

**THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

COMPLAINT NO. 12409/SKT/IT/2026

Dated 06.07.2026* R.O. Lahore

M/s Malik MIJ Chunxing Resources Recycling Co. Ltd,

Plaza # 08-CCA1, 3rd Floor, 3rd Floor,
Street # 23, Phase 6, DHA, Lahore.

... Complainant

Versus

The Secretary,
Revenue Division,
Islamabad.

... Respondent

Dealing Officer	: Mr. Ahmad Shuja Khan, Advisor
Appraised by	: Mr. Muhammad Tanvir Akhtar, Advisor
Authorized Representative	: Mr. Rana Tahir, Advocate
Departmental Representative	: Mr. Ali Mansoor, ADCIR, CTO, Lahore
Date of hearing	: 27.08.2026 & 09.10.2026

FINDINGS

The above-mentioned complaint has been filed under Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) against non-issuance of refund of Rs.232.037 million for Tax Year 2025.

2. Brief facts of the case are that the Complainant, having NTN 4317107-9, is a private limited company. The Complainant filed its Income Tax Return for Tax Year 2025 declaring total income of Rs.548,117,080/- and tax chargeable of Rs.6,996,863/-. Against the said tax liability, the Complainant declared total tax paid/deducted of Rs.239,034,501/- and consequently claimed refundable income tax of Rs.232,037,638/-. The Complainant thereafter filed an application for refund under Section 170 of the Income Tax Ordinance, 2001 on 16.01.2026, claiming refund of Rs.232,037,638/-.

3. The Complainant contended that despite filing the refund

* Date of registration in FTO Sectt:



application and furnishing the requisite supporting record, the Department failed to process and issue the refund. The Complainant alleged that the continued withholding of its legitimate refund without communicating any lawful objection/reason constituted maladministration. The Complainant further relied upon the tax deductions/collections reflected in its return, including amounts under Sections 148, 151, 153, 231B, 235, 236, 236A, 147 and 154. The Complainant stated that the tax payments/deductions were duly reflected in the Income Tax Return and were available for verification from IRIS, withholding statements, import documents, CPRs and other departmental records. The Complainant, therefore, requested that the Department may be directed to verify the refund claim and issue the admissible refund without further delay.

4. The complaint was sent for comments to the Secretary, Revenue Division, in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. The case was fixed for hearing and submission of para-wise comments, the only response submitted from CTO Lahore so far was that by virtue of transfer of jurisdiction, the said case has now been transferred by the Board through notification F.No.(2) Jurisdiction/2026-76323-R dated 14.07.2026, to LTO Lahore.

5. The Commissioner-IR, Zone-IV, LTO, Lahore submitted para-wise comments through letter dated 29.09.2026 which were forwarded by Chief Commissioner IR, LTO Lahore through letter dated 06.10.2026. Scrutiny of the said comments reveal that although the complainant has claimed refund on account of income tax, yet the main issues highlighted in the case by the department pertain to various actions and proceedings under specific provisions of Sales Tax Act 1990 which are briefly mentioned as under:

- (i) the registered person, reportedly, commenced its commercial production on 18.08.2018 and is engaged in



the manufacture of bullion lead through recycling of used lead-acid batteries (ULAB) and unwrought lead. Its manufacturing facility is situated at plot No.50, Phase 01-A, M-03, Industrial City, Sahianwala Interchange, Chak Jhumra, Faisalabad. The raw material is reportedly imported as well as purchased locally from registered and unregistered suppliers in bulk quantities;

- (ii) the registered person was allotted the status of Zone Enterprise by the Special Economic Zone Committee (Punjab) on 07.10.2016. The supplies of lead made to the alleged registered persons engaged in the manufacture of lead batteries are with effect from 01.07.2024 subject to 80% rate of withholding on account of sales tax, by the battery manufacturers under Serial No.07 of the Eleventh Schedule to the Sales Tax Act, 1990. It has also been reported that the registered person is availing benefits under the Export Facilitation Scheme (EFS) through SRO 957(1)/2021 dated 30.07.2021 for the importation of duty-free raw material. Furthermore, purchases from unregistered persons are reportedly subject to the sales tax withholding under Serial No.4 of the Eleventh Schedule to the Act.
- (iii) As regard alleged evasion of sales tax, the Unit Officer, on the basis of supra referred report of DCIR, Zone-III. CTO Lahore, has reported that examination of the sales tax returns for tax periods from July 2020 onwards revealed that the registered person was engaged in disposing of its by-products, primarily battery plastic chips/scrap, out of books without payment of the applicable sales tax. The report states that the basis of this observation was that the registered person had declared taxable supplies of battery plastic chips/scrap under HS Code 3915 to various registered as well as unregistered persons up to June 2020, it allegedly stopped declaring the taxable sale of these by-products, particularly battery plastic chip/scrap, in Annexure-C of its sales tax returns from the period July 2020 onwards.
- (iv) It has been further reported that proceedings under Sections 38 and 40 of the Sales Tax Act, 1990, were initiated after observing due process of law and certain record was impounded/seized from the manufacturing premises of the registered person on 31.05.2025. Subsequently, the registered person was summoned under Section 37 of the Act to appear in person and explain certain unaccounted-for transactions.



