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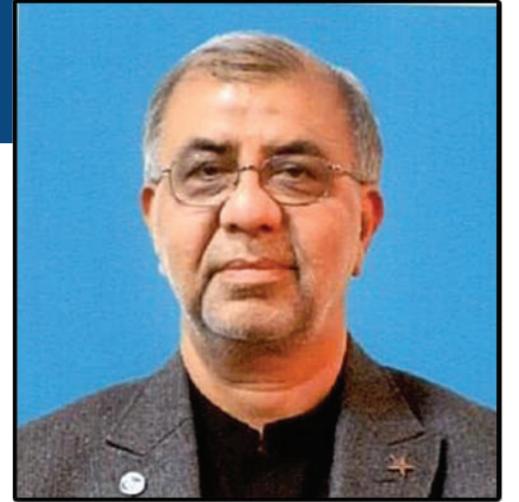
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Disclaimer





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. 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 discussion of one judgement, which was passed by the Hon'ble Supreme Court of Pakistan ("SCP"), wherein the Hon'ble SCP reinforced taxpayer rights by holding that the 'grab-and-go' immediate tax recoveries are unlawful.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Pakistan Regulates Crypto with Virtual Assets Ordinance 2025". The said topic provides a brief overview of Pakistan's first formal legal framework to regulate cryptocurrencies and digital assets.

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

Chairman

Tola Associates.

FEDERAL BOARD OF REVENUE (“FBR”) NOTIFICATIONS

A. INCOME TAX NOTIFICATIONS

1) Draft Electronic Income Tax Return Forms for Tax Year 2025

The FBR vide S.R.O. 1212(I)/2025 dated 7th July, 2025 has published the draft Electronic Income Tax Return Forms for Tax Year 2025, by proposing amendments in the Income Tax Rules, 2002. The following amendment has been proposed:

- In the Second Schedule to the Income Tax Rules, 2002, after Part II Z, a new Part II ZA shall be added containing the draft Electronic Income Tax Return Forms for Tax Year 2025.

This draft amendment aims to introduce updated electronic return forms for the Tax Year 2025, subject to public feedback before finalization.

For further insight: FBR

2) Draft Simplified Electronic Income Tax Return Individuals Form for Tax Year 2025

The FBR vide S.R.O. 1213(I)/2025 dated 7th July, 2025 has published the draft Simplified Electronic Income Tax Return (Individuals) Form for Tax Year 2025

The following amendment has been proposed:

- In the Second Schedule to the Income Tax Rules, 2002, after Part II ZA, a new Part II ZB shall be added containing the draft Simplified Electronic Income Tax Return (Individuals) Form for Tax Year 2025.

This draft amendment seeks to introduce simplified electronic return forms for individuals for the Tax Year 2025, subject to public feedback before finalization.

For further insight: FBR

3) Reduced rate of Income Tax on Import of White Crystalline Sugar

The FBR vide S.R.O. 1216(I)/2025 dated 8th July, 2025 has announced a reduced income tax rate on the import of white crystalline sugar by amending the Second Schedule to the Income Tax Ordinance, 2001 (“ITO”).

The following amendment has been made:

- In Part II of the Second Schedule, after the omitted clause (9AC), a new clause (9AD) has been inserted, which provides that pursuant to the Cabinet Decision in Case No. 432/Rule19/2025/615 dated 04.07.2025, the withholding tax under section 148 shall be collected at the rate of 0.25% of the value of commercial import of white crystalline sugar up to 500,000 metric tons in aggregate, subject to the following conditions:
 - (i) Import of sugar shall be carried out by the Commerce Division through the Trading Corporation of Pakistan (TCP) or by the private sector subject to conditions, limitations, and quota allotments for immediate and subsequent requirements during the specified period;
 - (ii) The Commerce Division shall ensure quality assurance of the imported sugar through an international inspection firm; and
 - (iii) The cut off date for import of sugar to avail exemption under this notification shall be 30th September, 2025.

This amendment allows reduced withholding tax collection at 0.25% on commercial imports of white crystalline sugar within the specified quantity and time frame, subject to quality assurance and quota controls.

For further insight: FBR

4) Exemption from Application of Digital Presence Proceeds Tax Act, 2025

The Federal Government vide S.R.O. 1366(I)/2025 dated 30th July, 2025 has announced an exemption from the application of the Digital Presence Proceeds Tax Act, 2025.

The following has been directed:

- The Digital Presence Proceeds Tax shall not apply to digitally ordered goods and services supplied from outside Pakistan by any person which are chargeable to tax under the said Act.

