Hon'ble Supreme Court upheld the decision of the Lahore High Court and dismissed the petition, finding that the transactions in question did not meet the legal definition of a sale under Section 153 of the Income Tax Ordinance, 2001. The Court emphasized that the absence of monetary consideration in these inter-company transactions rendered them outside the scope of tax obligations under the provisions of the Ordinance. Consequently, the Hon'ble SCP concluded that the transactions could not be categorized as sales and that the tax demand raised by the Revenue was unjustified.

Legal Precedent and Conclusion:

The Hon'ble SCP relied on Section 4 of the Sale of Goods Act, 1930, which defines a sale as a transfer of ownership of goods in exchange for money. Since there was no monetary consideration involved in the transfers between associated entities, the Hon'ble SCP concluded that these transactions could not be classified as sales. The Hon'ble SCP also referenced Section 153(7)(iii) of the Income Tax Ordinance, which requires the receipt of consideration for a sale. In light of these precedents, the Hon'ble Supreme Court dismissed the appeal, concluding that the transactions did not qualify as sales under the law.

Topic of the Months: Property Valuations | Detailed Analysis

Introduction

The Federal Board of Revenue (“FBR”) in Pakistan has recently updated official property valuations for tax purposes through a series of Statutory Regulatory Orders (SROs), effective from November 1, 2024, and beyond. While the general trend has been to increase valuations to align with market rates, there have been specific instances of property rate devaluations, particularly noted in areas like Lahore in early 2023. This article provides a comprehensive analysis of these changes, their impact on the real estate sector, and their implications for tax treatments during property disposal and acquisition.

Background and Context

The FBR's updates are part of a broader strategy to enhance transparency and fairness in property taxation, ensuring valuations reflect current market conditions. The recent updates cover 56 cities, with a focus on aligning valuations to 75% to 90% of market rates. However, in some cases, particularly in areas with slower market growth or declining demand, valuations have been revised downward. This mixed approach has created a complex landscape for stakeholders in the real estate sector.

1. Detailed Overview of Property Rate Devaluations

The devaluations primarily affect specific property types and locations, as identified through recent SROs and market analyses. Below is a breakdown by property type:

Property Type	Details of Devaluation	Examples
Residential Open Plots	Valuations decreased in areas with slower development or lower demand, such as suburban Lahore.	In January 2023, Lahore saw downward revisions to align with district rates.
Commercial Properties	Properties in declining markets, such as less attractive business districts, may see reduced valuations.	Shopping centers in suburbs with reduced rental rates might be affected.
Industrial Properties	Valuations lowered in regions with reduced industrial activity, reflecting economic shifts.	Areas with excess supply or policy changes impacting trade may see devaluations.

These devaluations are not uniform across all cities but are specific to areas where market conditions have warranted a downward adjustment. For instance, the FBR's 2023 adjustment in Lahore targeted 1,271 areas/towns, reducing values for both residential and commercial properties in most notified areas, except where enhancements were needed to match DC rates.

2. Impact on the Overall Real Estate Sector

The devaluations have several implications for the real estate sector, which can be both positive and challenging:

- **Stimulating Investment:** Lower official valuations make properties more affordable, due to lower incidental advance taxes and duties, potentially attracting buyers and investors. This can lead to increased market activity, particularly in areas previously deterred by high prices.

- **Correcting Market Perceptions:** Devaluations help correct overvaluations, ensuring property taxes are based on realistic market values. This promotes fairness and prevents speculative

bubbles, which can destabilize the market. By aligning valuations with actual market conditions, the FBR aims to create a more stable and predictable environment for real estate transactions.

- **Tax Revenue Considerations:** While devaluations may lead to lower tax revenues from specific properties, the FBR's strategy includes offsetting this with increases in other areas. The net effect on tax revenue depends on the balance between these adjustments, with the overall goal of meeting revenue targets while supporting market growth. This balance is crucial as per the developers who expressed concerns over the broader impact on allied sectors.

- **Market Dynamics and Uncertainty:** The mixed bag of increases and decreases can create uncertainty for investors, as they navigate varying tax implications across different property types and locations. This uncertainty may affect pricing strategies and negotiation dynamics, potentially

3. Impact on Tax Treatment for Disposals and Acquisitions

The devaluations significantly affect tax treatments for both sellers and buyers, with implications for financial planning and market participation:

For Sellers:

- o Lower valuations result in reduced advance taxes at the time of sale, calculated based on the FBR's valuation under Sections 236C, 236K, and 7E of the Income Tax Ordinance, 2001. This reduction can ease financial burdens, making property disposals more attractive.

- o For capital gains tax (CGT), if the sale price is based on the reduced official valuation, the taxable gain—calculated as the difference between the sale price and the original purchase price may be lower, leading to reduced tax liability. However, if the actual sale price exceeds the FBR valuation, the tax is based on the higher value, adding complexity to tax planning.

o This dual scenario was evident in Lahore's 2023 adjustments, where sellers benefited from lower tax liabilities in devalued areas, but needed to ensure compliance with actual transaction values to avoid discrepancies.

For Buyers:

o Lower valuations lead to reduced stamp duty and transfer fees, calculated based on the property's value. This makes property acquisition more cost-effective, potentially encouraging more transactions and increasing market liquidity.

o For example, buyers in areas with devalued residential open plots may find it easier to enter the market, supporting first-time homeownership and investment in real estate.

• **Overall Tax Implications:** The FBR's approach ensures that taxes are fair and reflective of market conditions, but the variability in valuations requires stakeholders to stay informed. The recent updates, effective from November 2024, have been implemented to enhance revenue collection and reduce undervaluation, but devaluations provide a counterbalance for specific areas.

Conclusion

The FBR's recent property valuation updates, encompassing both increases and devaluations, are designed to create a more equitable and transparent tax system. Property owners and investors must stay informed about these changes to make informed decisions regarding their property transactions and tax planning. By understanding the nuances of these valuation adjustments, stakeholders can navigate the real estate market more effectively, balancing the opportunities presented by devaluations with the challenges of increased valuations in other areas.

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