

RIAA secures victory in landmark input tax adjustment case

RIAA Barker Gillette successfully resolves tax dispute for multinational client, setting precedent on input tax adjustments for services received by Pakistani businesses from non-resident service providers.

RIAA SECURES
VICTORY IN
LANDMARK INPUT
TAX ADJUSTMENT
CASE

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RIAA Barker Gillette has successfully resolved a significant tax dispute for a Pakistani subsidiary of a major US oil and gas multinational in proceedings before the Sindh High Court (SHC). The case highlights the complexities of Pakistan's fragmented sales tax system.

In Pakistan's tax framework, which the World Bank identifies as "one of the only federated states where the GST base remains fragmented," sales tax on goods falls under federal jurisdiction, while sales tax on services is administered by provincial authorities. The system is designed to function as a value-added tax regime where businesses can claim input tax adjustments regardless of whether the tax was paid to federal or provincial authorities.


Our client obtains various services from its non-resident affiliates and pays Sindh sales tax on these services through the "reverse charge mechanism." This tax should be claimable as an input adjustment against output tax payable under the federal Sales Tax Act, 1990.


However, following the Federal Board of Revenue's issuance of SRO 350(I)/2024 in March 2024 and subsequent modifications to its online portal, this adjustment became impossible to claim. Our petition challenged this impediment with several compelling legal arguments: the modification contradicted the statutory definition of "input tax" which explicitly includes "Provincial Sales Tax levied on services"; it undermined the fundamental value-added tax structure; and it created unjustifiable discrimination between services from resident versus non-resident providers. Crucially, the modification lacked any corresponding change in legislation.


The Sindh High Court recognized the urgency of the matter and directed that our client's [right to claim input tax adjustments would be preserved, subject to the final outcome](#). This interim protection, secured our petition, the first of its kind, created a precedent that led numerous other companies to file similar petitions.

In its order dated 6 February 2025, the Court noted that the FBR's system "appears to be unjustifiably denying such claims" despite clear legal provisions allowing for such adjustments. In the final order dated 6 March 2025, the Court noted that the FBR had instructed its technical team to remove the system restriction blocking these adjustments. The Commissioner of Inland Revenue confirmed in court that applications

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regarding the limitation period would be “entertained and complied with in terms of earlier orders.” With the substantive issues resolved, the Court disposed of our petition along with all connected petitions.

“This case has not only resolved a critical technical flaw in Pakistan’s sales tax system but also established an important precedent for businesses operating in Pakistan,” said [Mayhar Kazi](#), Partner at RIAA Barker Gillette. “By filing the first petition on this issue, we not only created breathing room for our client but also achieved a systemic fix that benefits numerous companies across the country.”

Our team representing the client on this matter was led by [Mayhar Mustafa Kazi](#) (Partner) and included [Qubra Ali](#) (Associate).

For more information on complex tax disputes in Pakistan, contact [Mayhar Kazi](#) today.

This article is not legal advice; it provides information of general interest about current legal issues.

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RIAA Barker Gillette is Pakistan’s premier law firm, with an on-the-ground presence in four major cities in Pakistan: Karachi, Islamabad, Lahore, and Peshawar, and affiliated offices in Dubai (DIFC) and London.

The firm practices in all areas of corporate, commercial and dispute resolution law. Leading international legal directories consistently recognize the firm as a top-tier law firm in Pakistan.

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