The amendment provides an exemption from Digital Presence Proceeds Tax on goods and services supplied from outside of Pakistan by any person which are chargeable to tax under the said Act effective from 1st July, 2025.

For further insight: FBR

B. SALES TAX NOTIFICATIONS

1) Reduction in Sales Tax and Exemption from MVAT on Import of White Crystalline Sugar

The Federal Government vide S.R.O. 1217(I)/2025 dated 8th July, 2025 has announced a reduction in the rate of sales tax and exemption from minimum value addition tax (MVAT) on the import and subsequent supply of white crystalline sugar, and pursuant to Cabinet Decision in Case No. 432/Rule 19/2025/615 dated 4th July, 2025.

The following changes have been implemented:

- The rate of sales tax has been reduced from 18% to 0.25% on the import and subsequent supply of white crystalline sugar up to 500,000 metric tons.
- The MVAT at the rate of 3%, as specified under the Twelfth Schedule to the Sales Tax Act, 1990, has been exempted.
- These concessions are applicable to imports and subsequent supplies carried out by the Trading Corporation of Pakistan (TCP) or the private sector, subject to the following conditions:
 - (i) Import of sugar shall be carried out by the Commerce Division through TCP or the private sector subject to conditions, limitations, and quota allotments for immediate and subsequent requirements;
 - (ii) The Commerce Division shall ensure quality assurance of the imported sugar through an international inspection firm; and
 - (iii) The cut off date for import of sugar to avail the exemption under this notification shall be 30th September, 2025.

This amendment significantly reduces the sales tax burden on the import and supply of white crystalline sugar, in line with Cabinet approved measures to ensure adequate supply and price stability.

For further insight: FBR

2) Seizure of Cigarettes without valid Tax Stamps or Fake Stamps

The FBR vide S.R.O. 1279(I)/2025 dated 15th July, 2025 has authorized specified officers to exercise powers under section 26 and sub section (1) of section 27 of the Federal Excise Act, 2005, in respect of cigarettes in retail outlets, warehouses, and motor vehicles on the roads.

The following officers have been authorized:

(A) Deputy Commissioner, Additional Deputy Commissioner, Assistant Commissioner, General Assistant Revenue, or any equivalent designation in the respective provincial revenue departments (in respect of cigarettes in warehouses).

(B) Excise and Taxation Officer, Assistant Excise and Taxation Officer, or any officer of Excise and Taxation not below BS 16 (in respect of cigarettes in retail outlets and motor vehicles on the roads).

The authorized officers shall exercise their powers under the following conditions:

- Officers specified in sub paragraph (A) shall exercise their powers in respect of cigarettes in warehouses, and officers specified in sub paragraph (B) shall exercise their powers in respect of cigarettes in retail outlets and motor vehicles on the roads.
- The authorized officers shall seize cigarettes along with the conveyance used for the movement, carriage, or transportation of cigarettes if:
 - o (i) Cigarettes are found without valid tax stamps affixed thereon; or
 - o (ii) The tax stamps affixed on cigarettes are fake.
- After seizure, the authorized officers shall deposit the seized cigarettes with the Additional Commissioner (HQ) in the nearest Regional Tax Office for further necessary action as per law.
- The authorized officers shall report the seizure and deposit of cigarettes within 48 hours using the application developed by FBR for this purpose, as per the Schedule below.
- The Secretary (Implementation and Coordination) or equivalent in respective provincial governments, or any officer nominated by the Chief Secretary, shall receive the reports submitted under condition (d) for onward transmission to the Director General, Intelligence and Investigation, FBR.

For further insight: FBR

SINDH REVENUE BOARD (“SRB”) NOTIFICATIONS.

1) General Information

The SRB vide Notification No. SRB 3 4/30/2025 dated 1st July, 2025 has rescinded its earlier Notification No. SRB 3 4/8/2013 dated 1st July, 2013.

Background of rescinded Notification (SRB 3 4/8/2013):

- The earlier Notification No. SRB 3 4/8/2013 prescribed reduced rates of Sindh Sales Tax on specified services listed in the Table annexed to that notification.

Effect:

- The rescission of Notification No. SRB 3 4/8/2013 has withdrawn the reduced rate benefit previously available on the specified services.
- From 1st July, 2025, the standard rate(s) of Sindh Sales Tax shall apply to such services unless the service, along with the corresponding CPC v2.1 code, is specifically mentioned in Part II of the Second Schedule for a reduced rate.

For further insight: SRB

2) Amendments in Notification No. SRB-3-4/10/2011 dated 18th October, 2011--Submission of quarterly SST Return by certain persons/class of person

The SRB vide Notification No. SRB 3 4/40/2025 dated 16th July, 2025 has announced further amendments to its earlier Notification No. SRB 3 4/10/2011 dated 18th October, 2011.

