

Tax Bulletin

October 2025



Foreword



This publication contains brief commentary on Circulars, SROs and decisions of the adjudicating authorities issued during September 2025.

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Karachi

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Executive Summary

S.No.	Reference	Summary / Gist	Page No.
Direct Tax – Notifications			
Direct Tax – Reported Decision			
1	2025 PTD 1264	WEALTH STATEMENT WAS TIME-BARRED ONCE REASSESSMENT PROCEEDINGS HAD COMMENCED. The ATIR set aside the assessment order and remanded the case for fresh examination, directing verification of the inheritance documents, while holding that revision of the wealth statement was time-barred once reassessment proceedings had commenced.	7
2	2025 PTD 1364	ELIGIBILITY OF NPO FOR 100% TAX CREDIT UNDER SECTION 100C The ATIR decided the case in favor of the appellant, holding that the organization validly qualified as a Non-Profit Organization under section 2(36)(c) and was entitled to 100% tax credit under section 100C.	8
3	2025 PTD 1364	ILLEGALITY OF COERCIVE ADVANCE TAX RECOVERY WITHOUT DUE PROCESS The IHC allowed all three writ petitions, declaring the advance tax recoveries unlawful due to non-issuance of mandatory notices under Sections 137 and 138 and violations of due process under Article 10A	9
4	2025 PTD 1448	THE ATIR DISPOSED OF BOTH TAXPAYER AND DEPARTMENT APPEALS TOGETHER. IT HELD THAT THE FINANCE ACT 2012 AMENDMENTS TO SECTION 65B WERE PROSPECTIVE, NOT RETROSPECTIVE.	10
5	2025 PTD 1465	AMENDMENT TO SECTION 65B THROUGH FINANCE ACT 2019 WAS PROSPECTIVE NOT RETROSPECTIVE It ruled that companies investing or contracting before June 30, 2018, retained their vested right to the 10% tax credit under the un amended law, while investments made after July 1, 2018, were governed by the reduced 5% rate and curtailed validity period.	12

S.No.	Reference	Summary / Gist	Page No.
Indirect Tax - Sales Tax Act, 1990			
Federal Sales Tax – Notifications/Circulars			
1	S.R.O. 1832(I)/2025 dated September 22, 2025	Through this SRO, FBR has extended the validity of the reduced sales tax concession on import and subsequent sale of white crystalline sugar from September 30, 2025, to November 30, 2025.	14
Sales Tax Act, 1990– Reported Decisions			
1	2025 PTD 1429 LAHORE HIGH COURT	THE LIMITATION PERIOD COMMENCES FROM THE DATE WHEN THE AUTHORIZED REPRESENTATIVE RECEIVES THE ORDER AS THEIR ACKNOWLEDGEMENT IS DEEMED TO BE AN ACKNOWLEDGEMENT BY THE TAXPAYER The LHC held that the limitation period begins when the taxpayer’s authorized representative receives the order. It emphasized that the law of limitation promotes diligence and finality, and delays caused by negligence or internal communication lapses do not justify condonation. The Court dismissed the application for condonation of delay and the reference application as time-barred.	14
2	2025 PTD 780 LAHORE HIGH COURT	DENYING SIMILAR TREATMENT TO THE PETITIONER WAS ARBITRARY AND DISCRIMINATORY. The LHC held that penalties arising from the department’s own error amounted to unjust deprivation. The Court directed the department to grant the petitioner the same relief as extended to similarly placed taxpayers including adjustment or refund of excess tax and penalties. The LHC set aside the impugned order as unlawful.	14
3	2025 PTD 1324 SINDH HIGH COURT	SECTION 3(5) OF THE ST ACT AND SRO 896(I)/2013 ARE CONSTITUTIONAL AND LAWFUL; FISCAL AND ECONOMIC MEASURES LIE PRIMARILY WITHIN THE EXECUTIVE’S DOMAIN. The SHC upheld the constitutionality of Section 3(5) of the ST Act and SRO 896(I)/2013 and held that the 2% extra	15

