RASG IMPACT

July, 2026

Inside the Issue

RIAZ AHMAD, SAQIB, GOHAR & CO.
CHARTERED ACCOUNTANTS

Result Assured Services for Growth

JUDGMENT OF THE MONTH

IMMEDIATE RECOVERY FROM BANK ACCOUNTS UNDER SECTION 140 DECLARED UNLAWFUL

Commissioner Inland Revenue v. Pakistan LNG Limited and others
Commissioner Inland Revenue v. Serene Air (Private) Limited and others
2026 SCMR 227 / 2026 PTD 192

BACKGROUND

The taxpayers had challenged tax demands before the Commissioner Inland Revenue (Appeals). Immediately upon disposal of the appeals, the tax authorities issued notices under section 140 of the Income Tax Ordinance, 2001 to the taxpayers' banks, requiring recovery of the disputed amounts.

In the case of Pakistan LNG Limited, the appellate order was uploaded on IRIS at 3:28 p.m. and the recovery notice was issued at 4:00 p.m. on the same day. In the case of Serene Air, the appeal was decided at 1:56 p.m. and recovery notices were issued to the banks at 10:30 p.m. that night.

DECISION

The Hon'ble Supreme Court held that section 140 does not permit immediate or same-day coercive recovery from a taxpayer's bank account.

The expression "by the date set out in the notice" requires the Commissioner to specify a future payment date and provide the bank or other third party with a reasonable opportunity to comply. The requirement is substantive and operates as a safeguard against arbitrary and unduly hasty recovery proceedings.

The Hon'ble Court did not prescribe a fixed notice period. The reasonableness of the time allowed is to be determined with reference to the circumstances of each case. However, a notice requiring payment on the date of its issuance would defeat the purpose of the statutory safeguard.

The Hon'ble Court further clarified that:

- a demand notice under section 137 and a recovery notice under section 140 serve separate purposes;
- section 140 is an independent mode of recovery from a third party, such as a bank;
- prior initiation of recovery proceedings under section 138 is not required before invoking section 140; and
- Rule 210C of the Income Tax Rules, 2002 cannot permit immediate recovery where such recovery is inconsistent with section 140.

The Hon'ble Court also linked the requirement of reasonable notice with the constitutional rights to due process, fair trial and dignity under Articles 10A and 14 of the Constitution. It observed that tax recovery is not intended to be a "grab and go" process and that coercive recovery must be undertaken fairly, transparently and strictly in accordance with law.

Hon'ble Justice Shahid Waheed, in his concurring opinion, additionally held that once an appellate order is passed, the original assessment order merges into the appellate order. Accordingly, a fresh notice under section 137(2), reflecting the amount determined in appeal, should be issued with a fresh thirty-day payment period before proceedings under sections 138 or 140 are initiated.

The Revenue's appeals were consequently dismissed.

OUR COMMENTS

The judgment provides significant protection against immediate attachment of taxpayers' bank accounts following disposal of an appeal.

The ruling confirms that the disposal of an appeal does not, by itself, authorise the tax authorities to initiate instantaneous recovery. A valid notice under section 140 must specify a future payment date and allow a reasonable period for compliance.

Taxpayers facing same-day or immediate recovery may therefore challenge such action on the grounds that:

- the section 140 notice does not provide a future due date;
- no reasonable opportunity to comply has been afforded;
- the taxpayer has not been given sufficient time to pursue further appellate remedies; or
- the recoverable amount has changed pursuant to the appellate order and no fresh demand notice has been issued.

The concurring opinion also provides a strong basis for contending that, following an appellate order, recovery should not commence unless a fresh demand notice under section 137(2) has been issued and the corresponding thirty-day period has expired.

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TECHNICAL UPDATES

FEDERAL INCOME TAX

Exemption of default surcharge and penalties for PIACL – SRO 1129(I)/2026

The Federal Government, through S.R.O. 1129(I)/2026 dated July 16, 2026 issued under section 183 of the Income Tax Ordinance, 2001, has exempted the default surcharge and penalties relating to specified current income tax liabilities of the Pakistan International Airlines Corporation Limited (PIACL), amounting to PKR 4.293 billion.

