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# TAXPAK

## Newsletter By Tola Associates

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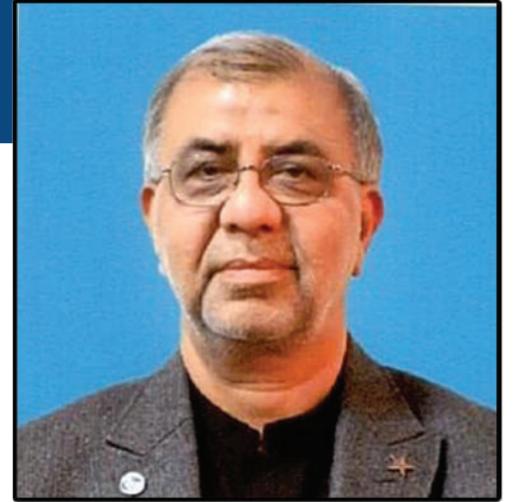
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#### Disclaimer





## 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 discusses a judgment delivered by the Hon'ble Supreme Court of Pakistan ("SCP"), wherein the Hon'ble SCP has clarified the application of limitation periods under tax laws, holding that the provisions of the Income Tax Ordinance, 2001 apply as they stood on June 30 of the relevant tax year.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Whom to Keep at Arm's Length". The said topic provides a brief overview of how Sections 78 and 79 of the Income Tax Ordinance, 2001, govern related-party transactions by enforcing fair market valuation and exempting specific non-commercial transfers.

All our readers are requested to visit our website [www.tolaassociates.com](http://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 Amendment in Sharing of Declaration of Assets of Civil Servants Rules, 2023

The Federal Board of Revenue (“FBR”) vide its S.R.O. 1912(I)/2025 dated 7th October 2025 has issued draft amendments to the Sharing of Declaration of Assets of Civil Servants Rules, 2023.

Key proposed amendments are as follows:

- i. In Rule 1(1) – the word “civil” shall be substituted with “public”.
- ii. In Rule 2 –
  - Clause (i) shall be omitted which defined the Civil Servants under the Rules
  - A new Clause (ii-a) shall be inserted to define “Public Servant” as:

“Any officer of the Federal or any Provincial Government, or autonomous bodies, corporations, and companies owned by such governments, having pay grade 17 and above or equivalent, and includes employees governed by the Civil Servants Act, 1973 (LXXI of 1973), but excludes persons excepted under sub-clause (iv) of clause (n) of section 5 of the National Accountability Ordinance, 1999 (XVIII of 1999).”

- iii. In Rules 3 and 5, the word “civil” shall be replaced with “public” wherever occurring.
- iv. In the Annexure, the word “civil” shall likewise be substituted with “public”.

This entails a broader scope of asset declaration coverage, extending from “civil servants” to “public servants,” thereby including officers and employees of autonomous bodies, corporations, and government-owned companies in grade 17 and above.

*For further insight: FBR*

### B. INCOME TAX CIRCULARS

#### 1) Extension in Date of Filing of Income Tax Returns for Tax Year 2025

The FBR, vide its Circular No. 5 of 2025-26, bearing reference C.No.6(1)S(IR-Operations)/2024/131575-R dated 30th September, 2025 was pleased to extend the deadline of filing of Income Tax Returns for Tax Year 2025.

The due date for filing income tax returns, originally fixed as 30th September 2025 and subsequently extended to 15th October 2025, was further extended to 31st October 2025.

*For further insight: FBR*

## C. SALES TAX NOTIFICATIONS

### 1) Electronic Monitoring of Registered Persons Engaged in Textile Spinning Mills

The FBR, vide S.R.O. 1963(I)/2025, dated 15th October 2025, has notified that the production of registered persons engaged in textile spinning shall be electronically monitored through video analytics in accordance with the provisions of rule 150ZQR of Chapter XIV-BA of the Sales Tax Rules, 2006.

This notification shall come into force with effect from 1st November 2025.

This entails that textile spinning units registered under the Sales Tax Act, 1990 (“STA”) will now be subject to electronic monitoring of their production processes through video analytics.

*For further insight: FBR*

## D. SALES TAX CIRCULAR

### 1) Standard Operating Procedure for Change of NTN/ STRN on Industrial Connection of Electricity/ GAS by DISCOs/GASCOs

The FBR, vide Sales Tax Circular No. 03 of 2025 (IR Operations), bearing reference F.No.1(162)ST-L&P/2025/134504-R dated 22nd October 2025, has issued a Standard Operating Procedure (“SOP”) for change of NTN/STRN on industrial connections of electricity and gas by DISCOs/GASCOs.