S.No.	Reference	Summary / Gist	Page No.
		tax was a lawful collection mechanism rather than double taxation. The Court held that the delegation of taxing power was within constitutional limits and that the <i>Mustafa Impex</i> judgment applied prospectively leaving pre-2016 notifications unaffected.	
Punjab Sales Tax on Services Act, 2012 – Reported Decisions			
4	2025 TAX 303 LAHORE HIGH COURT	SALARIES AND ALLOWANCES REIMBURSED BY THE RECIPIENT TO THE SERVICE PROVIDER FOR EMPLOYEES ARE NOT TAXABLE UNDER PSTS ACT. The LHC allowed the petition and held that sales tax is chargeable only on the actual value of taxable services excluding employee-related costs. The Court observed that employee’s activities do not constitute an economic activity for tax purposes and that “gross amount of consideration” covers duties and taxes not salaries or reimbursements. Reliance was placed on the Supreme Court’s judgment in case of Ms. Quick Food Industries and concluded that salaries and allowances, even if reimbursed by clients, are not part of the taxable value of services.	16

Income Tax Ordinance, 2001

A. Reported Decisions

1. WEALTH STATEMENT WAS TIME-BARRED ONCE REASSESSMENT PROCEEDINGS HAD COMMENCED

2025 PTD 1264 APPELLATE TRIBUNAL INLAND REVENUE

MUSTAFA AKHUND

VS

DCIR, ZONE AEOI, UNIT-4, RANGE-B

APPLICABLE LAW:

Sections
111(1), 111(1)(b), 116(2), 122(5), 122(9)
and 176(4) of the Ordinance.

Brief facts:

The appellant, an individual taxpayer, filed his income tax return for Tax Year 2018 on September 26, 2018.

Subsequently, based on information received under the OECD's Multilateral Convention on Mutual Administrative Assistance in Tax Matters through the Automatic Exchange of Information (AEOI), it was discovered that the appellant maintained an offshore bank account with Bank of Singapore which was not declared in 2018's return.

Assessing officer initiated proceedings under sections 122(9), 122(5), and 111(1) of the Ordinance. Despite multiple opportunities, the appellant allegedly failed to provide satisfactory evidence regarding the source of funds. The officer, therefore, treated the amount as unexplained investment under section 111(1)(b) and finalized the assessment.

Being aggrieved by the decision, appellant filed appeal before CIRA and then with ATIR.

Appellant Arguments:

The appellant argued that the funds in the "Bank of Singapore" account were not his own but were inherited from his late father. The Appellant claimed his father, a

distinguished bureaucrat who later worked for international organizations, accumulated the wealth legally during his employment abroad. The appellant provided documents, including his father's employment letter, bank statements, and emails tracing the fund transfer from his father's account to the confronted account.

The appellant explained the flow of funds:

- a. From the father's foreign account ("Bank Account 1") →
- b. To a joint account in the name of the appellant and his mother ("Bank Account 2") →
- c. Then to the Bank of Singapore account ("Bank Account 3")

It was further pleaded that the non-declaration of the bank account by the father does not bar the application of section 79 of the Ordinance.

The appellant also requested that he should have been allowed to revise his wealth statement for Tax Year 2018 to reflect the inherited asset.

Department Arguments:

The Department rejected the explanation, stating the Appellant failed to provide a verifiable money trail or sufficient evidence during the assessment proceedings to prove that the source of the funds was his father's legitimate income. Consequently, the amount was added to his taxable income as unexplained.

Decision:

ATIR set aside the Order and remanded the case back for a fresh decision on following basis:

- The appellant presented new, substantial documentary evidence (bank statements, etc.) before the ATIR that was not adequately presented or scrutinized at the assessment stage.
- The veracity and genuineness of these new documents need to be properly verified by the assessing officer.

