The Lahore Tax Bar Association

(Since 1947)

Session 2025-26

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January 18, 2026

Mian Muhammad Shahabaz Sharif

The Honorable Prime Minister
Islamic Republic of Pakistan
Prime Minister's Office
Islamabad

Subject: SYSTEMIC FAILURES WITHIN FBR AND THEIR ADVERSE IMPACT ON THE NATIONAL ECONOMY.

Respected Prime Minister,

With profound respect and a deep sense of national responsibility, we submit this representation to draw your kind attention to the grave, persistent, and systemic governance failures prevailing within the Federal Board of Revenue (FBR). As the apex revenue authority of the country, the FBR's lawful, transparent, and facilitative functioning is indispensable for economic stability, investor confidence, and public trust. Regrettably, the practices presently observed within its field formations reflect serious institutional deficiencies that demand urgent and decisive intervention at the highest level.

If left unaddressed, these issues pose a serious threat to institutional credibility, voluntary compliance, sustainable revenue mobilization, and the broader reform agenda of the Government. The principal areas of concern, need immediate policy level review, are outlined below:

COLLECTIVELY SYSTEMIC FAILURES:

1. Chronic Delay in Notification of Income Tax Return Forms:
The persistent delay in notification of income tax return forms, in violation of Rule 34A of the Income Tax Rules, 2002, creates nationwide uncertainty in tax compliance planning. Businesses, professionals, and investors are unable to assess their tax obligations in advance, leading to rushed filings, increased errors, and avoidable disputes. At a macroeconomic level, this unpredictability weakens fiscal planning, delays revenue realization, increases litigation costs, and undermines the credibility of Pakistan's tax administration in the eyes of domestic and foreign investors.

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2. Excessive and Unlawful Exercise of Recovery Powers:
The initiation of recovery proceedings without lawful determination of tax liability has far-reaching economic consequences. Arbitrary attachment of bank accounts and seizure of assets disrupts cash flows, halts production cycles, and undermines business solvency. Instead of improving revenue collection, such practices push businesses into informality, reduce declared incomes, and ultimately shrink the tax base, resulting in long-term revenue loss for the national exchequer.

3. Unjustified Raids and Inspections:
Unwarranted raids and inspections conducted without reasonable grounds severely damage Pakistan's business environment. These actions interrupt manufacturing, logistics, and retail operations, causing financial losses and reputational harm. At the national level, the perception of harassment and unchecked enforcement discourages entrepreneurship, deters foreign direct investment, and positions Pakistan as a high-risk jurisdiction for business operations.

4. Arbitrary Imposition of Embargoes:
The arbitrary imposition of embargoes under section 175C of the Income Tax Ordinance, 2001 immobilizes business assets and paralyzes commercial activity. Such actions reduce industrial output, delay exports, and disrupt supply chains. The resulting contraction in economic activity directly affects employment levels, export earnings, and government revenue, while fostering capital flight and business relocation to more predictable jurisdictions.

5. Coercive Recovery Measures without Due Process:
Coercive enforcement without due process creates an adversarial tax environment focused on short-term recoveries rather than sustainable revenue. This approach discourages voluntary compliance, increases tax evasion, and weakens institutional legitimacy. From a macroeconomic perspective, it damages Pakistan's governance indicators, raises country risk premiums, and increases the cost of capital for businesses operating in the country.

6. Unlawful Recovery of Advance Tax:
Arbitrary recovery of advance tax under section 147 without lawful and reasoned orders severely strains business liquidity. Working capital shortages hinder production, exports, and timely fulfillment of contracts. On a national scale, this suppresses economic growth, reduces export competitiveness, and adversely impacts foreign exchange earnings, further aggravating balance-of-payments pressures.

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7. Persistent IRIS System Downtime and Operational Failures:
Frequent failures of FBR's digital systems disrupt tax compliance nationwide. Businesses incur penalties and compliance costs due to system outages beyond their control. At the economic level, unreliable digital infrastructure undermines Pakistan's digitization agenda, weakens ease-of-doing-business indicators, and signals institutional inefficiency to global investors and development partners.

8. Deficient Digital Governance and Oversight:
The absence of effective governance over digital initiatives has resulted in poorly designed systems that hinder, rather than facilitate, compliance. Repeated rule changes without testing create uncertainty and increase administrative friction. Economically, this discourages formalization of businesses, reduces tax documentation, and negates the intended benefits of digital transformation.

9. Chronic Delay in Issuance of Refunds:
Delays in income tax and sales tax refunds have one of the most severe economic impacts. Large amounts of legitimate business capital remain blocked with the FBR, particularly affecting exporters. This liquidity crunch restricts production capacity, delays export orders, increases borrowing costs, and erodes Pakistan's competitiveness in international markets, leading to reduced foreign exchange inflows and job losses.

10. Undue Hurdles in Filing Sales Tax Returns under SRO 350(I)/2024:
Procedural barriers introduced through SRO 350(I)/2024 have resulted in widespread blocking of sales tax returns. Non-filing due to system constraints leads to penalties, suspension of registrations, and disruption of supply chains. At a national level, these hurdles discourage compliance, increase informality, and weaken revenue collection instead of strengthening it.

