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www.tolaassociates.com
www.tolaandtola.com

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CONTRIBUTORS

Mr. Muhammad Furqan ACA
Head of Editorial Board

Mr. M.Amayed Ashfaq Tola
Co-Head of Editorial Board

Barrister Asad Ashfaq Tola
Co-Head of Editorial Board

Mr. Syed Affan Akhtar
Contributor

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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. Alhamdulilah, 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 Appellate Tribunal Inland Revenue ("ATIR"), wherein the Hon'ble ATIR held that tax under Section 4C is to be levied on aggregate income and that current year business losses are allowable for set-off for the purposes of Super Tax.

Towards the end of the newsletter, we have discussed our Topic of the month titled as "What is a "Dividend" Under Pakistani Tax Law? More Than You Might Think". The said topic gives a brief overview of the broad meaning of "dividend" under Pakistani tax law.

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) Insertion of new chapter-IIA, in respect of Special Procedure for Taxation of Persons Earning Income from Remunerative Social Media Content.

The FBR, vide S.R.O. 546(I)/2026 dated 1st April, 2026, has proposed draft amendments in the Income Tax Rules, 2002 The proposed amendments seek to introduce a new Chapter IIA, prescribing a special procedure for taxation of persons earning income from remunerative social media content.

The following changes are proposed :

1) The proposed rules shall apply to resident persons earning income through interaction with users in Pakistan via social media platforms.

2) Minimum income shall be computed as total remuneration less expenses, where allowable expenses are capped at 30% of total revenue.

3) Total remuneration shall be the higher of: (i) revenue calculated based on prescribed formula (RPM × average views × total posts), or (ii) actual income received in cash or kind. The RPM has been prescribed at PKR 195 per 1,000 views.

4) Quarterly advance tax shall be payable under section 147 based on the income computed under the proposed rules.

5) Such income shall be declared in a separate section of the income tax return. In cases of under-declaration, the Commissioner shall be empowered to rectify the return and recover the due tax.

6) Key terms including "social media platform", "social media content", and "remunerative social media content" have been defined to provide clarity and scope.

This entails that a formal mechanism is being introduced to tax income earned from digital and social media activities, with a minimum income threshold based on standardized metrics, thereby bringing influencers and content creators within a structured tax regime and broadening the tax base.

For further insight: ***FBR***

2) Insertion of new chapter-VA, in respect of Special Procedure for Taxation of Persons Earning Income from Remunerative Social Media Content

The FBR, vide S.R.O. 545(I)/2026 dated 1st April, 2026, in exercise of powers conferred under section 99C read with clause (b) of sub-section (3B) of section 101 and section 237 of the Income Tax Ordinance, 2001, has proposed draft amendments in the Income Tax Rules, 2002, for public consultation.

The proposed amendments seek to introduce a new **Chapter VA,** prescribing a special procedure for taxation of non-resident persons earning income from remunerative social media content.

The following changes are proposed :

1) The proposed rules shall apply to non-resident persons deriving income from interaction with users in Pakistan through social media platforms, to the extent such income constitutes Pakistan-source income under section 101(3B)(b), subject to prescribed thresholds.

2) A non-resident shall be considered to have a significant digital presence where the number of users exceeds 50,000 during a tax year or 12,250 users during a quarter, for the purposes of "systemic and continuous soliciting of business activities or engaging in interaction through digital means."

3) Minimum income shall be computed as total remuneration less expenses, where allowable expenses are capped at 30% of total revenue.

4) Total remuneration shall be the higher of: (i) revenue calculated based on prescribed formula (RPM × average views × total posts), or (ii) actual income received in cash or kind. The RPM has been prescribed at PKR 195 per 1,000 views.

5) Quarterly advance tax shall be payable under section 147 based on the income computed under the proposed rules.

6) Such income shall be declared in a separate section of the income tax return. In cases of under-declaration, the Commissioner shall be empowered to rectify the return and recover the due tax.

7) Key terms including "social media platform", "social media content", and "remunerative social media content" have been defined to provide clarity and scope.

This entails that non-resident digital content creators and platforms interacting with Pakistani users may be brought within the tax net through a defined digital presence threshold and a standardized income computation mechanism, thereby expanding the scope of Pakistan-source income in the digital economy.