- In the interest of justice, the appellant deserves a full opportunity to have this evidence officially examined.
- The Appellant's request to revise the wealth statement was not maintainable, as such revision is time barred beyond five years or once a notice under section 122 has been issued.

2. ELIGIBILITY OF NPO FOR 100% TAX CREDIT UNDER SECTION 100C

2025 PTD 1357

APPELLATE TRIBUNAL INLAND REVENUE

ABDUL ALEEM KHAN FOUNDATION

VS

COMMISSIONER INLAND REVENUE, CTO, LAHORE

APPLICABLE LAW:

Sections 2(36)(c), 100C, 111, 122(1), 122(4), 122(5), 122(8), 122(9) and 214C of the Ordinance.

Brief facts:

The appellant, a Non-Profit Organization's stated objectives include providing disaster relief, reducing hunger, and supporting the poor and disabled through training and shelter.

The Assessing Officer initiated proceedings under section 122 of the Ordinance, based on definite information and issued a show cause notice under sections 122(9) and 122(5), alleging a discrepancy between deposits in the appellant's Bank account and declared turnover.

Upon explanation by the appellant, the Assessing Officer accepted that the appellant used a special tax year (Jan-Dec) and found the turnover explanation satisfactory. However, through an addendum dated June 30, 2022, the Assessing Officer raised another issue that the taxpayer had received certain amount from Vision Developers (Private) Limited, allegedly an interest free loan instead of a donation. While the Assessing Officer concluded that this difference in accounting

treatment did not affect revenue, he held that the appellant had violated section 100C (2)(a) and therefore disallowed the 100% tax credit under section 100C of the Ordinance.

An order under section 122(4) was passed, the CIRA upheld this order leading the appellant to file the appeal before the ATIR.

Appellant Arguments:

It was argued that the appellant had been granted official NPO status under section 2(36) vide approval letter from Commissioner, which remained valid and was recognized by the Department.

The appellant emphasized that for prior Tax Years 2015 and 2017, as well as for the same tax year in an earlier audit order, the tax credit under section 100C had been allowed by the Department. Hence, its sudden withdrawal without cause was unlawful.

It was further submitted that the amount received from Vision Developers (Private) Limited was a voluntary donation, not a loan. Supporting evidence included:

- A donation certificate issued by Vision Developers (Private) Limited, and
- Bank statements confirming the transfer through proper banking channels.

The appellant asserted that there was no misuse of funds, no private benefit conferred, and no violation of section 100C (2)(a). Therefore, denial of the tax credit was unjustified and contrary to law.

Decision:

ATIR decided the matter in favour of appellant on following basis:

- Under section 2(36)(c) read with Rules 211-217 of the Income Tax Rules, 2002, an NPO must be:
 - Established for welfare or charitable purposes;
 - Formed and registered as an NPO; and
 - Approved by the Commissioner for a specified period.

The ATIR found that the appellant met all these statutory conditions and held valid approval under section 2(36)(c), as evidenced by the departmental approval letter.

- The Department had accepted the NPO status and granted full tax credit under section 100C for prior years (2015 and 2017) and even for the same tax year 2018 in the earlier audit order.
- The subsequent denial of tax credit in 2022 lacked legal justification and was contradictory to earlier departmental treatment.

The ATIR also examined the donation certificate and bank statements from Vision Developers, which confirmed that the funds were voluntary contributions received through proper banking channels. No evidence suggested that the funds were misused or conferred any private benefit.