The exemption has been granted to facilitate the successful divestment (privatization) of PIACL and is subject to the condition that the underlying tax liabilities are paid to the Federal Board of Revenue within four years, following a one-year grace period, in equal annual installments after the First Completion under the Share Purchase and Subscription Agreement with the successful bidder.

Draft amendments to the inland revenue reward rules, 2021 – SRO 1226(I)/2026

The Federal Board of Revenue, through S.R.O. 1226(I)/2026 dated July 30, 2026, has issued a draft proposing amendments to the Inland Revenue Reward Rules, 2021. The proposed amendments invite objections or suggestions from stakeholders within seven days of publication in the Official Gazette.

The key proposed changes to Rule 8 include reducing the reward rates from 5% to 2% and 2.5% to 1%, and replacing the reference to "Rule 5" with "these rules".

Special procedure for small shopkeepers – SRO 1166(I)/2026

The Federal Board of Revenue, through S.R.O. 1166(I)/2026 dated July 27, 2026, has notified a Special Procedure for Small Shopkeepers under section 99B of the Income Tax Ordinance, 2001, applicable for Tax Year 2026.

The scheme is optional and applies to individual retailers with an annual turnover of up to PKR 200 million, subject to specified eligibility conditions.

Under the procedure, eligible shopkeepers may pay 1% tax on gross turnover (subject to a minimum cash payment of PKR 25,000) by filing a simplified return. Taxpayers are generally exempt from audit, withholding tax obligations under section 153, minimum tax under section 113, and the requirement to install POS or digital invoicing systems.

The scheme also provides for the issuance of a "Green Plate" with a QR code to compliant shopkeepers, while prescribing penalties for failure to file either a regular income tax return or opt into the special procedure by the due date.

Independent case scrutiny committees for income tax affairs – SRO 1165(I)/2026

The Federal Board of Revenue, through S.R.O. 1165(I)/2026 dated July 27, 2026, has amended the Income Tax Rules, 2002 by inserting Rule 231CB, establishing Independent Case Scrutiny Committees.

These committees are responsible for independently scrutinizing proposals for filing tax references before the High Courts and petitions before the Supreme Court/Federal Constitutional Court, reviewing pending litigation, promoting consistency in legal positions, and recommending improvements in tax litigation management.

The Rules prescribe the committees' composition, jurisdiction, functions, decision-making process, timelines, confidentiality requirements, remuneration, and annual reporting mechanism to ensure efficient and transparent management of tax litigation.

FEDERAL SALES TAX

Exemption of default surcharge and penalties for piacl (sales tax & federal excise) – SRO 1134(I)/2026

The Federal Government, through S.R.O. 1134(I)/2026 dated July 17, 2026 issued under section 34A of the Sales Tax Act, 1990 and section 16(4) of the Federal Excise Act, 2005, has exempted the entire amount of default surcharge and penalties relating to the sales tax and federal excise duty liabilities of Pakistan International Airlines Corporation Limited (PIACL), amounting to approximately PKR 1.004 billion and PKR 3.469 billion, respectively, for September, October, and December 2025.

The exemption is intended to facilitate the privatization of PIACL and is subject to the condition that the underlying tax liabilities are paid within four years, following a one-year grace period, in equal annual installments after the First Completion as defined under the Share Purchase and Subscription Agreement with the successful bidder

Independent case scrutiny committees for sales tax affairs – SRO 1169(I)/2026

The Federal Board of Revenue, through S.R.O. 1169(I)/2026 dated July 27, 2026, has amended the Sales Tax Rules, 2006 by inserting Chapter IX-A (Rule 62A) to establish Independent Case Scrutiny Committees.

These committees are responsible for independently scrutinizing proposals for filing references before the High Courts and petitions before the Supreme Court/Federal Constitutional Court, reviewing pending litigation, ensuring consistency in legal positions, and recommending improvements in tax litigation management.

The Rules also prescribe the committees' composition, jurisdiction, functions, timelines, decision-making process, confidentiality requirements, remuneration, and annual reporting mechanism to strengthen the management of sales tax litigation.