For further insight: ***FBR***

3) Valuation of Immoveable Property, Islamabad

The FBR, vide S.R.O. 644(I)/2026 dated 16th April, in supersession of S.R.O. 163(I)/2026 dated 2nd February, 2026 and S.R.O. 332(I)/2026 dated 24th February, 2026, has notified revised fair market values of immovable properties in Islamabad.

The earlier notifications prescribed fair market values for various sectors and categories of immovable properties in Islamabad, which have now been revised and updated through the said notification.

The following changes have been made:

1) The value of residential and commercial superstructure has been set at Rs. 2,500 per square foot where the structure is up to five years old, and Rs. 1,200 per square foot where the structure exceeds five years of age.

2) The valuation of rural areas of Islamabad Capital Territory shall continue to be determined in accordance with the rates notified by the Additional Deputy Commissioner (Revenue)/District Collector Islamabad vide notification dated 1st July, 2025.

3) In case of any conflict between prescribed values for a particular area, the higher of the two values shall be applicable.

4) A comprehensive table has been issued specifying fair market values for residential plots, commercial plots, flats/apartments, and commercial built-up properties across various sectors and zones of Islamabad.

This entails that updated fair market values for immovable properties in Islamabad have been updated and revised for tax purposes.

*For further insight: **FBR***

4) Valuation of Immovable Property, Faisalabad

The FBR, vide S.R.O. 651(I)/2026 dated 21st April, 2026, has amended its earlier Notification No. S.R.O. 1688(I)/2024 dated 29th October, 2024. The earlier notification prescribed fair market values of immovable properties in Faisalabad.

The following changes have been made:

1) A large number of entries in the valuation table (S. Nos. 28686, 30703 to 49733) have been substituted.

This entails that updated fair market values for immovable properties in Faisalabad have been updated and revised for tax purposes.

*For further insight: **FBR***

5) Valuation of Immovable Property, Gujranwala

The FBR, vide S.R.O. 653(I)/2026 dated 21st April, 2026, has amended its earlier Notification No. S.R.O. 1691(I)/2024 dated 29th October, 2024. The earlier notification prescribed fair market values of immovable properties in Gujranwala.

The following changes have been made:

1) A large number of entries in the valuation table (including S. Nos. 120, 121, 122, 123, 1057, 1058, 1976, 2092, 2121, 2450 to 3091) have been substituted.

This entails that updated fair market values for immovable properties in Gujranwala have been updated and revised for tax purposes.

For further insight: ***FBR***

6) Valuation of Immovable Property, Bahawalpur

The FBR, vide S.R.O. 652(I)/2026 dated 21st April, 2026, has amended its earlier Notification No. S.R.O. 1730 (I)/2024 dated 29th October, 2024. The earlier notification prescribed fair market values of immovable properties in Bahawalpur.

The following changes have been made:

1) A large number of entries in the valuation table (S. Nos. 2285 to 2291, 2298, 2302, 2303, 2305 to 2308, 2474 and 2475) have been substituted.

This entails that updated fair market values for immovable properties in Bahawalpur have been updated and revised for tax purposes.

For further insight: ***FBR***

7) Valuation of Immovable Property, Multan

The FBR, vide S.R.O. 650(I)/2026 dated 21st April, 2026, has amended its earlier Notification No. S.R.O. 1729 (I)/2024 dated 29th October, 2024. The earlier notification prescribed fair market values of immovable properties in Multan.

The following changes have been made:

1) A large number of entries in the valuation table (S. Nos. 84, 257, 273, 297, 387, 418 onwards up to 10,779) have been substituted.

This entails that updated fair market values for immovable properties in Multan have been updated and revised for tax purposes.

For further insight: ***FBR***

5) Valuation of Immovable Property, Gujranwala

The FBR, vide S.R.O. 662(I)/2026 dated 22nd April, 2026, has amended its earlier Notification No. S.R.O. 1712 (I)/2024 dated 29th October, 2024. The earlier notification prescribed fair market values of immovable properties in Sialkot.

The following changes have been made:

2) A large number of entries in the valuation table (S. Nos. 113, 225, 226, 221, 228, 229, 230, 244, 265, 326, 545, 749, 180, 792 and 193) have been substituted.

This entails that updated fair market values for immovable properties in Sialkot have been updated and revised for tax purposes.