In the aforesaid Notification No. SRB 3 4/10/2011, the existing TABLE specifying persons or class of persons required to file quarterly tax returns has been substituted as follows:

NEW TABLE

| S. No. | Persons or Class of Persons |
|--------|--|
| 1 | Persons or class of persons providing or rendering taxable services which are wholly exempted under section 10 of the Act. |
| 2 | Persons providing or rendering the franchise services as classified under CPC Codes 73340 and 83960 in cases where the respective agreements do not prescribe the date for payment of the consideration for such services. |
| 3 | Individuals, covered within the meaning of sub clause (a) of clause (63) of section 2 of the Act, as are engaged exclusively in providing renting of immovable property services as classified under CPC Code 7211 , besides exempt services, if any: Provided that the amount of tax due is paid by the 15th day of the month following the month to which it relates. |
| 3 | Persons as are engaged exclusively in providing cosmetic dental services as classified under CPC Code 93123 , besides exempt services, if any. |

Effect:

- The previous table in Notification No. SRB 3 4/10/2011 (which included, inter alia, advertising agents and franchise service providers under tariff headings 98.02 and 9823.0000) has been replaced.
- The revised table updates the classes of persons who are allowed to submit tax returns on a quarterly basis and aligns the services with the new CPC codes.

For further insight: **SRB**

3) Amendments in the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014

The Sindh Revenue Board (SRB) vide Notification No. SRE 3 4/42/2025 dated 16th July, 2025 has amended the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014.

Summary of change:

- The amendments primarily replace all previous tariff heading references with the newly introduced CPC Codes (Version 2.1) in various clauses of Rule 1 and Rule 2.
- References to the rescinded Notification No. SRB 3 4/8/2013 have also been updated to align with Part II of the Second Schedule to the Act, where the service classifications and reduced rates are now present.

The amendment has now aligned the Rules with the updated CPC Code structure and the Second Schedule of the Sindh Sales Tax on Services Act, 2011.

*For further insight: **SRB***

4) Amendments in Sindh Sales Tax on Services Rules, 2011

The SRB vide Notification No. SRB 3 4/41/2025 dated 16th July, 2025 has announced extensive amendments to the Sindh Sales Tax on Services Rules, 2011 (“SSTSR”).

The following changes have been implemented:

- All references to tariff headings in the SSTSR have been replaced with the corresponding CPC Codes (Version 2.1) to align with the updated classification effective 1st July, 2025.
- References to Notification SRB 3 4/8/2013 and its amendments have been replaced with references to Part II of the Second Schedule, which now consolidates service classifications and reduced rates.
- Clarifications have been made regarding the standard rate (15%) and reduced rate (8%) for several service categories (e.g., franchise services, intellectual property services, construction services, ready mix concrete services). Revised procedures for opting for reduced rates via electronic filing on the SRB portal have also been introduced.
- Mandatory POS integration has been introduced for certain service sectors (e.g., franchise services and renting of immovable property services), along with stricter e filing and e-depositing requirements.
- Specific tax amounts and rates (e.g., Rs. 1,000 per Bill of Lading / House Bill of Lading / Airway Bill issued by shipping and freight forwarding agents) have been revised.

- Form SST 03 and all its annexures have been updated to replace HS Codes with CPC Codes and align with the revised classifications.

This amendment brings the Sindh Sales Tax on Services Rules, 2011 fully in line with the new CPC Code Version 2.1 and the updated Second Schedule, effective from 1st July, 2025.

*For further insight: **SRB***

5) Amendments in the Sindh Sales Tax Special Procedure (Services provided or rendered by cab aggregator and the services provided or rendered by the owners or drivers of the motor vehicles using the cab aggregator services) Rules, 2019

The SRB vide Notification No. SRB 3 4/43/2025 dated 16th July, 2025 has amended the Sindh Sales Tax Special Procedure (Services provided or rendered by cab aggregator and the services provided or rendered by the owners or drivers of the motor vehicles using the cab aggregator services) Rules, 2019.

The following changes have been implemented:

- All references to tariff heading 9846.0000 have been replaced with the corresponding CPC Codes 64115 and 85514 (Version 2.1).
- Internal reference (19A) has been corrected to (19B).
- The tax rate for services under these rules has been fixed at 5% (replacing earlier references to older notifications).

This amendment clarifies the applicable tax rate and aligns the rules for cab aggregators with the updated CPC Code

*For further insight: **SRB***

6) Amendments in the Sindh Sales Tax Special Procedure (Online Integration of Business) Rules, 2022.