Special procedure for sales tax collection on steel manufacturers – SRO 1245(I)/2026

The Federal Board of Revenue through S.R.O. 1245(I)/2026 dated July 31, 2026, has prescribed a special procedure for the categorization of steel melters, re-rollers, and composite units, and for the collection and payment of sales tax based on electricity consumption, effective 1 July 2026.

The applicable sales tax rates are as follows:

Category of Manufacturer	Sales Tax Rate
Steel manufacturers consuming local scrap	Rs. 30 per electricity unit
Steel manufacturers consuming over 70% imported scrap (aggregate during the preceding 12 months)	Rs. 5 per electricity unit
Steel manufacturers consuming over 70% scrap supplied by EFS licensees (aggregate from 1 June 2026)	Rs. 5 per electricity unit
Steel manufacturers operating on captive or self-generated electricity	Rs. 35 per electricity unit

The tax paid under this procedure is adjustable against output sales tax. The notification also prescribes categorization criteria based on electricity consumption, requires DISCOs to collect the applicable tax and disconnect electricity in case of default, provides for quarterly review of eligible manufacturers, and mandates FBR to notify manufacturers qualifying for the concessional Rs. 5 per unit rate through a Sales Tax General Order.

CORPORATE LAWS

Inclusion of lending NBFCS IN PM-APG – CIRCULAR 15 OF 2026

The Securities and Exchange Commission of Pakistan, through Circular No. 15 of 2026 dated 1 July 2026, has included Lending Non-Banking Finance Companies as Participating Financial Institutions under the Government's Prime Minister Apna Ghar (PM-APG) Programme.

The circular prescribes the operational framework for their participation, including the programme features, eligibility criteria, lending and operational requirements for direct lending and wholesale/intermediary models, procedures for submission of subsidy claims, and monthly reporting obligations. These requirements are detailed in Annexures I to V of the circular to ensure a standardized and compliant implementation of the affordable housing finance scheme.

SECP'S regulatory relaxations for NBMFCS AND HFCS UNDER PM-APG – CIRCULAR 16 OF 2026

The Securities and Exchange Commission of Pakistan through Circular No. 16 of 2026 dated 1 July 2026, has granted regulatory relaxations to Non-Banking Microfinance Companies (NBMFCs) and Housing Finance Companies (HFCs) to facilitate their participation in the Prime Minister Apna Ghar Programme (PM-APG).

Specifically, the circular relaxes certain prudential lending requirements, including borrower exposure limits for NBMFCs and selected HFC requirements relating to investment limits.

These relaxations apply exclusively to loans extended under the PM-APG, enabling participating institutions to offer affordable housing finance under more flexible regulatory conditions.

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CHALLENGES / OPPORTUNITIES

AI Governance: Who Is Accountable When AI Makes the Decision?

Prof. Dr. Muhammad Ovais, Executive Director

Artificial intelligence is no longer limited to analysis and automation. It is increasingly influencing, recommending, and in some cases making decisions that affect employees, customers, suppliers, investors, and the public.

AI can now shortlist job applicants, assess credit risk, detect fraud, approve transactions, evaluate performance, identify safety concerns, recommend medical actions, and support strategic decisions.

This creates a fundamental governance question:
When AI makes or influences a decision, who is accountable for the outcome?

The answer cannot be:
"The system decided."

An algorithm cannot answer to the board, regulator, customer, or employee. Software cannot accept responsibility for unfairness, error, financial loss, or harm.
AI may make the decision, but accountability must remain human and organizational.

The Accountability Gap

AI creates a risk that responsibility becomes fragmented.

Consider an AI-based recruitment system that rejects a candidate.

HR may say the system made the recommendation.

IT may say it only manages the platform.

The vendor may say the organization selected the criteria and supplied the data.

Everyone participated, but no one appears accountable.

This is exactly what AI governance must prevent.

A basic governance principle should therefore be:
Organizations may delegate tasks to AI, but they cannot delegate accountability to AI.

Before deploying any significant AI system, management should clearly establish who owns the decision, who manages the system, who reviews the output, and who responds when something goes wrong.

Who Owns the Decision?

Every AI-supported business process should have a clearly identified business owner.