3. ILLEGALITY OF COERCIVE ADVANCE TAX RECOVERY WITHOUT DUE PROCESS

2025 PTD 1364

ISLAMABAD HIGH COURT

1. WRIT PETITION NO. 181/2019

M/S PAKISTAN TELECOMMUNICATION AUTHORITY THROUGH ITS DIRECTOR (BUDGET & ACCOUNTS)

VS

FEDERATION OF PAKISTAN FOR THE PURPOSE OF SERVICE THROUGH CHAIRMAN FEDERAL BOARD OF REVENUE, ISLAMABAD & OTHERS

2. WRIT PETITION NO. 4497/2022

M/S COMMUNICATOR'S GLOBE PRIVATE LIMITED THROUGH ITS GENERAL MANAGER (DEVELOPMENT)

VS

FEDERATION OF PAKISTAN FOR THE PURPOSE OF SERVICE THROUGH CHAIRMAN FEDERAL BOARD OF REVENUE, ISLAMABAD & OTHERS

3. WRIT PETITION NO. 4558/2022

M/S EXCEL LABS PRIVATE LIMITED THROUGH ITS ASSISTANT MANAGER (ACCOUNTS & FINANCE)

VS.

FEDERATION OF PAKISTAN FOR THE PURPOSE OF SERVICE THROUGH CHAIRMAN FEDERAL BOARD OF REVENUE, ISLAMABAD & OTHERS

APPLICABLE LAW:

Sections:

2(63),4,4(1),4(6),53,87,120,122,122(5A),137,138,140,147,147(1),147(1)(d),147(2),147(4),147(4A),147(4B),147(5A) and 147(6) of the Income Tax Ordinance, 2001;

87 of the Income Tax Ordinance, 1979

18A(5), 207 and 211 of the Income Tax Act, 1961

Brief facts:

Cases involves the interpretation of section 147 of the Ordinance, which deals with the payment of advance tax. The IHC consolidated three writ petitions (No. 181 of 2019, No. 4497 of 2022, and No. 4558 of 2022) as they all raised issues concerning the recovery of advance tax, though each had distinct factual backgrounds.

Writ Petition No. 181 of 2019

The tax department recovered advance tax directly from the petitioner's bank account under section 140 without issuing sections 137/138 notices. The petitioner claimed it had filed an estimate showing no liability and was due a refund.

Writ Petition No. 4497 of 2022

Advance tax was demanded based on a reassessment order that was later annulled. The tax department continued recovery efforts post-annulment.

Writ Petition No. 4558 of 2022

The petitioner filed an estimate under Section 147(6) reducing its advance tax liability. The tax department disregarded the estimate and coercively recovered the higher amount.

Decision:

- The IHC allowed all three petitions, declaring the recoveries illegal due to violations of due process or authority. Costs of Rs. 100,000 were awarded to each petitioner, payable by the tax department within 30 days. The tax department was directed to expedite refunds and consider interest for delays under Section 171.
- The IHC held that advance tax is not a provisional payment but a form of income tax imposed under the charging provision of the Ordinance (Section 4). It falls within the definition of "tax" under Section 2(63).
- The tax department must issue notices under Sections 137 and 138 before resorting to coercive measures (e.g., attaching bank accounts under Section 140). These notices afford the taxpayer an opportunity to pay voluntarily and challenge the demand.
- Recovery without issuing Sections 137 and 138 notices violates due process (Article 10A of the Constitution) and is illegal.

Writ Petition No. 181 of 2019

The recovery was illegal due to lack of due process. The tax department was directed to process the petitioner's refund application within 60 days and consider interest for delayed refund under Section 171.

Writ Petition No. 4497 of 2022

Recovery based on an annulled order was illegal. The tax department was directed to process the refund claim within 60 days and consider interest for delay.

Writ Petition No. 4558 of 2022

For the relevant tax year, the tax department lacked authority to reject the estimate. Recovery was illegal. The department was directed to process the refund within 60 days with interest for delay.

4. THE ATIR DISPOSED OF BOTH TAXPAYER AND DEPARTMENT APPEALS TOGETHER. IT HELD THAT THE FINANCE ACT 2012 AMENDMENTS TO

SECTION 65B WERE PROSPECTIVE, NOT RETROSPECTIVE

2025 PTD 1448

APPELLATE TRIBUNAL INLAND REVENUE

NISHAT CHUNIAN LTD. AND ANOTHER VS

COMMISSIONER INLAND REVENUE, LTU, LAHORE AND ANOTHER

APPLICABLE LAW:

Sections 20(1), 21(n), 34(3), 65B, 85, 108, 111, 116(2), 120, 122(5), 122(5A), 122(9), 129 and 154 of the Ordinance;

Brief facts:

The taxpayer had filed its return of income which became a deemed assessment under section 120 of the Ordinance. Later, the assessing officer considered the assessment as erroneous and prejudicial to the interest of revenue and initiated revisionary proceedings under section 122(5A). Later passed the order.

