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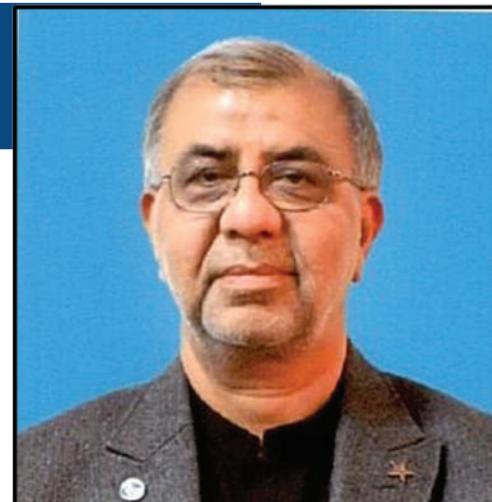
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Chairman's Message

Assalam-o-alaikum. We hope this monthly issue of TaxPak finds you in good spirits and immaculate health! Tola Associates welcomes you to another edition of TaxPak, our monthly publication the purpose of which is to provide a monthly update on the ongoing tax related developments in Pakistan. 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 issued by the Hon'ble Supreme Court of Pakistan ("SCP"), wherein the Hon'ble SCP has held that Rule 13 of the Income Tax Rules does not override the mandatory requirement of "any reasonable basis" under Section 67 of the Income Tax Ordinance, 2001.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Small Company and SME Tax Structures". The said topic gives a brief overview of the special tax structures in Pakistan for Small Companies and SMEs.

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) Amendment in sub-rule (2DD) of rules 73 of the Income Tax Rules, 2002

The Federal Board of Revenue (“FBR”), vide its Notification S.R.O. 2070(I)/2025 dated 03 November 2025, has published draft amendments to the Income Tax Rules, 2002.

The proposed changes in Rule 73 are regarding mandatory electronic filing requirements for individuals.

The key draft amendment is as follows:

- Rule 73 Sub-rule (2DD):

The existing sub-rule is proposed to be substituted with the following wording:

“(2DD) In case of an individual, electronic filing of income tax return and withholding statement shall be mandatory”

This entails that individuals will be obligated to file both their income tax returns and withholding statements exclusively through electronic mode once the draft is finalized

For further insight: FBR

2) Amendments in the ADRC Rules under section 134A of the Income Tax Ordinance, 2001

The FBR vide its Notification S.R.O. 2076(I)/2025 dated 6th November 2025, has directed that the following amendments shall be made in the Income Tax Rules, 2002.

The draft amendments in Rule 231C were previously published through S.R.O. 765(I)/2025 dated 11th May 2025.

The amendments are as follows:

Rule 231C:

(11) Members of the Committee appointed under clauses (i) and (iii) of sub-section (3) of section 134A of the Ordinance shall, after the decision by the Committee under sub-rule (8), be paid a lump sum, one-time remuneration as under:

(a) Three hundred thousand Rupees and one hundred and fifty thousand Rupees for the Chairperson and member of the Committee respectively, except the Chief Commissioner Inland Revenue, if the amount of tax liability is up to fifty million Rupees;

(b) Five hundred thousand Rupees and two hundred and fifty thousand Rupees for the Chairperson and member of the Committee respectively, except the Chief Commissioner Inland Revenue, if the amount of tax liability exceeds fifty million Rupees; and

(c) Chairperson or a member of the Committee may be allowed TA/DA equal to the entitlement of BPS-22 and BPS-21 officers of the Federal Government respectively.

This amendment proposes a revised lump sum, one-time remuneration for members of the Committee for deciding an application under Section 134A of the Income Tax Ordinance, 2001.

For further insight: FBR

3) Amendments in the sub-rule (2DD) of rule 73, of the Income Tax Rules, 2002

The FBR, vide its Notification S.R.O. 2107/2025, is pleased to direct that the following amendments shall be made in sub-rule (2DD) of Rule 73 of the Income Tax Rules, 2002.

