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CASE LAW: Hon'ble Lahore High Court ("LHC") holds that a recipient of services cannot be held liable to pay Punjab Sales Tax under Section 52 of the Punjab Sales Tax on Services Act, 2012 ("the Act") merely because it maintains a registered office in Punjab. The liability to deduct or withhold tax depends on actual provision or receipt of taxable services within Punjab.

TOTM: Geographical Source Of Income

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 of the Hon'ble Lahore High Court ("LHC"), wherein the Hon'ble LHC held that the Hon'ble ATPRA erred in upholding the initiation of proceedings under Section 52 of the Act against the Appellant Company, despite the absence of any statutory authority permitting such proceedings against a service recipient, and further held that reliance on the Withholding Rules, 2015 is misplaced, as subordinate legislation cannot enlarge or create a substantive tax liability not contemplated by the parent statute.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Geographical Source of Income". The said topic gives a brief overview of how the geographical source of income is determined under Section 101 of the Income Tax Ordinance, 2001, and why correct classification of income as Pakistan source or foreign source is critical for determining tax liability, reporting obligations, and entitlement to foreign tax credit.

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) Revision of Value of Immovable Properties of Islamabad

The FBR, vide S.R.O. 163(I)/2026, dated 2nd February, 2026, is pleased to notify revised fair market values of immovable properties in Islamabad. The said notification has been issued in supersession of S.R.O. 2392(I)/2025 dated 8th December, 2025.

The earlier S.R.O. 2392(I)/2025 had determined the fair market values of immovable properties in Islamabad, including sector-wise rates for residential and commercial plots, apartments, flats, shops and superstructures

Under the said notification, the fair market values of residential and commercial properties in various sectors and housing schemes of Islamabad have been redetermined as specified in the Table annexed thereto, and the value of residential and commercial superstructure shall be Rs. 3,000 per square foot where the superstructure is up to five years old and Rs. 1,500 per square foot where the superstructure is more than five years old.

Further, valuation of Rural Areas of Islamabad Capital Territory shall be taken as notified vide No. 1-69/I(182)/DRA dated 01-07-2025 by the Additional Deputy Commissioner (Revenue)/District Collector, Islamabad, and in case of conflict in rates of a particular area, the higher of the two values shall apply.

This entails that the FBR has revised the valuation benchmarks applicable under section 68 of the Income Tax Ordinance, 2001, and these updated rates shall be used for tax purposes in respect of immovable properties situated in Islamabad, with the higher rate applying in case of any conflict.

For further insight: FBR

2) Amendment in its Notification No. S.R.O 1712(I)/2024 dated 29th October, 2024 (Property Valuation - Sialkot)

The FBR vide S.R.O. 265(I)/2026 dated 11th February, 2026, is pleased to notify amendments in its Notification No. S.R.O. 1712(I)/2024 dated 29th October, 2024.

The earlier S.R.O. 1712(I)/2024 had determined the fair market values of immovable properties in specified areas of Sialkot, Pasrur and Daska.

Under the said notification, in Table-I, in column (1), against Sr. No. 6 (Adalat Garha – Behind), in columns (3) and (4), the figures “27,574” and “31,574” have been substituted with the figures “2,757” and “5,735” respectively.

This entails that the previously notified fair market values for Adalat Garha (Behind) have been revised downward through substitution of the earlier figures, and the amended rates shall now apply accordingly

For further insight: FBR

3) Online Integration of Business

The FBR, vide S.R.O. 288(I)/2026, dated 18th February, 2026, has published a draft of proposed amendments in the Income Tax Rules, 2002, inviting objections or suggestions within seven days of publication in the official Gazette.

Under the said draft notification, Chapter VIIA of the Income Tax Rules, 2002 has been proposed to be substituted in entirety with a new Chapter titled “Online Integration of Businesses”.

The draft amendments seek to comprehensively regulate the online integration of specified businesses with the FBR’s computerized system, including mandatory registration, installation and integration of electronic invoicing hardware and software, real-time issuance of verifiable electronic invoices bearing unique FBR invoice numbers and QR codes, transmission of invoice data to FBR, maintenance of electronic records for six years, and compliance with technical, audit and reporting requirements.