CIRA partly allowed relief:

- Upheld additions under Inadmissible Financial Charges and Reduction in Export Tax;
- Deleted additions for Provision for Other Benefits, Compensated Absences and Provident Fund Contributions, and Capital Nature of Expenses;
- Remanded issues of Tax Credit under section 65B, Donations, Apportionment of Expenses, and Workers Welfare Fund (WWF).

Both parties filed cross appeals before the ATIR against the CIRA's order.

Appellant Arguments:

Tax Credit under Section 65B

The taxpayer claimed that amendments introduced by the Finance Act, 2012 (adding "extension" and "expansion" and allowing tax credit against minimum and final tax) should be considered retrospective and applicable to Tax Year 2012, being beneficial legislation.

Inadmissible Financial Charges

The taxpayer contended that the loan advanced to the subsidiary was at arm's length, carrying markup higher than the company's own borrowing rate, thus not hit by section 108 (transactions between associates).

Reduction in Export Tax

Claimed benefit under Clause (41AA), Part IV, Second Schedule, allowing a 50% reduction in export tax, arguing for its retrospective application.

Donations

Asserted that the disallowed donations were already added back in the computation of income, and hence no further adjustment was required.

Apportionment of Expenses

Argued that the CIRA's remand was illegal under section 129, as the appellate authority must decide the issue on merits rather than remitting.

Exchange Gain

Claimed that the CIRA failed to adjudicate the issue of exchange gain raised in the appeal.

Department Arguments:

Tax Credit under section 65B

Asserted that the Finance Act, 2012 amendment was prospective, effective from Tax Year 2013, and hence not applicable to 2012.

Provision for Other Benefits & Provident Fund

Claimed such provisions were inadmissible under section 34(3) as the liability had not crystallized during the year.

Capital Nature of Expenses

Argued that expenses incurred on sale of shares were capital in nature under section 21(n) and not deductible.

Workers Welfare Fund (WWF)

Contended that the CIRA erred in directing that WWF be charged as per the pre-amendment Ordinance, arguing that the amendments made through Finance Acts,

2006 & 2008 were still valid law and not declared ultra vires.

Decision

The ATIR decided both appeals together as follows:

Tax Credit under Section 65B

Held that amendments made through Finance Act, 2012 were prospective, not retrospective.

The ATIR held that while beneficial legislation should be liberally interpreted, retrospective effect can only apply if the amendment is curative, remedial, or clarificatory which was not the case with section 65B (Finance Act, 2012).

Inadmissible Financial Charges

Found that further factual verification was required. Matter remanded to the officer to re-examine the mark-up calculation and determine if the transaction was at arm's length.

Provisions for Benefits and Provident Fund (Department's ground)

Confirmed CIRA's deletion, holding that under the mercantile system, liabilities determined with reasonable accuracy are deductible. Department's appeal dismissed.

Reduction in Export Tax

Upheld that Clause (41AA) was not applicable for Tax Year 2012 (introduced effective TY 2013). Taxpayer's appeal dismissed.

Donation

Held that CIRA exceeded powers under section 129 in issuing remand, but remanded the issue itself under ATIR's power of remand for verification of donation adjustment. ATIR clarified that CIRA cannot remand assessment orders under section 129; only the ATIR can exercise such power. Hence matter remanded.

Capital Nature of Expenses

Confirmed CIRA's deletion; found expenses on sale of shares to be cost of disposal, not business expense, and capital gain exempt for TY 2012. Department's ground rejected.