For further insight: ***FBR***

9) Rationalization of Tax Concessions on Import of White Crystalline Sugar and Withdrawal of Extended Cut-off Date

The FBR, vide S.R.O. 663(I)/2026 dated 22nd April, 2026, has rescinded certain notifications with immediate effect.

The following notifications have been rescinded:

1. S.R.O. 455(I)/2026 dated 5th March, 2026, which had reduced withholding tax under section 148 to 0.25% on commercial imports of white crystalline sugar up to 500,000 metric tons. Further, the deadline had been extended the deadline up to 28th February, 2026.

2. S.R.O. 527(I)/2026 dated 19th March, 2026, which had extended the cut-off date for availing sales tax exemption on the supply of white crystalline sugar from 30th November, 2025 to 28th February, 2026.

This entails that the withholding tax concession and the extended sales tax exemption timelines for white crystalline sugar, have now been withdrawn with immediate effect.

For further insight: ***FBR***

B. INCOME TAX CIRCULAR

1) Clarification Regarding Applicability of Withholding Tax under Section 236C in Respect of Persons Covered under Section 7F of the Income Tax Ordinance, 2001

The FBR, vide Circular No. 08 of 2025-26 IR-Policy dated 15th April, 2026, in supersession of Circular No. 7 of 2025-26 IR-Policy dated 31st March, 2026, has issued clarification regarding the applicability of withholding tax under section 236C of the Income Tax Ordinance, 2001 in respect of persons engaged in construction and development activities subject to the special tax regime under section 7F.

Section 7F prescribes a special tax regime for builders and developers, under which income is computed as a fixed percentage of gross receipts and taxed as "Income from Business". Although tax collected under section 236C is generally adjustable against capital gains, builders and developers under section 7F are taxed differently under a business income regime. As a result, deduction under section 236C cannot be effectively adjusted in such cases where no other taxable income exists, thereby creating a liquidity burden on the taxpayer.

Therefore, the following clarification has been issued:

1. Persons who have discharged their tax liability under section 7F and do not have any other taxable income under the Ordinance against which withholding tax under section 236C may be adjusted, may seek exemption from such withholding.

2. Such persons may apply to the concerned Commissioner Inland Revenue under section 159 of the ITO for issuance of an exemption certificate for non-collection of tax under section 236C on sale transactions of immovable property.

3. The Commissioner Inland Revenue shall examine such applications on a case-to-case basis and ensure fulfillment of all conditions before issuance of exemption.

4. The statutory timelines for issuance of exemption certificates shall apply. However, where an application is duly filed after fulfillment of conditions and no action is taken within seven working days, the exemption certificate shall be automatically processed and issued through IRIS.

For further insight: ***FBR***

CASE LAW: HON'BLE APPELLATE TRIBUNAL INLAND REVENUE ("ATIR") HOLDS THAT TAX UNDER SECTION 4C IS TO BE LEVIED ON AGGREGATE INCOME AND THAT CURRENT-YEAR BUSINESS LOSSES ARE ELIGIBLE FOR SET-OFF THE PURPOSE OF SUPER TAX.

INTRODUCTION

The Hon'ble ATIR decided two appeals of Tax Year 2024 and 2025, filed under Section 131 of the Income Tax Ordinance, 2001 ("ITO") arising out of orders passed by the Deputy Commissioner Inland Revenue, Lahore ("DCIR"), wherein common questions of law were involved.

The respondent issued a show-cause notice under Section 4C of the ITO, alleging the applicability of Super Tax on profit on debt earned during the relevant tax years. In response, the appellant argued that the taxpayer had lawfully adjusted business losses against profit on debt, thereby the taxable income for the said years did not meet the threshold under Section 4C read with Division IIB of Part I of the First Schedule.

However, the DCIR proceeded to pass an order determining taxable income of PKR 433,859,089 for Tax Year 2024, resulting in a tax demand of PKR 34,708,727, and taxable income of PKR 275,958,431 for Tax Year 2025, with a tax demand of PKR 8,278,753. In the order, it was asserted that the adjustment of business losses against profit on debt was unjustified under Section 4C(2), and the appellant's right to set off business losses against income from other heads was disallowed. Subsequently, the both Orders were challenged before the Hon'ble ATIR.