These draft amendments were previously published through S.R.O. 2070(I)/2025 dated 3rd November 2025

The amendment is as follows:

- Rule 73, Sub-rule (2DD):
(2DD) In case of an individual, electronic filing of income tax return and withholding statement shall be mandatory.

This may entail that Electronic filing of both income tax returns and withholding statements is now mandatory for all individuals. However, the FBR must clarify as to whether this requirement will apply for those individuals that are not liable to withhold / deduct tax under the provisions of the ITO, as there seems to be confusion regarding the application of the aforesaid Rule.

For further insight: FBR

4) The Sharing of Declaration of Assets of Civil Servants Rules, 2023

The FBR vide its S.R.O. 2263(I)/2025 dated 27th November, 2025 has issued amendments to the Sharing of Declaration of Assets of Civil Servants Rules, 2023. The draft of the amendments was previously issued vide S.R.O. 1912(I)/2025 dated 7th October, 2025

Key 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) Circular No. 06 of 2025 IR-Operations - Measures to Encourage filing of Returns by erstwhile Manual Filers of Income Tax Year 2024

The FBR, vide its Circular No. 6 of 2025-26 (IR-Operations), bearing reference C.No.6(1)S (IR-Operations)/2024/139820-R dated 4th November, 2025, has issued measures to facilitate erstwhile manual filers of Income Tax for Tax Year 2024.

In order to digitize all FBR data, manual returns are being discouraged, and the FBR is now receiving returns exclusively through the online system. The manual return form has therefore been discontinued this year.

However, recognizing the difficulties faced by a small fraction of taxpayers who were filing manual returns till 2024, a dedicated cell in each tax office of Pakistan will provide legal and technical support to such taxpayers. Taxpayers may contact their respective tax offices for registration and online return filing free of cost. If legal assistance is required, the FBR field office will provide the services of a lawyer free of charge for Tax Year 2025.

The return filing date for such taxpayers is hereby extended till 30th November, 2025 in exercise of the powers conferred under Section 214A of the Income Tax Ordinance, 2001, for smooth completion of the process.

For further insight: FBR

C SALES TAX NOTIFICATIONS

1) Amendments in the Sales Tax Rules, 2006

The FBR, vide its Notification S.R.O. 2071(I)/2025 dated 3rd November, 2025, is pleased to direct that the following further amendments shall be made in the Sales Tax Rules, 2006:

In the aforesaid Rules, in Rule 150Q, after sub-rule (2), the following new sub-rule shall be added, namely:

(3) Retailers whose deductible withholding tax under sections 236G or 236H of the Income Tax Ordinance, 2001 (XLIX of 2001), during the immediately preceding period exceeds one hundred thousand Rupees or, as the case may be, five hundred thousand Rupees, shall be required to integrate their business for the purposes of clause (g) of sub-section (43A) of section 2 of the Sales Tax Act, 1990.

This entails that Retailers whose deductible withholding tax under sections 236G or 236H of the Income Tax Ordinance, 2001 exceeds the specified thresholds are mandatorily required to integrate their business.

For further insight: FBR

2) Establish of Check Posts

The FBR, vide S.R.O. 2185(I)/2025 dated 20th November, 2025, is pleased to establish check posts on routes originating from tax-exempt areas for the purposes of section 40D of the Sales Tax Act, 1990. Section 40D pertains to Provisions relating to goods supplied from tax-exempt areas.

The check posts and their respective routes are as follows:

1. Kohala Bridge Check Post — Located at Kohala Bridge, Muzaffarabad (AJK), on the route towards Murree and Abbottabad.
2. Nakoder Check Post — Located at Nakoder (Dina), Mangla Road, Mirpur (AJK), on the route towards Jhelum Road.

This entails establishment of check posts on key routes from tax-exempt areas to monitor movement of goods.