Apportionment of Expenses

Found CIRA's **remand illegal**, but still **remitted matter** to officer for fresh decision following proper procedure.

WWF

Referred to *PLD 2017 SC* affirming Lahore High Court's view that WWF amendments of 2006 and 2008 were unconstitutional. CIRA's direction to apply pre-amendment law upheld, hence department's appeal dismissed.

Exchange Gain

Found that the issue was already covered under "apportionment of expenses" and would be addressed upon reassessment.

5. AMENDMENT TO SECTION 65B THROUGH FINANCE ACT 2019 WAS PROSPECTIVE NOT RETROSPECTIVE 2025 PTD 1465

PESHAWAR HIGH COURT

W.P NO. 6127-P/2019
M/S GADOON TEXTILE MILLS AND 02 OTHERS

VS

FEDERATION OF PAKISTAN AND 02 OTHERS.

W.P. NO. 415-P/2020
LUCKY CEMENT LIMITED AND ANOTHER

VS

FEDERATION OF PAKISTAN AND 02 OTHERS.

W.P NO. 443-P/2020
CHERAT CEMENT COMPANY LIMITED AND ANOTHER

VS

FEDERATION OF PAKISTAN AND 02 OTHERS.

W.P NO. 457-P/2020
CHERAT PACKAGING LIMITED AND ANOTHER

VS

FEDERATION OF PAKISTAN AND 02 OTHERS.

W.P NO. 5627-P/2020
M/S GADOON TEXTILE MILLS LTD

VS.

FEDERATION OF PAKISTAN AND 02 OTHERS.

APPLICABLE LAW:

Sections

65B, 65B(1), 65B(4) and 65E(7) of the Income Tax Ordinance, 2001;

19 and 31A of the Customs Act, 1969

Brief facts:

A group of petitioners, filed constitutional petitions before the Peshawar High Court challenging the Finance Act, 2019, which amended Section 65B of the Ordinance. Under the original section 65B, a company investing in new plant and machinery for expansion, balancing, modernization, or replacement of its industrial undertaking was entitled to a tax credit equal to 10% of the amount invested, available up to June 30, 2021.

Through the Finance Act, 2019, two major changes were introduced:

- Reduction of the tax credit rate from 10% to 5% for Tax Year 2019, and
- Curtailment of the sunset clause from June 30, 2021, to June 30, 2019.

The petitioners claimed they had already made substantial investments and installed new machinery before the amendment, and therefore, the retrospective application of the amended law unjustly vitiated their vested rights.

Petitioner Arguments:

Petitioners argued that by investing in new machinery between July 1, 2018, and June 30, 2019, they had acquired a vested right to a 10% tax credit under the amended section 65B.

The Finance Act, 2019 could not be applied retrospectively to take away this accrued right or affect past and closed transactions.

Petitioners emphasized that they had relied upon the existing statutory incentives when making long-term capital investments. The withdrawal or reduction of these benefits

midway was arbitrary and against legitimate business expectations.

The petitioners did not seek factual findings on installation or investment verification, but rather declaration that the Finance Act, 2019 had no retrospective effect and could not deprive them of already accrued tax credits.

Decision:

After detailed examination, the PHC held that:

- The Finance Act, 2019 does not have retrospective effect. Its language and structure indicate a prospective application only.
- The tax credit rights of companies that had already invested and installed machinery before June 30, 2018, are protected and remain governed by the unamended section 65B (10% credit and carry-forward rights).
- For companies that had purchased machinery or entered into binding contracts before June 30, 2018, but completed installation after that date, their vested rights to the 10% credit

also remain intact, provided the installation was completed before June 30, 2021.

- However, for companies that made investment or purchases after July 1, 2018 (the effective date of the Finance Act, 2019), the amended provision applies prospectively i.e., 5% credit rate and installation by June 30, 2019.
- The impugned legislation was found constitutional and valid, as Parliament acted within its competence and there was no violation of fundamental rights.

