



TAXPAK

Newsletter By Tola Associates

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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 of the Hon'ble Islamabad High Court ("IHC"), wherein the Hon'ble IHC held that penalty under Section 33 of the Sales Tax Act, 1990 cannot be imposed in the absence of a specific machinery provision.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "Tax Audit Triggers and Risk Management in Pakistan". The said topic gives a brief overview of how the FBR uses data-driven systems to trigger tax audits and how taxpayers can proactively manage and reduce audit risk.

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) Further amendments in S.R.O 1216(I)/2025 dated 08.07.2025

The FBR, vide S.R.O. 455(I)/2026, dated 5th March 2026, was pleased to communicate an amendment in its earlier Notification No. S.R.O. 1216(I)/2025 dated 8th July, 2025.

The earlier S.R.O. 1216(I)/2025 had introduced clause (9AD) in Part II of the Second Schedule, whereby withholding tax under section 148 on commercial imports of white crystalline sugar (up to 500,000 metric tons) was reduced to 0.25%, subject to specified conditions, including a prescribed cut-off date.

Through the said amendment, in condition (iii) of the said clause, the expression “30th day of November, 2025” has been substituted with “28th day of February, 2026”.

This entails that the deadline to avail the concessional withholding tax rate of 0.25% on import of sugar has been extended up to 28th February, 2026, subject to fulfillment of the prescribed conditions.

For further insight: FBR

B. SALES TAX NOTIFICATIONS

1) Extension in Exemption of Sales Tax on Import of White Crystalline Sugar

The FBR, vide S.R.O. 527(I)/2026, dated 19th March 2026, has made an amendment in its earlier Notification No. S.R.O. 1217(I)/2025 dated 8th July, 2025.

The earlier S.R.O. 1217(I)/2025 had allowed exemption from sales tax on the supply of white crystalline sugar, subject to specified conditions, including a prescribed cut-off date for availing the exemption.

Through the instant amendment, in condition (iii), the expression “30th day of November, 2025” has been substituted with “28th day of February, 2026”.

This entails that the deadline for fulfillment of the prescribed condition to avail the sales tax exemption has been extended up to 28th February, 2026, subject to compliance with the stipulated conditions.

For further insight: FBR

C. SALES TAX GENERAL ORDER

1) Issuance of Electronic Sales Tax Invoices and Integration of Registered Persons

The FBR, vide its Sales Tax General Order No. 01 of 2026/IR Operations bearing letter no. C.No.1(190) ST-L&P/2026/35900-R dated 30th March, 2026, has issued directions regarding integration of electronic invoicing systems and issuance of electronic sales tax invoices.

SRO. 1413(I)/2025 dated 01.08.2025 mandates integration of sales tax registered persons with its computerized system through licensed integrators for real-time reporting of sales, and the difficulties arising due to involvement of multiple licensed integrators.

Therefore, the following directives have been issued in order to streamline the procedure:

1. A registered person may engage one or more licensed integrators, as approved or notified by the Board, for integration of its electronic invoicing hardware and software with the FBR's computerized system.
2. An integrated person shall be allowed to cancel, delete, or edit a valid electronic sales tax invoice generated due to a bona fide mistake within seventy-two (72) hours from the time of its generation.
3. Any cancellation, deletion, or editing of an electronic sales tax invoice after the expiry of seventy-two (72) hours shall require prior approval of the concerned Commissioner Inland Revenue, subject to the manner and conditions as may be specified by the Board.

This entails that the FBR has introduced flexibility in engagement of multiple licensed integrators while simultaneously imposing a time limit of 72 hours for correction of electronic invoices, beyond which approval of the Commissioner shall be required.

CASE LAW: HON'BLE ISLAMABAD HIGH COURT ("IHC") HOLDS THAT PENALTY UNDER SECTION 33 OF THE SALES TAX ACT, 1990 CANNOT BE IMPOSED IN THE ABSENCE OF A SPECIFIC MACHINERY PROVISION.

INTRODUCTION

The Hon'ble IHC decided a series of reference applications filed under Section 47 of the Sales Tax Act, 1990 ("STA") arising out of various orders passed by the Hon'ble Appellate Tribunal Inland Revenue ("ATIR"), wherein common questions of law were involved.

The respondents, comprising various Tier-1 retailers and corporate entities, were issued show-cause notices under Section 11 of the STA alleging failure to integrate their retail outlets with FBR's computerized system for real-time reporting of sales in terms of Section 40C read with Rule 150ZEA and SRO 1203(I)/2019, as well as, in certain cases, delayed filing of returns and payment of tax under Sections 2(9) and 26(1). Orders-in-Original were passed imposing penalties under Section 33, which were upheld by the Commissioner (Appeals) ("CIRA") but subsequently set aside by the Hon'ble ATIR. The Department challenged the ATIR's orders before the Hon'ble IHC.