For further insight: FBR

CASE LAW: SUPREME COURT HOLDS THAT RULE 13 OF THE INCOME TAX RULES DOES NOT OVERRIDE THE MANDATORY REQUIREMENT OF “ANY REASONABLE BASIS” UNDER SECTION 67 OF THE INCOME TAX ORDINANCE, 2001

INTRODUCTION

The Hon’ble Supreme Court of Pakistan (“SCP”), in *Coca Cola Pakistan Ltd. v. Commissioner Inland Revenue* (C.P.L.A. 3169 of 2022), adjudicated a significant question concerning the apportionment of expenditures between presumptive tax regime (“PTR”) income and non-PTR (or normal tax regime, “NTR”) income under section 67 of the Income Tax Ordinance, 2001 (“2001 Ordinance”). The central issue was whether the Appellate Tribunal was justified in holding that Rule 13 of the Income Tax Rules, 2002 (“2002 Rules”) was not mandatory for purposes of expenditure apportionment under section 67(1), which requires expenditures to be apportioned on “any reasonable basis.” The Lahore High Court answered the question in favour of the Department, prompting the taxpayer to seek leave before the Hon’ble Supreme Court. The SCP converted the leave petition into an appeal and ultimately reversed the High Court’s decision.

ARGUMENTS BY THE COUNSEL FOR THE PETITIONER

Counsel for the taxpayer contended that in applying Rule 13 the Department had taken into account all expenditures including those for the manufacture of the locally sourced beverages. It was submitted that such expenditures related solely to the non-PTR income and had nothing to do with the PTR income where no manufacturing expenditures were at all incurred, the goods being sold in exactly the form as imported. On such basis it was contended that the basis for proration in terms of Rule 13 was incorrect and that the proration method adopted by the taxpayer, i.e., on gross profit basis, was reasonable within the meaning of that expression as used in s. 67(1) and that the Hon’ble High Court had erred in coming to a contrary conclusion.

ARGUMENTS BY THE COUNSEL FOR THE RESPONDENT

The Department contended that Rule 13 had to be applied, and as required by clause (a) of sub-rule (3), the proration had to be done on the basis of sales (i.e., gross receipts) in terms of the formula as therein stated. Department further contended that the learned High Court had reached the correct conclusion. It was prayed that the leave petition be dismissed.

QUESTIONS FRAMED BY THE HON’BLE SCP

The key question identified by the Hon’ble SCP for determination was:

Whether the learned Appellate Tribunal was justified to hold that Rule 13 of the Income Tax Rules, 2002 (“2002 Rules”) is not mandatory for purpose of apportionment of expenses under s. 67 of the 2001 Ordinance?

FINDINGS OF THE HON'BLE SUPREME COURT

The Hon'ble Supreme Court undertook a detailed examination of section 67 and Rule 13 to determine the proper relationship between them. Section 67(1), in mandatory terms, requires expenditures to be apportioned on "any reasonable basis," having regard to "the relative nature and size of the activities to which the amount relates." Further, section 67(2) confers a discretionary rule-making power upon the Federal Board of Revenue. The Hon'ble Supreme Court reaffirmed the settled principle that subordinate legislation cannot override, limit, or contradict the primary statute. Therefore, the rule-making power under subsection (2) cannot convert the statutory expression "any" reasonable basis into "only" the basis provided by Rule 13.

The Court held that the correct approach requires an initial determination of whether Rule 13 applies on its own terms. If applicable, Rule 13 may constitute a reasonable basis for apportionment, but it cannot be considered the exclusive basis to the exclusion of all others. The taxpayer remains entitled to demonstrate that the basis actually adopted by it is also reasonable in the facts and circumstances of the case. The Court clarified that taxpayers are not required to show that the Rule 13 basis is unreasonable, nor that their basis is more reasonable; it is sufficient if both are reasonable. Therefore, the taxpayer can adopt its own basis provided the same is reasonable in the facts and circumstances of the case.

The SCP further observed that the context was an amendment of assessment under section 122(5), which requires demonstrating escaped or under-assessed income. Where the taxpayer has already adopted a "reasonable" basis under section 67(1), the mere fact that application of Rule 13 may yield a higher tax liability does not equate to escaped income or under-assessment. Thus, the Department could not invoke section 122(5) merely because Rule 13 would increase the quantum of taxable income.