The Sindh Revenue Board (SRB) vide Notification No. SRE 3 4/44/2025 dated 16th July, 2025 has announced amendments to the Sindh Sales Tax Special Procedure (Online Integration of Business) Rules, 2022

The following changes have been implemented:

- The Table in the Schedule to the Online Integration of Business Rules, 2022 has been substitute with a new table aligned with the updated CPC Codes.

The new table specifies service categories required to integrate their business operations with SRB's online system, as follows

| S. No. | Tariff Heading in the Second Schedule (as in force on 30th June, 2025) | CPC Code relating to the entries in column (2) | Description of Services |
|--------|--|--|---|
| 1 | 98.01 | 63310, 63320, 63399, 63400 | Services provided or rendered by restaurants located in hotels |
| 2 | - | - | Services provided or rendered by the restaurants who are franchisers or franchisees |
| 3 | - | - | Services provided or rendered by all restaurants having more than one branch in Sindh |
| 4 | - | - | Services provided or rendered by all restaurant outlets located at air conditioned shopping malls |
| 5 | - | - | Services provided by restaurants through an online marketplace platform |
| 6 | - | - | Services provided or rendered by the restaurant whose turnover during the immediately preceding twelve tax periods exceeded rupees five million |
| 7 | 9810.0000, 9821.1000, 9821.4000, 9821.5000 | 972 | Beauty and physical well being services provided by persons who elect or opt to charge, collect and pay tax at the reduced rate of 5% |

For further insight: **SRB**

7) Amendments in the Sindh Sales Tax Special Procedure (Tax on Specified Services) Rules, 2023.

The SRB vide Notification No. SRB 3 4/45/2025 dated 16th July, 2025 has announced amendments to the Sindh Sales Tax Special Procedure (Tax on Specified Services) Rules, 2023.

The following changes have been implemented:

- All references to tariff headings in the Rules have been updated with the corresponding CPC Codes (Version 2.1).
- The Table of specified services has been substituted to align with CPC Codes and revised tax rates:
- Advertisement services (CPC 8363) where payment is made to non resident service providers via collection agents will be taxed at 15%.
- Software/IT based system development and cloud based content streaming services (CPC 7331, 8313, 8314, 8315, 8316, 843) with payment to non resident providers will be taxed at 3%.
- Market research agency services (CPC 83700) where payment is made to non resident providers will be taxed at 15%.
- A new provision deems that service providers under S. No. 2 (software/IT based services) are considered to have exercised the option to pay tax at the reduced rate stipulated in Part II of the Second Schedule.
- References to “tariff heading” in the rules have been replaced with “CPC Code” for consistency.

This amendment brings the Specified Services Rules fully in line with CPC Code Version 2.1 and clarifies tax rates and reduced rate options for specified services.

*For further insight: **SRB***

8) Amendments in the Sindh Place of Provision of Services Rules, 2023.

The SRB vide Notification No. SRB 3 4/46/2025 dated 16th July, 2025 has amended the Sindh Place of Provision of Services Rules, 2023.

The following changes have been implemented:

- The definition of “specified services” in Rule 2(1)(x) has been substituted to align with CPC Code, covering services such as advertisement, advertising agents, electric power transmission, insurance, insurance agents, franchise, intellectual property, and transportation of goods by road or pipeline, with their corresponding CPC Codes.

This amendment updates the definition of specified services in line with the new CPC Code classifications effective 1st July, 2025.

*For further insight: **SRB***

9) Amendments in the Sindh Sales Tax Special Procedure (Collection Agent) Rules, 2024.

The SRB vide Notification No. SRB 3 4/47/2025 dated 16th July, 2025 has amended the Sindh Sales Tax Special Procedure (Collection Agent) Rules, 2024.

The following changes have been implemented:

- Registered restaurants (including home chefs) – Tax at 8% (no input credit) for digital payments or 15% for others. Collection agents (food delivery platforms) must withhold 50% of the sales tax.
- Unregistered restaurants (including home chefs) – Tax at 15%, and collection agents must withhold 1% of the sales tax.

This amendment clarifies tax rates and collection mechanisms for food delivery service platforms and restaurants.

*For further insight: **SRB***

PUNJAB REVENUE AUTHORITY (“PRA”) NOTIFICATIONS.

1) Amendment Notification Withholding Rules 2015

The PRA vide Notification No. PRA/Orders.06/2021/846 dated 10th July, 2025 has amended the Punjab Sales Tax on Services (Withholding) Rules, 2015.