11. Poor Quality and Arbitrary Assessment Orders:
Assessment orders based on assumptions rather than evidence distort revenue figures and generate excessive litigation. Businesses divert time and resources from productive activities to dispute resolution. Economically, this reduces productivity, increases transaction costs, and undermines the credibility of official revenue data used for fiscal planning and international reporting.

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12. Issuance of Unlawful Notices for Harassment:
The indiscriminate issuance of notices without lawful basis fosters a climate of fear and mistrust. Businesses adopt defensive strategies, including under-reporting and disengagement from the formal economy. This behavior narrows the tax base, reduces sustainable revenue, and weakens the social contract between the state and taxpayers.

13. Undue Suspension and Blacklisting of Sales Tax Registrations:
Suspension or blacklisting of sales tax registrations without due process instantly shuts down business operations. The resulting disruption affects suppliers, distributors, employees, and exporters. At the macroeconomic level, such actions contribute to unemployment, reduced industrial output, supply chain breakdowns, and loss of investor confidence.

OVERALL ADVERSE IMPACT ON THE NATIONAL ECONOMY OF ABOVE SAID SYSTMETIC FAILURES:

1. **Discouragement of Domestic and Foreign Investment:**
   The prevailing enforcement-centric and unpredictable regulatory environment within the FBR has significantly discouraged both domestic and foreign investment. Arbitrary assessments, sudden recoveries, raids, embargoes, and suspension of registrations create an atmosphere of uncertainty and regulatory risk. Investors are unable to forecast tax liabilities or ensure continuity of operations, leading to postponement, downsizing, or cancellation of investment projects. Foreign investors, in particular, perceive Pakistan as a high-risk jurisdiction where compliance does not guarantee protection, resulting in capital flight and diversion of investments to more stable regional markets.

2. **Reduction in Export Competitiveness and Foreign Exchange Earnings:**
   Export-oriented industries are disproportionately affected by delayed refunds, blocked returns, system failures, and coercive recovery measures. The withholding of legitimate refunds and working capital shortages increase production costs, delay shipment schedules, and weaken price competitiveness in international markets. Consequently, Pakistani exporters struggle to meet contractual obligations, lose international clients, and forfeit market share, leading to a decline in export volumes and foreign exchange inflows, further aggravating balance-of-payments pressures.

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3. **Increase in Unemployment and Business Closures:**
Arbitrary enforcement actions, prolonged disputes, and liquidity constraints force many small and medium enterprises to scale down operations or cease business altogether. Suspension or blacklisting of sales tax registrations abruptly halts commercial activity, disrupts supply chains, and leads to layoffs across multiple sectors. As businesses close or relocate, employment opportunities diminish, increasing unemployment and placing additional strain on social and economic stability.

4. **Narrowing of the Tax Base Instead of Broadening:**
Instead of encouraging voluntary compliance and documentation of the economy, current practices have alienated compliant taxpayers and discouraged new entrants into the formal tax net. Fear of harassment, excessive litigation, and unpredictable enforcement drives businesses toward informality or under-reporting. This contraction of the documented economy directly contradicts national objectives of tax base broadening and results in a smaller pool of compliant taxpayers bearing a disproportionate tax burden.

5. **Undermining of Fiscal Stability and Long-Term Revenue Sustainability:**
Short-term recovery-driven enforcement inflates artificial revenue figures while undermining sustainable revenue generation. Excessive litigation, refund backlogs, and business contraction reduce the predictability and durability of tax revenues. As economic activity slows and compliance declines, the government's ability to plan budgets, service debt, and finance development projects is weakened, threatening overall fiscal stability.

6. **Damage to Pakistan's International Credibility in Governance and Ease of Doing Business**
Persistent governance failures within the FBR negatively impact Pakistan's standing in international governance indicators, investor risk assessments, and ease-of-doing-business perceptions. Development partners, international financial institutions, and global investors view weak tax administration and lack of due process as indicators of institutional fragility. This damages Pakistan's credibility in negotiations, increases borrowing costs, and limits access to international capital and development financing.

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7. **Structural Impediment to National Development:**
   Rather than functioning as a facilitator of economic growth and reform, the current enforcement-centric approach of the FBR has become a structural impediment to national development. By prioritizing coercion over compliance, and short-term recoveries over long-term growth, the tax administration inadvertently suppresses investment, employment, exports, and revenue sustainability, undermining the very objectives it is mandated to achieve.

In view of the foregoing, it is respectfully submitted that immediate, decisive, restore rule of law, due process, institutional accountability and structural reforms within the Federal Board of Revenue are no longer optional but imperative for safeguarding Pakistan's economic future. Continued tolerance of arbitrary enforcement, weak governance, and disregard for due process will further erode investor confidence, shrink the documented economy, and compromise long-term fiscal sustainability. A transparent, predictable, and facilitative tax administration will the cornerstone of economic revival, export growth, and employment generation.

Honorable Prime Minister your timely intervention to restore legality, accountability, and institutional discipline within the FBR will not only protect compliant taxpayers but also reinvigorate confidence in state institutions, strengthen the social contract, and place Pakistan firmly on the path of sustainable growth and national development and also will strengthen the rule of law, improve revenue administration, enhance investor confidence, and reaffirm the Government of Pakistan's commitment to institutional excellence.

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Copy to:

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2. The Chairman, Federal Board of Revenue (FBR), Islamabad.,

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