ARGUMENTS BY THE COUNSEL OF THE APPELLANT / TAXPAYER

The learned counsel for the appellant contended that the impugned order passed by the learned DCIR under section 4C of the Ordinance is bad in law, contrary to facts, and suffers from misinterpretation of the relevant statutory provisions. It was argued that the DCIR erroneously charged super tax on total income of Rs. 433,859,082/- amounting to Rs. 34,708,727 by misreading section 4C read with Division IIB of Part I of the First Schedule, and failed to adopt a harmonious interpretation of sections 9, 10, 11, and 56 while determining "income". It was further contended that only brought forward business losses and depreciation are disallowed under section 4C(2)(b), whereas current year business losses are fully adjustable. The appellant also argued that the DCIR wrongly restricted the definition of "income" under section 2(29), and that the DCIR has ignored binding judicial precedents issued in ITA No. 506/LB/2023 and PLD 2017 SC 99.

ARGUMENTS BY THE COUNSEL OF THE RESPONDENT / DEPARTMENT

The DR supported the impugned order.

FINDINGS OF THE HON'BLE ATIR

The Hon'ble ATIR held that the provisions of Section 4C clearly mandate that tax is to be levied on the total sum of incomes as specified therein, and not on a selective basis by isolating individual components of income. A conjoint reading of the definition of "income" with Section 9 of the ITO makes it evident that the term "taxable income" as provided in Section 4C(2)(ii) encompasses business losses incurred by the Appellant. Such losses form part of income as defined under Section 4C and are eligible to be set off against the profit on debt earned by the appellant during the relevant tax year.

Further, a plain reading of Section 4C of the ITO demonstrates that only brought-forward business losses and unabsorbed depreciation have been restricted from adjustment against taxable income and other streams of income as provided in Section 4C(2) of the Ordinance. No such restriction has been prescribed with respect to current-year business losses. Therefore, the business loss incurred under the head "Income from Business" during the relevant tax year remains eligible for set-off against other heads of income in accordance with Section 4C(2) of the ITO.

Therefore, appeal was decided in favour of the taxpayer, and the impugned orders were set aside and the demand was deleted

TOTM: WHAT IS A "DIVIDEND" UNDER PAKISTANI TAX LAW? MORE THAN YOU MIGHT THINK

When a Pakistani businessman receives a cheque from his company at year-end representing his share of profits, he instinctively calls it a dividend. He is right, of course, but the Income Tax Ordinance, 2001 (the "Ordinance") reaches farther than that instinct suggests. The statutory definition, found in section 2(19), is one of the most expansive in the Ordinance, and understanding its architecture is essential for anyone advising on corporate transactions, intercompany arrangements, or the restructuring of closely-held com panies.

At its core, the definition captures any distribution by a company to its shareholders out of accumulated profits, whether the distribution is in the form of cash, property, debentures, or shares. This baseline already departs from the commercial understanding in an important respect, i.e. it is not limited to money. A company that transfers an asset to its shareholder as a return on the investment may well be making a dividend payment for tax purposes even if no cash changes hands.

The statutory definition is not a reflection of what lawyers or accountants call a dividend. It is a fiscal concept, shaped by the imperative to prevent accumulated profits from escaping the tax net through distributional creativity.

Section 2(19) then extends the concept in several directions that surprises taxpayers and practitioners alike. Any distribution to shareholders upon liquidation, dissolution, or winding-up of a company is treated as a dividend to the extent that the distribution is attributable to accumulated profits. This is consistent with international practices. The accumulated earnings of a company cannot be extracted tax-free simply because the vehicle for extraction is a liquidation rather than a declared dividend. The portion of a liquidation distribution that represents a return of paid-up capital, however, falls outside the definition, which reflects the principle that a shareholder recovering his own contribution should not be taxed as though he is receiving income.

Perhaps the most commercially significant extension of the definition involves debentures, bonds, and other instruments issued by a company to its shareholders. Where such instruments are issued in lieu of a cash dividend, that is, where the shareholders receive paper rather than money, the transaction is treated as a dividend at the time of issuance. This prevents a straightforward technique that would otherwise allow companies to defer or avoid dividend tax by capitalising accumulated profits into debt instruments held by the same shareholders who would otherwise have received the earnings in cash.