The following changes have been implemented:

- A new Rule 5A has been inserted specifying withholding requirements for companies receiving taxable services (other than advertisement services) from service provider companies who are active taxpayers:
- Telecommunication, banking and insurance companies: Required to withhold 80% of the tax amount, while the remaining 20% will be deposited by the service provider company.
- Other companies: Required to withhold 20% of the tax amount, while the remaining 80% will be deposited by the service provider company.

For further insight: PRA

2) Amendment Notification of the Adjustment of Tax Rules 2012.

The PRA vide Notification No. PRA/Orders.06/2021/845 dated 10th July, 2025 has announced amendments to the Punjab Sales Tax on Services (Adjustment of Tax) Rules, 2012.

The following changes have been implemented:

- The term “reduced rate” has been added after the expression “non taxable” in the heading of Rule 3 and in sub rule (1).
- Sub rule (2) of Rule 3 has been substituted with a revised formula for input tax apportionment where inputs are used for taxable, non taxable, reduced rate or exempt services:

Adjustable Input Tax = (Taxable Value ÷ (Taxable Value + Non Taxable + Reduced Rate + Exempt Services)) × Total Input Tax

This amendment clarifies the treatment of input tax adjustments where reduced rate services are also involved and is effective immediately.

For further insight: PRA

KHYBER PAKHTUNKHWA REVENUE AUTHORITY (“KPRA”) NOTIFICATIONS.

1) Notification Regarding Collection Agents for Sales Tax on Services under Section 14-A of the KP Sales Tax Act, 2022

The KPRA vide Notification No. KPRA/ADMN/GN/2025/3337 dated 16th June, has specified the following taxable service for which the liability to pay tax shall rest with a third party (i.e., a person other than the service provider or recipient):

| S. No. | Tariff Heading | Description of Taxable Service | Person Liable to Pay Tax (Other than Provider or Recipient) | Rate of Tax |
|--------|----------------|---|---|---|
| 1 | 9806.3000 | Services of Customs House Agents (under Pakistan Single Window) | Pakistan Single Window (PSW) | Fixed at Rs. 3,000 per Goods Declaration (GD) |

- The above arrangement is effective immediately.
- The person made liable under the notification shall collect and deposit the sales tax no later than the 15th day of the month following the tax period in which the collection is made.
- All provisions of the KP Sales Tax on Services Act, 2022, and rules/regulations/notifications issued thereunder shall mutatis mutandis apply with respect to:
 - Non-payment or short-payment of tax
 - Assessment and recovery of tax
 - Filing of return
 - Maintenance of records
 - Penalties and default surcharge

For further insight: **KPRA**

2) Khyber Pakhtunkhwa Sales Tax on Services Special Procedure (Withholding) (Amendment) Regulation, 2025

The KPRA, through Notification No. KPRA/ADMN/GN/2025/3335, dated 16 June 2025, has amended the Khyber Pakhtunkhwa Sales Tax on Services Special Procedure (Withholding) Regulation, 2024. These changes, issued under multiple provisions of the KP Sales Tax on Services Act, 2022, aim to update and streamline the withholding tax mechanism on services. The amended regulation is titled the “Withholding (Amendment) Regulation, 2025” and takes effect immediately.

For further insight: KPRA

PAKISTAN REGULATES CRYPTO WITH VIRTUAL ASSETS ORDINANCE 2025

On July 8, 2025, the President of Pakistan signed Ordinance No. VII of 2025, titled the Virtual Assets Ordinance, 2025, officially published in the Gazette of Pakistan on July 9. This law establishes a legal framework for regulating Virtual Assets (“VA”s) and Virtual Asset Service Providers (“VASP”s) in Pakistan.

For the first time, Pakistan has a licensing and supervisory structure tailored to the digital asset industry, aligning itself with international standards and building formal oversight of the crypto sector.

The Ordinance defines “virtual assets” as any digital representation of value that can be digitally traded, transferred, or used for payment or investment. This includes cryptocurrencies like Bitcoin and Ethereum, stablecoins, security tokens, and other blockchain-based units of value.

The law establishes the Virtual Assets Regulatory Authority (“VARA”), an autonomous body empowered to:

- License and regulate VASPs
- Conduct inspections, audits, and investigations
- Impose administrative or financial penalties
- Suspend or revoke licenses
- Coordinate with national and international agencies on compliance and enforcement

Any individual or business involved in managing, exchanging, safekeeping, or advising on virtual assets in Pakistan must now obtain a license from VARA. Operating without a license is punishable with imprisonment up to five years and a fine of up to PKR 50 million.