Accordingly, all petitions were disposed of with directions reflecting the above distinctions

Sales Tax Act, 1990

A. Notifications

S.R.O. 1832(I)/2025 dated September 22, 2025

Through this SRO, FBR has extended the validity of the reduced sales tax concession on imports and subsequent supply of white crystalline sugar from September 30, 2025 to November 30, 2025.

Earlier through SRO 1217(I)/2025 dated July 8, 2025, sales tax rate on the import and supply of up to 500,000 metric tons of white crystalline sugar was reduced from 18% to 0.25% and exempted the 3% minimum value-added tax under the Twelfth Schedule of the Sales Tax Act, 1990. The concession applied to imports of sugar made by the Trading Corporation of Pakistan (TCP) or the private sector under the conditions prescribed by the Commerce Division.

B. Reported Decisions

1. THE LIMITATION PERIOD COMMENCES FROM THE DATE THE AUTHORIZED REPRESENTATIVE RECEIVED THE ORDER AS THEIR ACKNOWLEDGEMENT IS DEEMED TO BE AN ACKNOWLEDGEMENT BY THE TAXPAYER.

**2025 PTD 1429
LAHORE HIGH COURT**

M/S. ALI SHER TRADERS

VS

THE COMMISSIONER INLAND REVENUE

Applicable provisions: 47 and 47(5) to the ST Act, 1990.

Brief Facts:

In the instant case, the registered person, filed a reference under Section 47 of the ST Act with a delay of 16 days beyond the prescribed 30 days' limitation period. The registered person explained that the impugned order had been received by its

authorized representative who retained it for several days before handing it over to the registered person.

It was contended that the limitation period should commence from the date the taxpayer personally received the order rather than from the date of its receipt by the representative. The Department opposed this contention and asserted that the representative's knowledge was legally attributable to the registered person.

Decision:

The Court dismissed the application for condonation of delay and the reference application as time-barred and held that the knowledge of an authorized representative is deemed to be the knowledge of the registered person and the limitation period begins from the date the order is first received by the representative.

The Court observed that the law of limitation is a substantive provision intended to promote diligence and finality and cannot be relaxed on vague or insufficient grounds. It reiterated that each day's delay must be properly and convincingly explained and that negligence or internal communication lapses within the registered person's organization do not constitute sufficient cause for condonation.

2. DENYING THE SIMILAR TREATMENT TO THE PETITIONER WAS ARBITRARY AND DISCRIMINATORY.

**2025 PTD 780
LAHORE HIGH COURT**

M/S. MADINA STEEL MILLS

VS

THE FEDERATION OF PAKISTAN

Applicable provisions: 21,21(5) and 73 to the ST Act, 1990.

Brief Facts:

In the instant case, the petitioner challenged an order whereby its claim was

rejected for adjustment/refund of extra tax and penalties charged on electricity bills.

Initially, the petitioner's sales tax registration was wrongfully suspended due to an error by the tax authorities. During the suspension, extra tax and penalties were levied on electricity bills for October and November 2024.

The STRN was later restored after the petitioner submitted proof of compliance including payments under Section 73 of the ST Act and transportation records. Despite restoration the tax authorities refused to adjust or refund the extra tax and penalties. However, another taxpayer M/s Ali Steel Re-Rolling Mills had received similar relief under identical circumstances highlighting inconsistent treatment.

Decision:

The Lahore High Court allowed the petition and declared the impugned order illegal and without lawful authority. The Court held that penalties imposed due to the department's error constituted unjust deprivation and entitled the petitioner to restitution.

The Court emphasized that similarly placed taxpayers must be treated consistently based on the principal of "*ubi eadem ratio, ibi idem jus*", and differential treatment amounted to arbitrariness.

The respondent was directed to extend the same relief as granted to M/s Ali Steel Re-Rolling Mills adjusting/refunding the extra tax and penalties charged during the wrongful suspension period.