If AI is used in recruitment, HR remains accountable for recruitment decisions.

If AI supports lending, the relevant financial function remains responsible for the outcome.

If AI assists safety assessments, operational management cannot transfer responsibility entirely to the technology team.
Technology teams may operate the system, and vendors may provide the software, but the business function using the AI must remain accountable for the decision.

Organizations should also identify an AI system owner responsible for ensuring that the system is:

- properly approved,
- used for its intended purpose,
- tested before deployment,
- monitored for accuracy and reliability,
- protected from unauthorized changes, and
- reviewed regularly.

Without clear ownership, AI can become embedded in operations without anyone taking responsibility for its risks.

Human Oversight Must Be Real
Many organizations rely on the concept of a **human-in-the-loop** as a safeguard.

However, human involvement alone does not guarantee effective oversight.

If an employee simply approves whatever the AI recommends, the human review has little value.

Meaningful oversight requires three things:
competence, authority, and sufficient information.

The reviewer must understand the limitations of the system.

The reviewer must be able to challenge or override the AI.

And the reviewer must have enough time and information to make an independent judgment.

The key question should therefore not be:
"Was a human involved?"

It should be:
"Could the human meaningfully intervene?"

If not, the organization should recognize that the decision is effectively automated and apply stronger governance controls.

Vendors Do Not Remove Accountability
Organizations increasingly use AI systems developed by third parties.

However, outsourcing the technology does not mean outsourcing responsibility.

A vendor may develop the model, maintain the software, and provide technical support. But the organization still decides:

- where the AI will be used,
- which data will be processed,
- which decisions it will influence,
- who will rely on its recommendations,
- whether human review is required, and
- how affected individuals will be treated.

Organizations therefore need strong AI vendor governance.

Organizations therefore need strong **AI vendor governance.**

Contracts should address issues such as data protection, cybersecurity, model updates, documentation, performance, incident reporting, audit rights, and exit arrangements.

The key question is not only:
"Who developed the AI?"

It is:
"Who controls the risk?"

Explainability Supports Accountability
An organization should be able to explain important decisions made or supported by AI.

A customer denied financing should not simply be told:
"The AI rejected your application."

Similarly, employees, customers, patients, citizens, and other affected individuals should not be subject to important decisions that nobody within the organization can reasonably explain.

Organizations should be able to describe:

- what the AI was designed to do,
- what information influenced the outcome,
- what major limitations exist,
- whether a human reviewed the decision, and
- how the decision can be challenged.

Not every AI model can explain every mathematical calculation in simple language.

But an organization should always be able to explain how it governs the decision.

AI is a Board Issue
One of the biggest mistakes organizations can make is treating AI purely as an IT matter.

AI is also a governance, risk, compliance, legal, cybersecurity, data, ethical, HR, operational, and strategic issue.

This means boards and senior executives need appropriate visibility.

They do not need to understand every algorithm, but they should know:

- **Where is AI being used?**
- **Which AI systems can significantly affect people, finances, safety, compliance, or reputation?**
- **Who owns each system?**
- **Which decisions are automated?**
- **Can humans override the AI?**
- **How is performance monitored?**
- **What happens if the system produces harmful or incorrect outcomes?**

These are governance questions, not technical questions.

Start With an AI Register
Many organizations cannot confidently answer a simple question:
How many AI systems are we currently using?

Employees may use public AI tools.

Departments may purchase AI-enabled software independently.

Existing ERP, HR, CRM, cybersecurity, and analytics systems may introduce AI through software upgrades.

Third-party service providers may also use AI within outsourced processes.

An organization cannot govern what it does not know exists.

A practical AI governance program should therefore begin with an **AI register.**

At minimum, it should identify:

- the AI system,
- its purpose,
- business owner,
- system owner,
- vendor,
- major data sources,
- affected stakeholders,
- risk level,
- level of automation, and
- human oversight arrangements.

AI systems can then be classified according to risk.

A low-risk productivity tool should not require the same controls as an AI system making decisions about employment, finance, health, or safety.

Governance should be proportional to potential harm.

Every Important Decision Needs an Audit Trail

Accountability requires evidence.