Pakistan has been under pressure to formalize its digital asset market for several years. In 2018, the State Bank of Pakistan issued a circular prohibiting banks from dealing with cryptocurrencies, effectively forcing the market to run informally. That informal approach has since proven unsustainable.

In 2023, Pakistan was removed from the Financial Action Task Force (FATF) grey list, but FATF's recommendations continued to push for stronger monitoring of virtual asset flows. The 2025 Ordinance aligns with FATF's Recommendation 15, which calls on countries to regulate and supervise VASPs to prevent money laundering and terrorist financing.

The Ordinance adopts core FATF principles:

- Licensing of VASPs
- Customer Due Diligence (CDD) and KYC
- Recordkeeping and reporting of transactions
- Cross-border cooperation
- Sanctions for non-compliance

These changes bring Pakistan into alignment with global expectations, reducing reputational and financial risk for the country.

Pakistan is not the first emerging economy to regulate virtual assets. Here's how its new regime compares with other similar jurisdictions:

| Country | Regulator | Crypto Licensing | FATF Compliance | Remarks |
|------------|--|-------------------------|-----------------------|---|
| Pakistan | Virtual Assets Regulatory Authority (VARA) | Mandatory | Compliant (post-2023) | New law from July 2025 |
| India | No dedicated crypto regulator | Not regulated, taxed | Partially aligned | 30% flat tax, no legal clarity |
| Bangladesh | Central Bank prohibits crypto | Banned | Limited | All crypto activity considered illegal |
| UAE | VARA Dubai, ADGM, SCA | Mandatory | Largely compliant | Structured licensing, tax exemptions |
| Nigeria | SEC Nigeria | Regulated (2022) | Aligning | Test phase + crypto guidelines |
| Indonesia | Bappebti (Commodities Regulator) | Licensed as commodities | Aligned | Trading allowed under certain exchanges |

Compared to these economies, Pakistan has taken a formal, structured approach. The creation of an independent regulator is more aligned with the UAE and Nigeria, rather than the loosely defined frameworks of India or Indonesia.

As per the Ordinance, all licensed VASPs in Pakistan must comply with strict operational conditions. These include:

- AML/KYC policies as per FATF guidelines
- Risk-based customer profiling
- Cybersecurity protocols
- Reporting of suspicious transactions to relevant authorities
- Periodic financial disclosures
- Capital and solvency requirements as specified by VARA

The Ordinance gives VARA the authority to inspect books, freeze accounts, seize assets, or even shut down operations for violations. Appeals can be made to an independent tribunal within 30 days of any adverse order.

Although the Ordinance does not set crypto-specific tax rates, it requires full cooperation with the Federal Board of Revenue (FBR). This includes:

- Sharing customer data
- Disclosing wallet balances
- Enabling FBR audits
- Assisting with cross-border tax compliance

With formal recognition, crypto-related gains are expected to be taxed under Pakistan's regular tax laws either as capital gains, business income, or investment income, depending on the activity and entity structure.

This move will likely broaden the tax base, especially from high-volume traders and institutional players. VASPs already operating in Pakistan before July 8, 2025, must apply for a license within six months. Failure to do so will render their operations illegal.

This ordinance is more than regulatory compliance. It signals Pakistan's intent to:

- Reintegrate into global financial systems
- Attract international crypto platforms
- Enable safe public participation in digital asset markets
- Lay groundwork for CBDC or tokenized securities regulation in the future

VARA also has powers to create regulatory sandboxes to test blockchain use cases, smart contracts, and tokenized assets before they're widely adopted.

With the Virtual Assets Ordinance 2025, Pakistan enters the digital asset economy with clarity, structure, and legal force. It removes ambiguity for businesses and consumers while satisfying FATF and global stakeholders. For crypto exchanges, investors, and financial institutions, this is both an opportunity and a wake-up call that compliance is no longer optional.

CASE LAW: THE HON'BLE SUPREME COURT OF PAKISTAN REINFORCES TAXPAYER RIGHTS BY HOLDING 'GRAB-AND-GO' IMMEDIATE TAX RECOVERY UNLAWFUL.

INTRODUCTION:

The Hon'ble Supreme Court of Pakistan ("SCP") was moved by the Commissioner Inland Revenue, (Legal) Islamabad, & Commissioner Inland Revenue (Zone-IV) Islamabad ("Appellant"), to examine the legality of coercive recovery measures taken by the Inland Revenue Department under Section 140 of the Income Tax Ordinance, 2001 ("ITO"). The two cases, revolved around a common legal issue whether the Commissioner Inland Revenue is legally empowered to affect immediate recovery from a taxpayer's bank or third party on the same day the notice under Section 140 is issued, particularly where such notice follows the decision of the Commissioner (Appeals) Inland Revenue.