The draft further provides for licensing of integrators, prescribes eligibility criteria and procedures for grant, renewal, suspension and cancellation of licenses, designates PRAL to act as a licensed integrator, introduces obligations regarding online marketplaces, CCTV recording, digital payments integration, and prescribes consequences for non-compliance including penal action.

A Schedule has also been proposed specifying categories of businesses required to integrate (including restaurants, hotels, medical service providers, laboratories, courier services and cargo services, retailers, health clubs, gyms physical fitness centers, swimming pools and multipurpose clubs, photographers, videographers and event managers, Accountants, foreign exchange dealers, private educational institutions, etc.), along with exclusions inter alia based on air-conditioning facility, fee thresholds, electricity consumption, size of premises.

This entails a significant expansion and formalization of the electronic invoicing and business integration regime, aimed at real-time reporting of sales, enhanced enforcement, and strengthened tax documentation across aforementioned sectors.

For further insight: FBR

4) Amendments in Notification No. S.R.O 163(I)/2026 dated 02-02-2026

The FBR, vide S.R.O. 332(I)/2026 dated 24th February, 2026, has issued further amendments to its earlier Notification S.R.O. 163(I)/2026 dated 2nd February, 2026, regarding the fair market values of certain properties in Islamabad.

Under this amendment, the values of residential and commercial properties have been revised as follows:

For Naval Anchorage, open residential plots with possession are valued at Rs. 20,000 per square yard and built-up apartments at Rs. 13,774 per square foot, while plots without possession are valued at Rs. 8,000 per square yard and Rs. 8,000 per square foot for built-up apartments.

Further, for Agro/Poultry/Vegetable Farms, Naval Farms with possession are valued at Rs. 2,000,000 per kanal (500 square yards) and those without possession at Rs. 800,000 per kanal.

These revised values reflect the current market rates applicable to these areas, ensuring consistency with previously notified property valuations.

For further insight: FBR

PUNJAB REVENUE AUTHORITY (“PRA”) NOTIFICATIONS

1) Food Delivery Platforms / Third Party Delivery Service Providers as "Collecting Agent

The PRA, vide Notification No. PRA.32-24/2026//3/3 dated 19th February, 2026, has specified all Food Delivery Platforms and Third-Party Delivery Service Providers as “Collecting Agents” under section 14A of the Punjab Sales Tax on Services Act, 2012 (“the Act”).

These Collecting Agents shall be responsible for collecting and depositing tax on taxable services provided by restaurants, cafes, food parlors, coffee shops, deras, food huts, eateries, resorts, and similar ready-to-eat food service outlets

The rates specified in the notification: 5% without input tax adjustment if received through debit/credit cards, mobile wallets, or QR scanning, and 16% percent for other payments.

The notification further clarifies that all matters related to payment, assessment, recovery, record-keeping, and arrears of tax will be governed under the Act and the rules made thereunder, and any updates to the table entries will be communicated to the Collecting Agents.

Further, the Collecting Agents are required to ensure compliance with section 59B of the Act read with the Punjab Electronic Invoice Monitoring System Rules, 2012.

This notification entails that all Food Delivery Platforms/Third-Party Delivery Service Providers in Punjab shall be responsible for collecting and depositing Punjab sales tax on behalf of restaurants and food service providers, at the specified rates

For further insight: PRA

CORPORATE NOTIFICATIONS (SECP)

1) Draft Amendments to Companies Regulations, 2024

The Securities and Exchange Commission of Pakistan (“SECP”), has, vide S.R.O. 327(I)/2026 dated 19th February, 2026, published a draft of proposed amendments to the Companies Regulations, 2024 for the information of all persons likely to be affected, inviting objections or suggestions within fourteen days of placement on the Commission’s website.

Under the said draft notification, Regulation 44 of the Companies Regulations, 2024 has been proposed to be substituted in its entirety to “44. Issuance of shares in book-entry form” to mandate that all newly incorporated companies issue shares only in book-entry form, and all existing unlisted companies convert their physical shares into book-entry form.

For further insight: SECP

2. Replacement of physical shares into book entry

The SECP, vide S.R.O. 328(I)/2026 dated 19th February, 2026, has notified that all unlisted companies having share capital shall replace their physical shares with book-entry form prior to undertaking any share-related transaction, including allotments, transfers, bonus shares, rights issues, or buy-backs. All such transactions are to be executed exclusively through the Central Depository System, with the relevant statements from the CDS attached to applicable statutory returns, including Form-3, Form-A, and Form-27, to reflect changes in shareholding.