For material AI-supported decisions, organizations should be able to reconstruct what happened.

Records may include:

- the system and version used,
- relevant input data,
- AI recommendation,
- date and time,
- human reviewer,
- any override,
- final decision, and
- subsequent complaint or appeal.

This creates **traceability**.

Without traceability, organizations may struggle to investigate errors, identify bias, respond to regulators, resolve complaints, or demonstrate that appropriate controls were applied.

Accountability by Design

AI governance should not begin after a failure.

It should be built into the system before deployment.

Every significant AI application should have:

a defined owner, approved purpose, risk classification, human oversight, testing requirements, monitoring, escalation procedures, audit trails, incident management, and authority to suspend or retire the system.

RASG IMPACT

International approaches such as ISO/IEC 42001, the NIST AI Risk Management Framework, and the OECD AI Principles reinforce this direction by emphasizing governance, responsibility, transparency, risk management, and oversight.

But frameworks alone are not enough.

Real accountability exists when organizational leaders are prepared to say:
"This AI system operates under our authority. We understand its purpose and risks, and we are responsible for ensuring that appropriate controls are in place."

The Final Principle
AI will continue to become more capable and more autonomous.

The important question is no longer simply:
"Can AI make this decision?"

Organizations must also ask:

- **Should AI make it?**
- **Under what limits?**
- **Who reviews it?**
- **Who can override it?**
- **Who monitors it?**
- **Who investigates failures?**

And most importantly:

Who is accountable?
The answer must always lead back to identifiable human and organizational authority.

Because when responsibility disappears behind the words **"the algorithm decided," governance has failed.**

Machines can analyze.
Algorithms can recommend.
AI can decide.
But accountability must remain human!

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LIFE AT RASG

A Phenomenal Achievement. A Proud RASG Moment.

We are immensely proud to celebrate Ali Waris, a distinguished RASG Scholarship Holder from our Karachi Office, for delivering an exceptional performance in the ICAP CFAP Examinations, Summer 2026.

Ali has earned an extraordinary four distinctions:

- ICAP Gold Medal in Advanced Corporate Reporting
- ICAP Gold Medal for successfully completing all CFAP papers in one attempt
- Merit Certificate in Strategic Business Finance
- Merit Certificate for overall performance in the CFAP Examination

Securing two Gold Medals and two Merit Certificates in one examination session is a truly outstanding accomplishment. It reflects Ali's remarkable intellect, unwavering discipline, consistency, and commitment to excellence.

Ali, your achievement has brought immense pride to the entire RASG family. You have set an inspiring benchmark for aspiring Chartered Accountants and demonstrated what can be achieved through focus, perseverance, and hard work.

At RASG, we take pride in providing an environment where talented professionals are encouraged to learn, grow, and achieve excellence. Ali's success is a powerful reflection of the exceptional caliber of our RASGians.

Please join us in giving Ali Waris a well-deserved round of applause for this historic achievement.

Congratulations, Ali. keep rising, keep inspiring, and keep making RASG proud!

Another Proud Milestone for RASG!

We are delighted to celebrate Hassnain Atta from RASG's Lahore Office on successfully qualifying the CA examinations.

This significant achievement reflects Hassnain Atta's dedication, perseverance, discipline, and unwavering commitment to professional excellence. The journey toward becoming a Chartered Accountant demands immense focus and resilience, and Hassnain Atta has demonstrated these qualities throughout his professional and academic pursuit.

Hassnain Atta, your success is a proud moment for the entire RASG family. Your accomplishment inspires fellow RASGians and aspiring Chartered Accountants to remain determined, embrace challenges, and continue striving for excellence.

At RASG, we are committed to nurturing talent, encouraging continuous learning, and providing young professionals with opportunities to grow into future leaders of the accounting profession.

Heartiest congratulations, Hassnain Atta!

May this achievement mark the beginning of many greater milestones in your professional journey.

Keep progressing, keep inspiring, and keep making RASG proud!

Another Proud Milestone for RASG!

We are delighted to celebrate Rizwan Sikandar from RASG's Lahore Office on successfully qualifying the CA examinations.