BRIEF FACTS OF THE CASE:

In the case of Pakistan LNG Limited, the Commissioner amended the tax return for tax year 2020 and raised a demand of over Rs. 2.9 billion. On the day that the Commissioner (Appeals) upheld this assessment, the department issued a notice on that same day under Section 140 and recovered the amount from the company's bank accounts within less than 30 minutes after uploading the appellate decision on the FBR web portal. A similar course of action occurred with another taxpayer, where over Rs. 1.8 billion was recovered on the same day of the appellate order and late at night.

The respondents challenged these recovery actions via constitutional petitions before the Islamabad High Court, which found the recovery actions to be in violation of law and due process, and ordered refund of the recovered amounts. The intra-court appeals filed by the Appellant were dismissed, the matter eventually came before the Hon'ble SCP which heard in connected civil appeals to decide whether the Commissioner Inland Revenue is legally empowered to effect immediate recovery from a taxpayer's bank or third party on the same day the notice under Section 140 is issued, particularly where such notice follows the decision of the Commissioner (Appeals) Inland Revenue.

LEGAL ISSUE:

Whether Section 140 of the ITO permits immediate recovery of tax from a person holding money on behalf of a taxpayer on the same day the notice is issued, or whether the law mandates that a future date be specified in the notice, thus allowing a reasonable opportunity to the taxpayer or third party to comply.

ARGUMENTS BY THE COUNSEL FOR THE APPELLANT:

The primary argument advanced by the learned counsel for the Appellant, was that Section 140 of the ITO authorizes the Commissioner Inland Revenue to effectuate recovery of outstanding tax dues by issuing notice to any person holding money on behalf of the taxpayer. The learned counsel for the Appellant argued that the scheme of law is such that the taxpayer needs to be informed of its tax liability vide the notice under Section 137(2) of the Ordinance. Once this notice has been issued, the taxpayer is made aware of its tax liability, which must be paid within thirty days, failing which recovery mechanisms can be adopted by the means stipulated under the Ordinance. The learned counsel for the Appellant further submitted that Section 140 of the Ordinance being a mode of recovery from persons holding money on behalf of the taxpayer, permits the Commissioner to recover the tax due, on the same day that the notice is issued as there is no requirement to set a future date for payment.

Additionally, the learned counsel for the Appellant placed strong reliance on Rule 210C(3) of the Income Tax Recovery Rules, 2002, which states that the amount mentioned in the notice is to be paid on the day the notice is served. It was argued that this rule permitted same-day recovery and that the Hon'ble High Court erred in striking down the recovery actions merely because the recovery took place shortly after the appellate decisions were announced. Furthermore, the learned counsel for the Appellant contended that introducing an obligation to issue a fresh notice or to wait for a reasonable period post-appellate proceeding would result in administrative delays and hinder effective tax collection, undermining the purpose of enforcement provisions in the tax law.

ARGUMENTS BY THE COUNSEL FOR THE RESPONDENT:

The learned counsel for the Respondent challenged the legality of immediate recovery, asserting that Section 140(1) clearly requires the Commissioner to fix a specific future date in the notice for payment. They emphasized that in both cases, recovery was initiated within hours of the appellate order, denying them any meaningful opportunity to comply or challenge the demand. The learned counsel for the Respondent argued that this conduct violated the procedural safeguards built into the Ordinance and breached their constitutional rights under Articles 10A and 14 of the Constitution of Pakistan, 1973 ("Constitution"), which guarantee due process and protection of dignity. The learned counsel for the Respondent referred to the express language of Section 140(1), which states that the Commissioner may require payment "by the date set out in the notice," arguing that this creates a legal obligation to provide reasonable notice prior to enforcement action. Issuing recovery notices on the same day that the appellate orders were uploaded, and attaching bank accounts within minutes or hours, violated the principle of fair notice and procedural justice.

The learned counsel for the Respondent further submitted that although a notice under section 137 of the ITO received at the time the demand was generated by the Commissioner pursuant to the assessment order, however, no any subsequent notices under section 137 or 138 of the ITO was received after the assessment order upheld by the Commissioner (Appeals). The learned counsel for the Respondent contended that failure to serve such a notice rendered the recovery proceedings unlawful. It was also strongly argued that the Appellant / department's conduct amounted to a breach of Articles 10A (right to fair trial) and 14 (right to dignity) of the Constitution, since the Respondents / taxpayers were denied the opportunity to respond to the appellate decisions, challenge them before higher forums, or even comply voluntarily.