Under the revised procedure, no change of NTN or STRN shall be made by any electricity or gas distribution company in respect of industrial connections unless the following steps are duly complied with:

- i. The registered person shall apply to the Commissioner Inland Revenue (IR) having jurisdiction for change of NTN/STRN on electricity or gas bills.
- ii. The Commissioner-IR may verify the particulars, including physical verification of the business premises. If satisfied with the correctness of the particulars, the Commissioner-IR shall issue an order to the concerned DISCO/GASCO for change of NTN/STRN in the respective utility bill.
- iii. The DISCOs/GASCOs shall implement the change in NTN/STRN only upon receipt of the recommendations or written directions from the concerned Commissioner-IR.

This entails that any alteration of NTN or STRN in industrial utility connections shall now be subject to prior verification and approval by the Commissioner-IR having jurisdiction.

*For further insight: FBR*

## E. SALES TAX GENERAL ORDER

### 1) Implementation of Electronic Monitoring, Tracking and Tracing System for Cement Sector

The FBR vide its Sales Tax General Order No. 05 of 2025/IR, bearing reference No. C.No.2(4)/T&Ts/Cement/2021(Vol-11)/135225-R dated October 23, 2025, has notified implementation of the electronic monitoring, tracking, and tracing system for the cement sector.

- With effect from November 1, 2025, no cement bag shall be allowed to be removed from any production site, factory premises, manufacturing plant, or import station without the affixation of tax stamps/Unique Identification Markings (UIMs).
- These UIMs are to be obtained or procured from FBR's Licensee, i.e., M/s AJCL/MITAS/Authentix Consortium.

## SINDH REVENUE BOARD ("SRB") NOTIFICATIONS

### A. NOTIFICATIONS

#### 1) Amendment in notification No. SRB-3-4/16/2016 dated 29th August, 2016

The SRB, vide its Notification No. SRB-34/58/2025 dated 7th October 2025, has introduced amendments to its earlier Notification No. SRB-34/16/2016 dated 29th August 2016, which pertained to exemption of Sindh sales tax on services directly received or procured by Departments of the Government of Sindh funded out of the Annual Development Programme (ADP)

The amendments are summarized as follows:

- Substitution of "tariff heading" with "CPC Code":
  - The term "tariff heading" has been replaced with "CPC Code" to align with the Central Product Classification (CPC) system.
- Amendments in the "Certificate" portion:
  - After the words "tariff heading \_", the expression (relatable to CPC Code) has been inserted.
  - The reference date "24th August" has been corrected to "29th August" to reflect the accurate date of the earlier notification.
- Replacement of Table:
  - The previous table has been substituted with a new one reflecting CPC-based classification of exempt services.

For further insight: **SRB**

## 2) Amendment in notification No. SRB-3-4/9/2017 dated 2nd June, 2017

The SRB vide its Notification No. SRB-3-4/59/2025 dated 7th October 2025, has introduced amendments to its earlier Notification No. SRB-34/9/2017 dated 2nd June 2017.

The earlier notification pertained to the exemption of Sindh sales tax on services provided to departments of the Government of Sindh in relation to development schemes and projects included in the Sindh Annual Development Programme (ADP) for 2016-17 or earlier years, which continued as “on-going” projects in subsequent ADPs.

The amendments are as follows:

- i. In sub-paragraph (c) of the first paragraph, the words “tariff heading” have been replaced with “CPC Code.”
- ii. In the “CERTIFICATE”, after the words and space “tariff heading \_”, the brackets, words, and space “(relatable to CPC code)” have been inserted.
- iii. The Table has been substituted to replace tariff headings with corresponding CPC Code

*For further insight: SRB*

## 3) Amendment in Notification No. SRB-3-4/3/2018 dated 6th February, 2018

The SRB, vide its Notification No. SRB-3-4/60/2025 dated 7th October 2025, has introduced amendments to its earlier Notification No. SRB-34/3/2018, dated 6th February 2018, which pertained to exemption of Sindh sales tax on services provided for development projects in Sindh funded (fully or partially) through the Federal Public Sector Development Programme (“PSDP”).