For further insight: SECP

CASE LAW: HON'BLE LAHORE HIGH COURT ("LHC") HOLDS THAT A RECIPIENT OF SERVICES CANNOT BE HELD LIABLE TO PAY PUNJAB SALES TAX UNDER SECTION 52 OF THE PUNJAB SALES TAX ON SERVICES ACT, 2012 ("THE ACT") MERELY BECAUSE IT MAINTAINS A REGISTERED OFFICE IN PUNJAB. THE LIABILITY TO DEDUCT OR WITHHOLD TAX DEPENDS ON ACTUAL PROVISION OR RECEIPT OF TAXABLE SERVICES WITHIN PUNJAB.

INTRODUCTION

The Hon'ble LHC decided a reference application filed under Section 67A of the Act arising out of the order dated 25.02.2025 passed by the Hon'ble Appellate Tribunal Punjab Revenue Authority, Lahore ("ATPRA").

The applicant, a wind energy company operating in Sindh with a registered office in Rawalpindi, was issued a show-cause notice dated 15.06.2016 alleging failure to withhold Punjab Sales Tax on services received from contractors between 01.07.2014 and 30.06.2015, and further failure to file the requisite returns/withholding statements. The Assessing Officer passed an Order-in-Original ("OIO") on 05.01.2017, later partially upheld by the Hon'ble ATPRA whereby penalty imposed by way of order dated 16.09.2021 passed by the Commissioner (Appeals), Punjab Revenue Authority was set aside. The Appellant Company challenged the authority of Punjab Revenue Authority ("PRA") to levy tax on services received outside Punjab.

ARGUMENTS BY THE COUNSEL FOR THE APPELLANT COMPANY

Learned counsel for the Appellant Company argued that the OIO was barred by limitation under Section 52(4) of the Act as the OIO was passed on 05.01.2017, beyond the prescribed statutory period of six months and that the Appellant Company was not territorially liable under Section 3(3) since the services were received in Sindh, where the sales tax had already been duly withheld and deposited.

Counsel further contended that the Appellant Company was merely a recipient of services and not a service provider, and that the demand raised was premised on a misreading and misapplication of Section 4(1) of the Act, which does not create any tax liability upon a recipient of services, and even where tax is erroneously charged by a service provider located in another province, the obligation to pay such tax lies exclusively upon the service provider and not upon the recipient. It was further emphasized that the Appellant Company was not registered in terms of Section 4(2) of the Act during the relevant period, and therefore no recovery proceedings could be initiated against it in the capacity of a withholding agent.

The Counsel also submitted that the Hon'ble ATPRA fell in error in holding that mere residency or maintenance of a registered office in Punjab, as per f Section 2(35)(b) of the Act, ipso facto created tax liability.

ARGUMENTS BY THE COUNSEL FOR THE RESPONDENTS

The Hon'ble LHC decided a reference application filed under Section 67A of the Act arising out of the order dated 25.02.2025 passed by the Hon'ble Appellate Tribunal Punjab Revenue Authority, Lahore ("ATPRA").

The applicant, a wind energy company operating in Sindh with a registered office in Rawalpindi, was issued a show-cause notice dated 15.06.2016 alleging failure to withhold Punjab Sales Tax on services received from contractors between 01.07.2014 and 30.06.2015, and further failure to file the requisite returns/withholding statements. The Assessing Officer passed an Order-in-Original ("OIO") on 05.01.2017, later partially upheld by the Hon'ble ATPRA whereby penalty imposed by way of order dated 16.09.2021 passed by the Commissioner (Appeals), Punjab Revenue Authority was set aside. The Appellant Company challenged the authority of Punjab Revenue Authority ("PRA") to levy tax on services received outside Punjab.

QUESTION FOR DETERMINATION

A. Whether the "PRA" has authority to charge and collect sales tax under the "Act" on services received outside the territory of the Province of Punjab. Pertinently, the scope, application and legal import of Section 52 of the "Act" read with Rule 14 of the Withholding Rules, 2012 & 2015?

FINDINGS OF THE HON'BLE LAHORE HIGH COURT

The Hon'ble LHC observed that Section 52 of the Act relates to recovery of tax not levied or short-levied, which is applicable only after proper notice is given to showcause u/s 52(1) under the Act. Liability to pay sales tax under Sections 11, 24, and 52 of the "Act" is exclusively fastened on a registered service provider, and mere status as a recipient or presence of a registered office in Punjab does not create substantive tax liability.