- (v) On account of persistent non compliance by the registered person, monitoring proceedings concerning production, sale of taxable supplies and stock position were initiated under Section 40B of the Sales Act, 1990 on 19.06.2025 and continued until 30.10.2025. During the monitoring proceedings, it was reportedly observed that the registered person deliberately and significantly reduced its production levels in an apparent attempt to mislead the Department, conceal the actual quantity of production and the consequent taxable supplies.
- (vi) the Commissioner-IR, CTO, Lahore suspended the sales tax registration of the registered person through order dated 24.09.2025 under Section 21(2) of the Sales Tax Act, 1990 on account of the alleged omission of tax fraud, refusal to furnish record and making substantial purchases from blacklisted/suspended persons whereas, the registration was subsequently, restored through order dated 30.09.2025. It has also been reported that criminal proceedings under Section 37A of the Sales Tax Act, 1990 were initiated on 15.10.2025 and show cause notice under Section 37(4)(a) of the Sales Tax Act, 1990 was issued on 04.12.2025. The registered person thereafter filed Writ Petition No.2277/2026 before the Hon'ble Lahore High Court, Lahore and Hon'ble Court issued a stay order.
- (vii) Scrutiny of the short/interim injunction of The Hon'ble Lahore High Court, Lahore in Writ Petition No.2277 of 2026 through order dated 15.01.2026 observed that the petitioners/complainant challenged the impugned notices dated 04.12.2026, 18.12.2026 and 01.01.2026 on the ground that the same have been issued without lawful authority and without determination of any tax liability. Further reference is given to principle settled by the Supreme Court in the judgement reported as "Directorate of Intelligence and Investigation FBR through Directors and Others vs Taj International and Others (2025 SCMR 633) and in the end the Hon'ble Court observed that **subject to notice, no coercive measures shall be taken against the petitioner, in the meanwhile**"

6. The AR of the complainant attended the proceedings on the due date put forward following contentions:

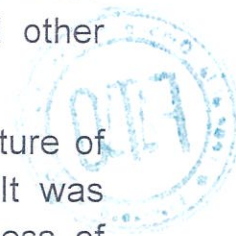
- i. The AR contended that the Department has not pointed out any specific deficiency in the refund application nor communicated any lawful reason for withholding the



refund.

- ii. The AR further stated that the tax deducted/paid by the Complainant is duly reflected in the return and is verifiable from the Department's own IRIS/JIS record and other supporting documents.
- iii. The AR was specifically asked as regards the nature of business and the subsequent claim of refund. It was clarified that the complainant was into the business of recycling of lead which was in turn sold out to the battery manufacturer whereas, the same was also partly sold to the Ordnance Factory as well to be used in the making of ammunition.
- iv. The AR further contended that the production facility of the complainant was situated in the Sialkot Industrial Zone and exemption had already been available to the complainant under clause (126E) Part I of Second Schedule to Income Ordinance, 2001. Despite being located in Special Economic Zone duly notified by the Government and collaborating business through foreign investment, the legitimate right has been denied by the department. It was pleaded by the AR that the refund application cannot be left pending indefinitely. The Department is legally bound to either issue the admissible refund or pass a reasoned order regarding any amount which, according to the Department, is not refundable.
- v. The AR therefore requested that the Department may be directed to finalize the refund claim and issue the admissible refund of Rs.232,037,638/- for tax year 2025 at the earliest.
- vi. It was mentioned that the refund amount represents excess tax paid/deducted over and above the tax chargeable for Tax Year 2025 and that the Department has failed to demonstrate any outstanding demand against the Complainant which could lawfully justify withholding the refund.

7. Scrutiny of available record shows a report issued by the Commissioner IR, Refund Zone LTO Lahore, addressed to his counterpart Commissioner IR Zone IV, LTO Lahore, mentioning





various issues which pertain to incidents of tax fraud in the instant complaint. It has reported that specific action was undertaken on account of tax fraud under Section 37A of Sales Tax Act 1990, whereas due to the order of the Honorable Court in the writ petition referred to above, the proceedings were held in abeyance and the Honorable Court restrained the department for taking any further action. Accordingly, the matter was referred to the Directorate of I&I, IR Lahore as well.