FINDINGS OF THE HON'BLE SCP:

The Hon'ble SCP upheld the decisions of the Islamabad High Court and found the actions of the Inland Revenue Department to be legally flawed, procedurally unjust, and constitutionally infirm. In its detailed judgment, the Hon'ble SCP held that Section 140 of the ITO mandates that a recovery notice must include a specific future date for payment. The phrase "by the date set out in the notice" stated in section 140 of the ITO implies that reasonable time must be given for compliance, and does not permit same-day or immediate recovery. Serving and executing a recovery notice within minutes or hours without providing the taxpayer or third party a fair opportunity defeats the statutory purpose and undermines procedural fairness.

The Hon'ble SCP further held that reliance on Rule 210C of the Income Tax Recovery Rules, which allows same-day recovery, is inconsistent with the parent statute. As subordinate legislation, this Rule cannot override or contradict the express provisions of the Ordinance and must yield in case of any inconsistency. To the extent that Rule 210C permits same-day recovery, it was declared unenforceable. The Hon'ble SCP reaffirmed that statutory safeguards must be strictly followed, particularly when coercive powers are exercised. The requirement to set a future date for payment is not a mere formality it is a substantive legal safeguard intended to ensure transparency, predictability, and respect for the rights of taxpayers and third parties. The Hon'ble SCP also held that even in fiscal matters, recovery must be carried out in a manner that respects the individual's dignity and legal safeguards. Hence, even where the law allows coercive recovery, it must be carried out in a way that preserves the dignity of the taxpayer.

The Hon'ble SCP further observed that tax recovery is not a 'grab-and-go' process. Even coercive measures must adhere to proper legal procedures. Tax authorities are not punitive agencies, but institutions responsible for promoting compliance through fairness and clarity. Legal certainty requires not only that taxpayers know their liabilities but also understand when, how, and on what basis recovery will be pursued. Section 140 enforces this principle by requiring the Commissioner to set a specific date for payment, thereby initiating a legal timeline and protecting against arbitrary enforcement.

In conclusion, the Hon'ble SCP held that the tax authorities acted arbitrarily and in violation of both statutory requirements and constitutional protections. Recovery under Section 140, being a coercive and independent mechanism, must be exercised with caution, fairness, and transparency. The failure to issue a proper notice and provide adequate time offended both the letter and spirit of the law.

Accordingly, the Hon'ble SCP dismissed both civil petitions, invalidated the recovery notices under Section 140, and upheld the Islamabad High Court's orders. The judgment reaffirmed the supremacy of statutory safeguards, the limits of administrative discretion, and the constitutional imperative of procedural fairness in tax enforcement.

Additional Note authored separately by Hon'ble Justice Shahid Waheed ("Hon'ble Justice")

Another key finding of the judgment authored separately by Hon'ble Justice Shahid Waheed was the application of the doctrine of merger. The Hon'ble Justice held that once an appellate order is passed, the original assessment order merges into it, and only the appellate decision subsists in law. Accordingly, any recovery action must be based on a fresh demand notice under Section 137(2), which reflects the tax liability determined in the appellate order. Since no such notice was issued in these cases, the previously assessed amount could not be treated as "tax due," and the subsequent recovery proceedings under Section 140 were held to be unlawful.

The Hon'ble Justice clarified that Section 137(2) deals with "amounts payable" arising from an assessment order or appellate order. Until such amount is demanded through a valid notice and remains unpaid beyond the stipulated time, it cannot be deemed "tax due" under Sections 138 or 140. The mechanisms of recovery under these sections are distinct and cannot be interchanged. Each must be initiated independently and in accordance with the legal framework prescribed.

Additionally, the Hon'ble Justice reiterated that following an appellate decision, the Commissioner is obligated to issue a new notice under Section 137(2) that provides the taxpayer with a fresh 30-day window for payment. Only if the taxpayer fails to discharge this liability within that timeframe can recovery measures be lawfully activated. In these cases, since the Commissioner failed to issue a new notice, the tax authorities acted prematurely and outside the bounds of the law.

The Hon'ble Justice strongly disapproved of the tax department's practice of coercive recovery without notice and held that such conduct reflects an authoritarian approach that undermines the rule of law and the taxpayer's fundamental rights. Section 140 clearly requires the Commissioner, through written notice, to demand payment "by the date" specified. This phrase implies that a reasonable payment window must be provided to ensure fairness, procedural equity, and protection from arbitrariness.

In view of the foregoing, the Hon'ble Justice held that the notices issued under section 140 in these cases were invalid and could not legally mandate immediate payment of tax from a garnishee who held money on behalf of the taxpayer (respondent). These appeals fail and are accordingly dismissed.



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