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FEBRUARY 2026 TAX NEWSLETTER



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MANDATORY REAL-TIME ELECTRONIC INVOICING / POS INTEGRATION

The Federal Board of Revenue (FBR) has issued SRO 288(I)/2026 dated 18th February 2026, proposing draft amendments to the Income Tax Rules, 2002 introducing a comprehensive framework for mandatory integration of Point-of-Sale (POS) systems and e-invoicing with the FBR's centralized system.

Key Highlights of the Draft Amendments

- The proposed framework applies to specified businesses, including hotels, clinics, laboratories, retail shops and other notified sectors.
- Businesses will be required to integrate their POS/invoicing software with the FBR system.
- Each invoice must:
 - Bear a unique FBR invoice number; and
 - Contain a system-generated QR code.
- Transaction data will be required to be transmitted to FBR on real time basis.

Current Status

The amendments are presently in draft form (consultation phase) and are not yet legally enforceable. They will become effective only upon finalisation and issuance through an official Gazette notification.



AMENDMENT IN SECTION 134A, OF INCOME TAX ORDINANCE, 2001 (THIRD AMENDMENT ACT, 2026)

Background Context

It may be noted that similar digital invoicing requirements have already been prescribed under the Sales Tax Act, 1990 and the Sales Tax Rules, 2006, whereby the integration of digital invoicing has become mandatory for sales tax-registered persons.

Broader Implications

The proposed draft indicates FBR's intention to expand the integrated digital invoicing mechanism to a wider taxpayer base, including persons who may not otherwise be required to integrate under the Sales Tax Regime (e.g., certain service providers or persons registered with Provincial Sales Tax Authorities).

Procedures

Certain procedure i.e. particulars of invoice, retention of record, audit, levy of penalty on non-compliances etc. have also been proposed to be notified.

The Parliament (Majlis-e-Shoora) enacted the Income Tax (Amendment) Act, 2026, to further amend the Income Tax Ordinance, 2001, with amendments effective immediately upon enactment.

A major change is the complete substitution of Section 134A (Alternative Dispute Resolution - ADR), aimed at strengthening the tax dispute resolution mechanism, clarifying appointment procedures, timelines, appeal rights, and the role of ADR Committees.

ADR Committee Formation & Composition

- The power of formation shifted from FBR to the Chairman of the FBR.
- The Chairperson must be a retired judge (High Court, Federal Constitutional Court, or Supreme Court).
- The chairperson nomination process involves the taxpayer's nominee, an Inland Revenue officer, and, if disagreement arises, final selection by the Federal Minister for Law & Justice.
- Other members:
 - Inland Revenue officer (BS-21 or above, not handling the case).
 - Taxpayer's nominee (CA, CMA, Advocate with 15+ years' experience, retired Inland Revenue officer BS-21+, or businessman from FPCCI list).



Decision Timeline

- Extended from 60 days → 90 days.
- If no decision is made within 90 days, the Committee is dissolved, and the dispute reverts to the courts/appellate authorities.

Appeals & SOEs

- SOEs (not wholly Federal-owned): Right to appeal to the Federal Constitutional Court or Supreme Court against ADRC decision or failure.
- Wholly Federal-owned SOEs: ADRC decision is final and binding; pending petitions automatically abate.

Court-Driven References

- Courts (Supreme Court, Federal Constitutional Court, High Courts) may refer disputes to ADRC with the consent of both parties.
- The Board must constitute the ADRC within 15 days of referral.

Automatic Transfer of SOE Disputes

All disputes involving SOEs pending before courts/appellate authorities automatically transfer to ADRC upon commencement of the Act.

Remuneration

- Chairperson's remuneration: shared equally by the taxpayer and the Board.
- The taxpayer bears the cost of their nominated member.

FCC JUDGMENT ON TAX RAIDS WITHOUT NOTICE

(SECTION 175 OF THE INCOME TAX ORDINANCE)

The Federal Constitutional Court of Pakistan (FCC) has delivered a landmark ruling affirming the powers of tax authorities to conduct raids and searches at taxpayers' premises without prior notice and even in the absence of pending proceedings.

The decision arose from a petition challenging a tax raid carried out under section 175 of the Income Tax Ordinance, 2001. The petitioner argued that section 175 powers could only be exercised where formal proceedings were already initiated, and that a notice under section 176 should precede any coercive action. The FCC, however, dismissed the petition and upheld the earlier judgment of the Sindh High Court dated December 24, 2025, which confirmed the legality of the raid.



Key Points of Section 175 – Powers of Tax Authorities

- Authorises the Commissioner of Inland Revenue, or any officer authorised by the Federal Board of Revenue, to enter and search premises without prior notice to enforce tax provisions, including audits and surveys.
- Officers may access accounts, documents, computers, and electronic records, including real-time data, and may examine, copy, or extract such information.
- Officers are empowered to impound records or equipment for further examination or prosecution and prepare an inventory of items found.
- The Commissioner may authorise valuers or experts to assist in the inspection.
- Taxpayers must provide reasonable access and assistance; impounded records must be acknowledged, and taxpayers may inspect or obtain copies under supervision. Compensation is required if impounded documents or equipment are lost or damaged while in possession of the authorities.
- Section 175 applies notwithstanding any legal privilege, and the Board may issue rules for real-time electronic access for audits or surveys.

This ruling effectively broadens the operational scope of tax authorities, allowing them to conduct unannounced inspections even when no formal proceedings are pending, reinforcing the importance for taxpayers to maintain compliant and readily accessible records.

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