The amendments are as follows:

- i. In clause (a) of paragraph 2, the term “tariff heading” has been replaced with “CPC Code.”
- ii. In the Certificate of Total Exemption and Certificate of Partial Exemption in Excess of 5% Tax Rate:
  - o After the words “tariff heading,” the words “(relatable to CPC Code \_\_)” have been inserted.
  - o In the Certificate of Partial Exemption, the date “February, 2019” has been corrected to “February, 2018.”

*For further insight: SRB*

#### 4) Amendments in Sindh Sales Tax Special Procedure (Transportation or Carriage of Petroleum Oils through Oil Tankers) Rules, 2018

The SRB vide its Notification No. SRE-34/61/2025 dated 7th October 2025 has made further amendments to the Sindh Sales Tax Special Procedure (Transportation or Carriage of Petroleum Oils through Oil Tankers) Rules, 2018.

The amendments are as follows:

- i. The reference to tariff heading 9836.0000 has been replaced with CPC 65112 across various provisions of the Rules.
- ii. Clause (c) of rule 2(1) has been omitted.
- iii. Rule 3 has been substituted to prescribe a rate of tax at 15% on the transportation or carriage of petroleum oils through oil tankers.
- iv. Rule 6(1A) has also been updated to substitute the earlier tariff heading with the new CPC code.

*For further insight: SRB*

#### 5) Amendments in notification No. SRB-3-4/30/2020 dated 15th October, 2020

The SRB vide its Notification No. SRE-3-4/62/2025 dated 7th October 2025 has introduced amendments to its earlier Notification No. SRB-3-4/30/2020 dated 15th October 2020 relating to the exemption of services provided to the Municipal Services Delivery Program (MSDP), Sindh, funded by USAID under the Pakistan Enhanced Partnership Agreement (PEPA), 2010.

The amendments are as follows:

- i. In the opening paragraph, the words “Municipal Delivery Service” have been substituted with “Municipal Services Delivery”.
- ii. The existing Table has been replaced with a new one aligning the earlier tariff headings with their corresponding CPC codes.

*For further insight: SRB*

## 6) Amendments in notification No. SRB-3-4/19/2021 dated 30th June, 2021

The SRB, vide its Notification No. SRB-3-4/63/2025, dated 7th October 2025, has introduced amendments to its earlier Notification No. SRB-3-4/19/2021 dated 30th June 2021, which pertained to the levy of Sindh sales tax at a reduced rate of 5% on services of recruiting agents engaged in the recruitment of persons for employment outside Pakistan.

Through this amendment, the tariff heading 9805.6000 has been replaced with CPC Code 8511 throughout the notification.

*For further insight: SRB*

## 7) Amendments in notification No. SRB-3-4/22/2022 dated 28th June, 2022

The SRB, vide its Notification No. SRB-34/64/2025 dated 7th October 2025, has introduced amendments to its earlier Notification No. SRB-3-4/22/2022 dated 28th June 2022, which pertained to exemption from Sindh sales tax on services provided or rendered to GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit).

The amendments are as follows:

- i. In clause (a), the words “tariff heading” have been substituted with the words “CPC Code”.
- ii. The existing table of exempt services has been replaced with a new table specifying the corresponding CPC codes for each category of exempt service.

*For further insight: SRB*

## 8) Amendments in notification No. SRB-3-4/28/2023 dated 9th June, 2023

The SRB, vide its Notification No. SRB-3-4/65/2025, dated 7th October 2025, in exercise of powers conferred under section 10 of the Sindh Sales Tax on Services Act, 2011, has introduced amendments to its earlier Notification No. SRB-3-4/28/2023 dated 9th June 2023, which pertained to exemption of Sindh sales tax on services procured by the Health Department, Sindh, funded through a grant provided by the Japan International Cooperation Agency (JICA) under Grant Agreement No. 2160070.

Through the said notification, the term “tariff heading” has been replaced with “CPC Code”, and the Table of exempted services has been substituted accordingly.

*For further insight: SRB*

## 9) Amendments in notification No. SRB-3-4/43/2023 dated 15th August, 2023

The SRB vide its Notification No. SRB-34/66/2025 dated 7th October 2025 has introduced amendments to its earlier Notification No. SRB-34/43/2023 dated 15th August 2023, which pertained to the exemption of Sindh sales tax on specified taxable services provided or rendered to WAPDA for the construction and completion of the Greater Bulk Water Supply Scheme of the K-IV Project (Phase-I).