8. Accordingly, comments were sought from the Directorate of Intelligence and Investigation, IR Lahore, which were obtained in the shape of Intelligence Advisory report dated 30th of September 2026, and was addressed to the Chief Commissioner IR, LTO Lahore. The report primarily states that there are a number of areas along with multiple issues which suggest that the complainant cannot be absolved of tax fraud. The said inference was drawn by the Directorate after analysis of the available data and record which was shared by CTO Lahore. A summary of the same is briefly mentioned as under:

- i) To start with, an observation was made regarding suppression of taxable purchases of battery scrap and lead bullion along with suppression of taxable sale of battery plastic scrap and sale of bullion lead etc. It has been pointed out that the said issue involved tax of Rs.2.5 billion.
- ii) Analysis was conducted for the period during which 40B of the Sales Tax Act, 1990 was imposed from June to October 2024 vis-a-vis the same corresponding previous period during which 40B was not imposed. A summary of comparison for which a detailed working has been provided, shows a decline in production activity to the extent of negative 86% which in itself shows that the complainant has deliberately slowed down the production process in order to reveal its exact potential.
- iii) Another analysis was conducted for the period July 2023 to July 2026, on account of non-deduction of sales tax to be withheld on purchases. The main issue highlighted after categorization of local purchases was that the incidence of sales tax withholding @ 5% as per relevant

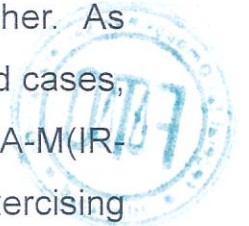
provisions of Sales Tax Act, 1990 has not been properly withheld by the complainant for which the incidence of tax was worked out at Rs.254.177 million.

- iv) Similarly, detailed analysis of six major Tier 1 suppliers of the complainant has been undertaken with respect to the purchases. Fake input worked out on the basis of reverse supply chain analysis reveal input tax at Rs.1.772 billion which has wrongfully been claimed by the complainant.
- v) Similarly, irrelevant mismatched HS codes have been identified for the suppliers whose line of business has no nexus with the goods supplied as reflected in Annex A of the Sales Tax Returns of the complainant. Cases of rice mills and general order suppliers have been traced, showing supplies of lead and raw materials related to battery manufacturing which otherwise is not ancillary to their core business. This arrangement has found to be dubious and involves huge quantities and amounts showing a consistently cooked up arrangement.
- vi) It has further been discussed that there are recurring nodes and circularity wherein the fictitious entries of suppliers have found out to be layered as analysis has been conducted up to three layers backward, confirming the contention that the inputs have not been properly claimed. Besides, irregularities have been observed in quantification of purchases i.e., the respective weights/quantities and the corresponding prices of the raw material which show a clear mismatch and huge discrepancies have been detected on this account.
- vii) In the end, it was recommended that complete record of the complainant was requisitioned from the concerned Zone of CTO Lahore so that detailed working on account of tax fraud under Section 37A of Sales Tax Act be conducted. Similarly, another observation was on account of concealment and recovery of non-withheld sales tax amounting to Rs.1.17 billion and for which legal action was required to be undertaken in terms of Section 111 of the Income Tax Ordinance. It was observed that if the complainant was found to have deducted/collected the said tax but did not deposit in the Government Exchequer, it was liable to proceedings on account of tax fraud u/s 2(37)(i) of Sales Tax Act, 1990. Apart from above, discrepancies in withholding tax, etc., were also pointed out requiring legal action u/s 161/205 of Income Tax Ordinance, 2001.



FINDINGS:

10. Scrutiny of the comments received from Commissioner-IR, Zone-IV, LTO, Lahore and especially a detailed advisory from the Directorate of I & I, IR Lahore, as discussed above show that the issues related to tax fraud are still required to be probed further. As per the recent amendments in proceedings related to tax fraud cases, Board has issued revised instructions through letter No.1(42)SA-M(IR-Ops)/2026/25980-R dated 03.03.2026 as an SOP for exercising powers conferred u/s 37A of Sales Tax Act. From the facts of the case especially that the matter is subjudice before the Hon'ble Lahore High Court as referred above, this office is barred by the jurisdiction in terms of Section 9(2)(a) of the FTO Ordinance, 2000. The complainant is advised to seek the necessary clearance from the Department and preferably and thereafter approach this forum again if required.



Dated: 21 OCT 2026
Azeem

(M. Zafar ul Haq Hijazi)
Federal Tax Ombudsman