Learned counsel for the taxpayers primarily relied upon the judgment of the Hon'ble Supreme Court of Pakistan ("SCP") in *Allama Iqbal Open University v. Commissioner Inland Revenue* (Civil Petition No. 4579 of 2023), wherein it was held that by taxpayer could not be saddled with the responsibility of being a withholding agent prior to the introduction of Section 11(4A) through Finance Act, 2016 and the rules which were referred to could not be said to have been framed with reference to or in pursuance to Section 11(4A) of the Sales Tax Act and that such provision could not be pressed into service in respect of show cause notice which were issued prior to the Finance Act, 2016.

QUESTION FOR DETERMINATION

- 1) Whether the penalties prescribed in the Table contained in Section 33 may be imposed in the absence of machinery provisions by issuing show cause notice under Section 11 of the Sales Tax Act when none of the sub-sections of Section 11 of the Sales Tax Act apply to the alleged offences i.e. violation of Sections 40C or 26(1) of the Sales Tax Act.

FINDINGS OF THE HON'BLE ISLAMABAD HIGH COURT

The Hon'ble IHC held that penalties under Section 33 of the STA cannot be imposed in the absence of a specific machinery provision, and that show cause notices issued under Section 11 for alleged violations of Sections 40C and 26(1) are without lawful authority. Relying on the judgment of the Hon'ble SCP in Allama Iqbal Open University wherein the Hon'ble SCP held that a taxpayer could not be saddled with withholding obligations prior to the insertion of the enabling provision i.e. Section 11(4A). Applying the same principle, it was held that the Applicants failed to identify any machinery provision under Section 11 or elsewhere to justify the imposition of penalties under Section 33. Therefore, the question framed was answered in the negative and in favour of the taxpayers and the Sales Tax Reference Applications were dismissed, reaffirming that statutory penalties must be supported by a valid enabling provision.



TOTM: TAX AUDIT TRIGGERS AND RISK MANAGEMENT IN PAKISTAN

Tax audits in Pakistan are rarely a matter of bad luck; they are increasingly the result of a sophisticated, data-driven "risk-based" selection process. Instead of waiting for a notice from the Federal Board of Revenue ("FBR") to arrive, a more sustainable strategy involves understanding how the system flags your profile and addressing those vulnerabilities before they surface.

The FBR's IRIS system essentially cross-references your declarations against a vast web of third-party data, including bank records, property registries, and provincial tax authorities. When your declared income fails to support your actual lifestyle, evidenced by luxury vehicle registrations, high electricity bills, or frequent international travel, the system automatically pushes your profile up the risk scale. Under Section 111 of the Income Tax Ordinance, 2001, any unexplained wealth or expenditure can be treated as income, making it vital to maintain a documented trail for major purchases, loans, or gifts from family members.

Beyond personal lifestyle mismatches, internal inconsistencies between different tax filings are among the quickest ways to trigger an audit. A common pitfall is the discrepancy between sales reported in income tax returns versus those in monthly sales tax returns. The FBR's Computerized Risk-based Evaluation of Sales Tax (CREST) system is designed specifically to catch these gaps, along with excessive or unusual input tax adjustments. Businesses often find themselves under fire for claiming credits from suppliers who are inactive or blacklisted, or for having withholding tax claims that don't match the FBR's web portal data. To mitigate this, firms must perform monthly reconciliations of their withholding statements and sales figures across all platforms before hitting the "submit" button.

The financial health and logic of your business also play a significant role in audit selection. If a company consistently reports "abnormal" profit margins that fall significantly below industry benchmarks, or if it declares losses year after year, it suggests to the tax office that income is being suppressed. Similarly, high-value transactions flagged through bank reporting, such as large cash deposits or unexplained credits, will almost certainly lead to a query. Managing this risk requires more than just filing papers; it demands a robust "audit trail" where every number in a return is backed by a management account, a bank statement, or a market analysis that justifies business decisions.

Strategic risk management also involves looking at "compliance behavior" as a long-term asset. Frequent late filings or a history of non-compliance creates a "high-risk" tag that persists across tax years. By ensuring that filings are punctual and consistent, taxpayers can build a lower-risk profile over time.

Furthermore, businesses should pay close attention to director or partner loan accounts and related-party transactions, as these are frequent targets for transfer pricing audits. Instead of manual, disjointed records, adopting modern accounting software that maintains a clear history of entries can save a company from the panic of a retrospective audit. Ultimately, the goal is to shift from a reactive scramble to a disciplined, proactive stance where documentation and internal quarterly reviews serve as the first line of defense.

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