The amendments include:

1. Insertion of the phrase “(relatable to CPC Code \_\_\_)” after “tariff heading No. \_\_\_” in the prescribed Certificate format.
2. Substitution of the existing Table with the following revised classification aligning tariff headings with respective CPC codes

For further insight: **SRB**



## CASE LAW: SUPREME COURT CLARIFIES THAT INCOME TAX LAW APPLIES AS IT STOOD ON JUNE 30, NOT JULY 1

### INTRODUCTION

The Hon'ble Supreme Court of Pakistan ("SCP"), adjudicated upon a significant question of law: whether the provisions of the Income Tax Ordinance, 2001 ("2001 Ordinance") apply as they stood on June 30 (the last day of the tax year) or on July 1 (the first day thereafter). The matter arose from Tax Year 2009 where a notice under section 122(9) was issued beyond five years. The taxpayer contended that limitation was to be computed based on section 122(2) as it existed on 30.06.2009, whereas the Department argued that the amended version effective from 01.07.2009 applied.

### ARGUMENTS BY THE COUNSEL FOR THE PETITIONER

The Department contended that the Lahore High Court erred by applying section 122(2) as it stood on June 30, 2009. It was argued that the amendment made by the Finance Act, 2009 (effective July 1, 2009) substituted section 122(2) and thereby extended the limitation period. Accordingly, they argued that the notice dated 18.06.2015 was within time.

### ARGUMENTS BY THE COUNSEL FOR THE RESPONDENT

Conversely, the Respondent taxpayer argued that the applicable law was the one existing on June 30, 2009, the end of the tax year. Any subsequent amendment through the Finance Act, 2009 could not retrospectively affect a vested right in limitation.

### QUESTIONS FRAMED BY THE HON'BLE SCP

*...how is the 2001 Ordinance to apply in relation to a given tax year: as it stood at the end of the said year (i.e., on June 30th) or as it stands on the first day thereafter (i.e., July 1st)?*

### FINDINGS OF THE HON'BLE SUPREME COURT

The Hon'ble SCP, through a detailed judgment, undertook a comprehensive, historical, comparative, and structural analysis of the charging provisions of income tax laws in the subcontinent to determine whether the Income Tax Ordinance, 2001 ("2001 Ordinance") applies as it stood on June 30 or July 1.

The Hon'ble SCP traced the evolution of Pakistan's income tax law through three legislative stages.

In the first stage, under the Income Tax Act, 1922, the charge of income tax was not self-executing; rather, the law remained in abeyance until each year's Finance Act was enacted to bring it into effect. Consequently, it applied as it stood on April 1, i.e., the first day of the assessment year. This foundational rule originated from the Privy Council's landmark decision in Maharajah of Pithapuram v. Commissioner of Income Tax (AIR 1945 PC 89), where it was held that the charging provision became operative as the law stood on the date when the Finance Act came into force. The principle was later affirmed by the Bombay High Court in Scindia Steam Navigation Co. Ltd. v. CIT (AIR 1955 Bom 230) and by the Supreme Court of India in (1961) 42 ITR 589, both confirming that the operative law was that in force on the first day of the assessment year.

In the second stage, under the Income Tax Ordinance, 1979, a significant shift occurred. The tax rates were incorporated directly within the Ordinance itself, rather than being supplied externally by a Finance Act. This made the Ordinance continuously in force and in effect, no longer dependent on an external statute to activate the charge. However, because the 1979 Ordinance still referred to “assessment year” and “income year,” the interpretative issue persisted as to whether the law should apply as it stood on June 30 or July 1. The Hon’ble SCP observed that the Finance Act, 1991 introduced a proviso clarifying that changes in tax rates applied from the first day of the assessment year, but the statute as a whole left room for interpretational uncertainty.

In the third and present stage, governed by the Income Tax Ordinance, 2001, the external dependencies that existed under prior laws were completely removed. The charging provision in section 4(1) imposes tax for each tax year, while section 74(1) defines “tax year” as a twelve-month period ending on June 30. Importantly, there is no “assessment year” or any other external referent. The “tax year” itself serves as both the subject and object of taxation. Each tax year is therefore a self-contained unit, wholly independent and internally complete, a system that aligns precisely with the fundamental income tax principle that each tax period is a distinct, self-contained accounting unit for taxation purposes. Consequently, the Hon’ble Supreme Court held that the Income Tax Ordinance, 2001 applies as it stood on the last day of the tax year, i.e., June 30, and not as on July 1. Therefore, the Hon’ble SCP held that the respondent taxpayer was correct in asserting that the notice for amendment was time barred and the departments appeal was dismissed

## **KEY TAKEAWAY**

The Hon’ble Supreme Court has settled that the Income Tax Ordinance, 2001 applies as it stood on the last day of a tax year as, i.e. June 30 of a tax year, not on July 1. This ruling aligns with the self-contained nature of each tax year and eliminates prior confusion regarding retrospective effect of Finance Acts. Consequently, all legal rights and limitations are to be determined with reference to the law as it existed on the last day of the tax year.