This significant achievement reflects Rizwan Sikandar's dedication, perseverance, discipline, and unwavering commitment to professional excellence. The journey toward becoming a Chartered Accountant demands immense focus and resilience, and Rizwan Sikandar has demonstrated these qualities throughout his professional and academic pursuit.

Rizwan Sikandar, your success is a proud moment for the entire RASG family. Your accomplishment inspires fellow RASGians and aspiring Chartered Accountants to remain determined, embrace challenges, and continue striving for excellence.

At RASG, we are committed to nurturing talent, encouraging continuous learning, and providing young professionals with opportunities to grow into future leaders of the accounting profession.

Heartiest congratulations, Rizwan Sikandar!

May this achievement mark the beginning of many greater milestones in your professional journey.

Keep progressing, keep inspiring, and keep making RASG proud!

Another Proud Milestone for RASG!

We are delighted to celebrate Talha Ishfaq from RASG's Islamabad Office on successfully qualifying the CA examinations.

This significant achievement reflects Talha's dedication, perseverance, discipline, and unwavering commitment to professional excellence. The journey toward becoming a Chartered Accountant demands immense focus and resilience, and Talha has demonstrated these qualities throughout his professional and academic pursuit.

Talha, your success is a proud moment for the entire RASG family. Your accomplishment inspires fellow RASGians and aspiring Chartered Accountants to remain determined, embrace challenges, and continue striving for excellence.

At RASG, we are committed to nurturing talent, encouraging continuous learning, and providing young professionals with opportunities to grow into future leaders of the accounting profession.

Heartiest congratulations, Talha Ishfaq!
May this achievement mark the beginning of many greater milestones in your professional journey.

Keep progressing, keep inspiring, and keep making RASG proud!

Another Proud Milestone for RASG!

We are delighted to celebrate Ibrahim Shah from RASG's Islamabad Office on successfully qualifying the CA examinations.

This significant achievement reflects Ibrahim Shah's dedication, perseverance, discipline, and unwavering commitment to professional excellence. The journey toward becoming a Chartered Accountant demands immense focus and resilience, and Ibrahim Shah has demonstrated these qualities throughout his professional and academic pursuit.

Ibrahim Shah, your success is a proud moment for the entire RASG family. Your accomplishment inspires fellow RASGians and aspiring Chartered Accountants to remain determined, embrace challenges, and continue striving for excellence.

At RASG, we are committed to nurturing talent, encouraging continuous learning, and providing young professionals with opportunities to grow into future leaders of the accounting profession.

Heartiest congratulations, Ibrahim Shah!
May this achievement mark the beginning of many greater milestones in your professional journey.

Keep progressing, keep inspiring, and keep making RASG proud!

Key Contacts

Corporate Office: Karachi

RASG Tower,
7C, Zulfiqar Commercial Street 4,
Phase VIII - A, DHA, Karachi.
Phone: 92 21 3493 2629, 34946112
Email: rasgkhi@rasgco.com

Lahore

Building No. 35 - D / E, Ali Block,
New Garden Town, Lahore.
Phone: 92 42 35940246-7
Email: rasglhr@rasgco.com

Islamabad

Office Nos. 06, 07 & 18, 3rd Floor,
Plot No. 08, Pak Land Business Centre,
I – 8 Markaz, Islamabad.
Phone: 92 51 2804245-6
Email: rasgisld@rasgco.com

GOHAR MANZOOR
Founder and Managing Partner
Email: gohar@rasgco.com

MUHAMMAD ALI RAFIQUE
National Partner - Audit
Email: muhd.ali@rasgco.com

MUHAMMAD KAMAL GOHAR
National Partner - Advisory
Email: kamal@rasgco.com

MOHAMMED KAMIL GOHAR
National Partner - Taxation
Email: kamil@rasgco.com

BABAR HABIB
Partner
Email: baber@rasgco.com

FAREED HUSSAIN SIDDIQUE
Director - Taxation
Email: fareed@rasgco.com

PROF. DR. MUHAMMAD OVAIS
Executive Director
Email: ovais@rasgco.com

info@rasgco.com **www.rasgco.com**

rasgco **company/rasgco**