3. SECTION 3(5) OF THE ST ACT AND SRO 896(I)/2013 ARE CONSTITUTIONAL AND LAWFUL; FISCAL AND ECONOMIC MEASURES LIE PRIMARILY WITHIN THE EXECUTIVE'S DOMAIN.

**2025 PTD 1324
SINDH HIGH COURT**

MAL PAKISTAN LTD.

VS

PAKISTAN & ANOTHER

Applicable provisions: 3(1) and 3(5) to the ST Act, 1990.

Brief Facts:

Various petitioners including M/s Mal Pakistan Ltd. challenged the constitutional validity of Section 3(5) of the ST Act and SRO 896(I)/2013 dated October 4, 2013, which levied an additional 2% sales tax on certain goods and sectors.

They contended that the provision amounted to an unconstitutional delegation of taxing power to the executive violating Article 77 of the Constitution.

It was further argued that the 2% extra tax resulted in double taxation was confiscatory and that the SRO was issued without lawful authority which is contrary to the Supreme Court's judgement in the case of Mustafa Impex reported as PLD 2016 SC 808.

The FBR defended the provision asserting that Section 3(5) only provides limited procedural delegation within the framework of the Act and that the extra 2% tax was intended to simplify collection rather than impose an additional burden.

Decision:

The Sindh High Court dismissed all petitions and upheld the validity of Section 3(5) of the Sales Tax Act, 1990 and SRO 896(I)/2013 as constitutional and lawful and concluded that fiscal and economic measures lie primarily within the executive's domain.

The Court held that the delegation of power was within permissible constitutional limits as the legislature had provided clear policy guidance and statutory limits (maximum 17%) and therefore no excessive delegation had occurred.

It further held that the 2% extra tax did not amount to double taxation but represented a collection mechanism for tax at an earlier stage. Further, the Mustafa Impex judgment applied prospectively and did not invalidate pre-2016 notifications.

Punjab Sales Tax on Services Act, 2012

A. Reported Decisions

4. SALARIES AND ALLOWANCES REIMBURSED BY THE RECIPIENT TO THE SERVICE PROVIDER FOR EMPLOYEES ARE NOT TAXABLE UNDER PSTS ACT.

**2025 TAX 303
LAHORE HIGH COURT**

M/S GB SECURITY SERVICES (PVT) LIMITED

VS

THE FEDERATION OF PAKISTAN AND 4 OTHERS

Applicable provisions: Section 2(38), 2(45), 3, 6, 6(3), 7, 7(1) & 10 to the Punjab Sales Tax on Services Act, 2012 (the PSTS Act)

Brief facts:

Multiple service providers engaged in security, labour, and manpower supply services filed petitions and challenged the levy of the PSTS Act on the entire invoice value including salaries and allowances of the deployed personnel. The Punjab Revenue Authority (PRA) took the position that these salary components form part of the gross consideration received for taxable services under Sections 3 and 7 of the PSTS Act.

The petitioners argued that the deployed individuals remained employees of the service providers with the recipients of service having no control over their employment, supervision or performance. The salary payments represented employment obligations of the service providers merely reimbursed by the clients and therefore could not be treated as consideration for services rendered. The dispute thus centered on whether such salary reimbursements formed part of the taxable value under the PSTS Act.

Decision:

The Lahore High Court allowed the petition and confined the tax levy to the actual value of the taxable service excluding any employee-related costs. The Court held that only the quantum of the taxable service itself is subject to sales tax under the Sections 6(3) and 7(1) of the PSTS Act.

It was observed that activities performed by employees for their employer do not constitute an economic activity for tax purposes. The expression “gross amount of consideration” (added through the Punjab Finance Act, 2014) was interpreted to cover duties and taxes, not employee salaries or reimbursements.

The Court relied on the Supreme Court’s judgment in case of Ms. Quick Food Industries and concluded that salaries and allowances paid to employees even if reimbursed by the client do not form part of the taxable value of services.

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