Deemed Dividends and Bonus Shares

Two deemed dividend provisions deserve particular attention because they operate in contexts that practitioners often do not associate with dividend taxation at all. The first concerns bonus shares. Where a company issues bonus shares out of its accumulated profits, the issuance constitutes a dividend under the Ordinance. The shareholder receives no cash and indeed receives an additional equity interest, yet a tax charge arises. The rationale is that the accumulated profits have been capitalised, and the shareholder has thereby received value equivalent to what he would have received had those profits been distributed in cash and reinvested. The Federal Board of Revenue has historically treated the face value of the bonus shares as the measure of the dividend, though disputes have arisen over whether market value or a different basis ought to apply.

The second deemed dividend provision is aimed at loans and advances made by private companies to their shareholders or to concerns in which shareholders hold a substantial interest. Where a private company extends a loan or advance to a shareholder and the loan is not repaid within a prescribed period, it is treated as a dividend in the hands of the recipient. This provision closes what would otherwise be an obvious planning opportunity. A closely-held company sitting on retained earnings could simply lend those earnings to its owner-shareholders indefinitely, allowing them to enjoy the economic benefit of the profits without triggering dividend tax. The deemed dividend treatment on loans is therefore a targeted anti-avoidance measure, though its application requires careful attention to whether the recipient is indeed a shareholder and whether the advance has the character of a genuine commercial loan or something else.

Payments Made to Non-Residents

The definition also has particular relevance in a cross-border context. Pakistan taxes dividends at source under section 150, which requires a company to withhold tax at the applicable rate at the time of payment. The rate applicable to non-residents may be modified by a double tax treaty, and Pakistan's treaty network, which includes agreements with the United Kingdom, the United Arab Emirates, China, and numerous other jurisdictions, frequently provides for reduced withholding rates on dividends. However, the treaty rate is only available if the payment qualifies as a dividend both under domestic law and under the treaty, and the two definitions do not always coincide. Practitioners advising multinational groups on profit repatriation from Pakistan must reconcile this gap carefully.

What the Definition Excludes

As important as what the definition includes is what it excludes. The Ordinance does not treat a repayment of genuine share capital as a dividend. Similarly, distributions made from a share premium account, being amounts paid by shareholders above par value, are generally not regarded as accumulated profits for this purpose, though the treatment of share premium in Pakistani tax law has not always been free from controversy. Where a company undertakes a capital reduction and returns funds to shareholders, the tax treatment will turn on whether the amounts returned can be characterised as paid-up capital or whether they are, in substance, a distribution of accumulated profits dressed in the language of capital reduction.

The exclusion for returns of paid-up capital has practical importance in the context of private equity and venture-backed structures, where it is common for preference shareholders to receive a return of their initial investment before any distribution is made to ordinary shareholders. To the extent that such returns can be clearly traced to contributed capital, they should not give rise to dividend taxation, but the tracing exercise requires careful documentation and is not always straightforward in practice.

Implications for Planning and Compliance

The breadth of the statutory definition has several practical implications. First, any transaction involving a transfer of value from a company to its shareholders, whether characterised commercially as a dividend, a bonus, a loan, a distribution in kind, or a liquidation payment, must be assessed against the section 2(19) definition before a tax position is taken. The form of the transaction is not determinative. It is the substance, and specifically the relationship of the payment to accumulated profits, that matters.

Second, the deemed dividend provisions mean that treasury and corporate finance teams in closely-held companies must be attentive to the tax consequences of intercompany loans and shareholder financing arrangements. What appears to be a routine cash management transaction can, if left unresolved, crystallise into a taxable dividend event.

Third, where international shareholders are involved, the characterisation of a payment as a dividend under domestic law is the starting point, not the end point, of the analysis. Treaty provisions, applicable withholding rates, and the conduit arrangements used to hold the Pakistani investment all bear on the ultimate tax cost of profit extraction.

The definition of dividend under the Income Tax Ordinance, 2001 is, in short, a fiscal concept rather than a commercial one. It reflects the legislature's determination to ensure that accumulated corporate earnings are subject to tax whenever they pass, in whatever form, to the shareholders who ultimately own them. For practitioners and taxpayers alike, the lesson is the same: when value moves from a company to its shareholders, the dividend question must always be asked.

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