The Hon'ble LHC relied on precedents (2025 PTD 864, 2025 PTD 255 etc) which support the principle that tax recovery cannot be enforced against a service recipient without statutory authority.

It was further held that the Hon'ble ATPRA erred in law holding the establishment of IPPs in Sindh and the sale of electricity therein has no nexus with the controversy. The Hon'ble LHC held that the place where services are rendered and received, and the territorial nexus of the taxable event, are foundation to the assumption of jurisdiction under the Act.

It was also held by the Hon'ble LHC that the Hon'ble ATPRA had erred in upholding the initiation of proceedings under Section 52 of the Act against the applicant, despite the absence of any statutory authority permitting such proceedings against a service recipient. Moreover, the Hon'ble LHC also held that the reliance placed on the Withholding Rules, 2015 is misplaced, as subordinate legislation cannot enlarge or create a substantive tax liability not contemplated by the parent statute. It was concluded by the Hon'ble LHC that the Hon'ble ATPRA erred in sustaining the impugned proceedings against the Company and by affirming the jurisdiction of the Punjab Revenue

TOTM: GEOGRAPHICAL SOURCE OF INCOME

Many taxpayers face confusion when they earn income across borders. A freelancer in Lahore invoices a client in Germany. A consultant travels to Qatar for short projects. A resident individual holds shares in a foreign company and receives dividends abroad. In each case, the same question arises. Is this Pakistan source income or foreign source income.

People often focus on where the money is received or which bank account is used. Section 101 of the Income Tax Ordinance, 2001 shifts the focus to a different test. It asks where the income is generated, where the activity takes place, or where the asset is located. This distinction is critical because the tax treatment depends on it.

Salary income is sourced where the services are performed. If you work physically in Pakistan, your salary is Pakistan source income even if your employer is based abroad and pays you in foreign currency. If you perform services outside Pakistan, the salary relates to foreign source income. For instance, if a Pakistani resident works in Saudi Arabia for a year, the salary for services rendered there is foreign source income. The place of payment does not change this result.

Business income depends on where the business activities are carried out. If you operate a business in Pakistan, profits attributable to those activities are Pakistan source income. For non residents, income becomes taxable in Pakistan when it is attributable to a permanent establishment in Pakistan. For example, if a foreign engineering company executes a project through a site office in Karachi, the profits linked to that office are Pakistan source income.

Income from property follows the location of the property. Rent from real estate in Islamabad is Pakistan source income. Rent from a flat in Malaysia is foreign source income. This rule applies whether you are an individual or a company.

Dividend income is sourced where the paying company is resident. If a Pakistani company distributes profits, the dividend is Pakistan source income. If a UK company declares a dividend, the income is foreign source. The same principle applies to profit on debt. Interest is generally sourced where the borrower resides or where the funds are used.

Royalty and fee for technical services depend on where the right is used or where the services are performed. If technical services are performed in Pakistan, the income has a Pakistan source. If the right is exploited in Pakistan, royalty becomes Pakistan source income, even if the contract is signed abroad.

Capital gains require careful review. Gain on disposal of immovable property is sourced where the property is located. Gain on shares of a Pakistani company is Pakistan source income. If you sell shares of a foreign company or foreign real estate, the gain is foreign source income.

After identifying the source, you must consider residency under the Ordinance. A resident person is taxed on worldwide income. This includes both Pakistan and foreign source income. A non resident is taxed only on Pakistan source income. Therefore, correct classification affects both tax liability and reporting obligations.

Section 101 also plays a key role in double taxation situations. If you earn foreign source income and pay tax abroad, you may claim foreign tax credit in Pakistan, subject to conditions. Without proper classification, you risk either overpaying tax or facing penalties for underreporting.

You should review each income stream separately. Do not assume that foreign currency or an overseas bank account makes income foreign source. Examine where services were performed, where property is located, where the company is resident, and where business activities are carried out. Maintain contracts, travel records, and supporting documents to substantiate your position.

Section 101 provides a structured framework. When applied correctly, it removes uncertainty and helps you comply with the law while managing cross border tax exposure in a disciplined manner.



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