On the facts, the Court held that manufacturing and related expenses for locally produced beverages were clearly allocable to NTR income under Rule 13(2) and did not constitute "common expenditure." The Department incorrectly applied Rule 13(3)(a) by including "total admissible expenses" without first excluding expenditures exclusively attributable to NTR income. Even otherwise, the taxpayer's use of gross profit ratio constituted a reasonable basis under section 67(1). Therefore, the High Court's conclusion could not be sustained. Consequently, the appeal was allowed in favor of the taxpayer.

KEY TAKEAWAY

The Hon'ble Supreme Court has held that Rule 13 of the Income Tax Rules, 2002 does not override the statutory mandate in section 67(1) requiring expenditures to be apportioned on "any reasonable basis." Rules framed under section 67(2) may provide a reasonable basis but cannot constitute the only basis when section 67(1) expressly preserves flexibility. Accordingly, as long as the taxpayer employs a reasonable and factually supportable method of apportionment, such basis cannot be displaced merely because application of Rule 13 produces a higher tax burden.

TOTM: SMALL COMPANY AND SME TAX STRUCTURES

Small Company and SME Tax Structures

In Pakistan, paying the standard 29% corporate tax rate is not the only option for the companies. The law provides two powerful ways to lower your tax bill significantly. These are the "Small Company" status and the "SME" status.

While they sound similar, they are completely different legal categories. One is for traders and service providers, and the other is strictly for manufacturers. Below paragraphs explain exactly how each works, how to qualify, and how to stay safe during an audit.

1. The "Small Company" (For Traders & Services)

This category is a tax shelter designed for businesses that do not manufacture goods. It is ideal for software houses, consultants, retailers, and trading firms.

To qualify being a small company, the company must meet three specific conditions at the same time to claim this status. First, the paid-up capital plus reserves must stay below Rs. 50 million. Second, the annual turnover must be under Rs. 250 million. Third, the employees count must not exceed 250 employees at any time during the year.

If the company meets these conditions, the income tax rate will be 20% instead of 29%. This is a direct 9% saving compared to the standard corporate tax rate.

However, a small company is still required to pay Minimum Tax under Section 113. This means if your business makes a loss or has very low profits, the company is still required to pay a minimum tax of 1.25% of the total turnover.

2. The "SME" Regime (For Manufacturers Only)

This category was created specifically to help industries grow. It is exclusively for businesses that produce, manufacture, or assemble goods.

The rules here are simpler. The business mainly needs to be a manufacturer with an annual turnover of up to Rs. 250 million. Unlike the Small Company category, there is no strict cap on the paid-up capital or number of employees.

SMEs get a unique advantage. They can choose between two different ways to pay tax.

- Option A (Tax on Profit): the business pays tax on its net income. If the turnover is up to Rs. 100 million, the rate is just 7.5%. If it is between Rs. 100 million and Rs. 250 million, the rate is 15%.
- Option B (Fixed Tax on Sales): You can choose to ignore your profit and pay a tiny percentage of your total sales as a final tax. The rate is 0.25% of the turnover if the turnover does not exceed Rs. 100 million; or 0.5% of turnover if it exceeds Rs. 100 million.

SMEs enjoy benefits that Small Companies do not. The biggest one is that SMEs are exempt from Minimum Tax. If you are a manufacturer and you make a loss, you generally pay zero income tax. Also, if you choose the fixed tax option (Option B), you are generally safe from detailed audits regarding your expenses. Similarly, the tax deductible under clause (a) of sub-section (1) of section 153 is not minimum tax where payments are received on sale or supply of goods by SMEs.

However, SMEs who opt for taxation under option A above may be selected for tax audit through risk based parametric computer ballot under section 214C of the Ordinance if its tax to turnover ratio is below tax rates given under option B above.

Conclusion

Feature	Small Company	SME (Manufacturer)
Business nature	Traders, Services, Others	Manufacturers Only
Tax Rate	Flat 20% on taxable income	<ul style="list-style-type: none"> 7.5% or 15% on income; or 0.25% or 0.5% on turnover
Minimum Tax	Applicable	Exempt
Tax Deductible u/s 153	Minimum	Not minimum
Capital Limit	Must be < Rs. 50 Million	No Limit



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