## TOTM : WHOM TO KEEP AT ARM'S LENGTH

When it comes to tax compliance in Pakistan, one of the most misunderstood areas is how transactions between related parties are treated. The Income Tax Ordinance, 2001 ("ITO"), through Sections 78 and 79, provides a clear framework to prevent tax avoidance through artificial or favorable transfers. These sections determine when a transaction must be treated at "arm's length" and when it qualifies for "non-recognition" treatment.

### Section 78 | Non-Arm's Length Transactions

This section applies when an asset is sold, transferred, or exchanged between parties who are not dealing independently or on commercial terms. The law assumes that such transactions could be structured to shift income or reduce tax.

To prevent this, Section 78 requires that:

- (a) The person disposing of the asset is treated as if they received the fair market value (FMV) of the asset, even if the actual price is lower or no price is paid.
- (b) The person acquiring the asset is treated as if they purchased it for the same FMV.

In simple terms, the law ignores the stated price and replaces it with the market value. This ensures both sides of the transaction are taxed fairly and prevents manipulation through under-pricing or gifting disguised as sales.

### Section 79 | Non-Recognition Rules

While Section 78 ensures fairness, Section 79 provides relief for transfers that are not commercial in nature but arise from personal or legal circumstances. In such cases, no gain or loss is recognized at the time of transfer. These situations do not represent real income, so taxing them would be unfair.

Moreover, the tax liability is essentially deferred until the recipient ultimately disposes of the asset to an unrelated third party. This is achieved through the "roll-over" mechanism:

- **Same Character:** The person acquiring the asset is treated as acquiring an asset of the same character as the person disposing of the asset.
- **Original Cost Basis:** The acquiring person's cost for the asset is deemed to be equal to the original cost of the asset for the person disposing of it at the time of the disposal.

Cases Where Non-Recognition Applies:

- (a) Transfers between spouses under an agreement to live apart.  
Such transfers are part of marital arrangements, not profit-making activities.

b) Transfers upon death to an executor or beneficiary.  
The estate is being settled, not sold for profit.

(c) Gifts to a relative (as defined in section 85(5)).  
These are personal transfers motivated by family relationships, not business transactions.

(d) Compulsory acquisition by law where the proceeds are reinvested in a similar asset within one year.  
This ensures that taxpayers forced to sell by the government are not penalized if they reinvest in the same type of asset.

(e) Distributions by a company to shareholders upon liquidation.  
Here, shareholders are only recovering capital, not earning fresh income.

(f) Distributions by an association of persons (AOP) to its members upon dissolution.  
Assets are simply being returned to the members based on their ownership share.

The term “relative,” as defined in Section 85(5), includes:

- Ancestors and descendants such as parents, grandparents, children, and grandchildren.
- Adopted children.
- Spouses of the individual or of anyone within the above relationships.

This broad definition ensures that transfers within close family circles qualify for non-recognition treatment, as they generally do not have commercial intent.

The intention of law behind each of the non-recognition case is that:

- There is no economic gain. Transfers are based on personal or legal obligations.
- Ownership continuity exists as in many cases, such as gifts or inheritance, the asset remains within the same family or ownership structure.
- The treatment aligns with the fairness principle. Tax should apply only when income is realized. Imposing tax on non-commercial or involuntary transfers would contradict this principle.

Section 78 ensures transparency in commercial transactions between related parties by enforcing fair market valuation. Section 79, in contrast, recognizes that not all transfers create real income and therefore exempts specific personal or legal transfers from taxation.

Together, these provisions balance the tax system by preventing abuse while protecting genuine, non-commercial transactions.

Taxpayers should review their intra-family or related-party dealings carefully. If a transaction falls outside the non-recognition list, it must be conducted at arm’s length to avoid adjustments or penalties by the Federal Board of Revenue.

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