

**THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

COMPLAINT NO.15936/KHI/ST/2026

Dated: 02.09.2026* R.O. Karachi

Mr. Atta Mohyuddin Khan,
M/s. Colony Textile Mills Limited
NTN 42285364
Colony Textile Mills Shersha Road,
House no,19 Mohallah officers Colony Multan.

... *Complainant*

V e r s u s

The Secretary,
Revenue Division,
Islamabad.

... *Respondent*

Dealing Officer	: Mr. Badruddin Ahmad Quraishi, Advisor
Appraising Officer	: Mr. Muhammad Tanvir Akhtar, Advisor
Authorized Representative	: Mr. Tabish, Adv
Departmental Representative	: Mr. Raheel Anwar, SAIR, LTO KHI : Mr. S.M Ibrahim, SAIR, LTO, KHI
Date of hearings	: 17.09.2026, 29.09.2026 & 08.10.2026

FINDINGS/RECOMMENDATIONS

The above-mentioned complaint was filed in terms of Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) for non processing of deferred sales tax refund claims for the tax periods Jan 2022 to Aug 2024 and annual refund claim for September 2024 arising in view of restriction u/s 8B.

2. Briefly, M/s. Colony Textile Mills Limited is engaged in the manufacturing of textile goods is registered with the Department under the Sales Tax Act 1990 (the Act). As per the AR of the complainant, the details of the pending deferred claims for processing are as follows:

Month	Refund Claimed	Refund Sanctioned	Deferred Amount	Claim No.
January 2022	1	-	2,654,053	C160122105177
February 2022	5,104,424	-	4,734,401	T160222104256
March 2022	12,171,626	7,935,490	1,619,310	T160322105303
April 2022	23,908,562	19,319,428	4,589,134	T160422105322
May 2022	16,725,154	12,869,894	3,855,260	T160522105254
June 2022	44,659,041	42,355,725	2,303,318	T160622105323

* Date of registration in FTO Sectt

July 2022	28,669,019	27,910,491	758,526	T160722105215
August 2022	33,002,504	30,284,809	2,717,695	T160822105334
September 2022	25,159,347	23,347,516	1,811,831	T160922105469
October 2022	13,120,210	11,997,124	1,123,087	T161022105677
November 2022	13,322,789	12,042,376	1,280,417	T161122106252
December 2022	8,233,120	7,174,248	1,058,872	T161222106135
January 2023	15,008,583	13,942,115	1,066,468	T160123104385
February 2023	30,767,322	12,869,264	17,898,058	T160223104210
March 2023	15,509,394	14,620,173	889,221	T160323104217
April 2023	20,528,468	18,066,858	2,461,610	T160423104221
May 2023	30,764,761	29,053,700	1,711,061	T160523104269
June 2023	18,707,353	15,512,143	3,195,210	T160623104252
July 2023	25,394,210	18,506,061	6,888,149	T160723104180
August 2023	26,357,255	26,300,358	56,897	T160823104127
September 2023	13,553,742	13,347,646	206,096	T160923103822
October 2023	15,706,416	15,234,443	471,973	T161023103720
November 2023	13,359,668	13,117,525	242,143	T161123103642
December 2023	7,915,392	7,875,616	39,776	T161223103688
January 2024	19,520,799	18,371,662	1,149,137	T160124103648
February 2024	4,493,895	4,434,738	59,157	T160224103699
March 2024	13,978,408	13,280,301	698,107	T160324103737
April 2024	5,879,718	5,862,632	17,086	T160424103672
May 2024	9,623,767	9,256,655	367,112	T160524103762
June 2024	9,146,094	9,009,803	136,291	T160624103727
July 2024	13,056,696	11,066,458	1,990,238	T160724103635
August 2024	13,044,061	12,798,929	245,132	T160824103443
September 2024	335,765,680	-	335,765,680	T160924103246
Total	882,157,479	477,764,181	404,060,506	



The complainant filed sales tax refund claims for tax periods Jan 2022 to Aug 2024 through the FASTER Refund system, but an amount of Rs.68,294,826/- remains pending on account of deferred refund claim before LTO, Karachi for processing. Besides the complainant also filed refund claim in September 2024 amounting to Rs. 335,765,680 arising in view of restriction of 90% input tax u/s 8B of the Act. After a lapse of considerable time, the Department did not process these refund claims, hence this complaint.

3. The complaint was referred to the Secretary, Revenue Division for comments in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. In response, the Commissioner-IR, Refund Zone, LTO Karachi,

vide letter dated 07.10.2026 has submitted comments stating that the complainant filed sales tax refund claims amounting to Rs. 882,157,477/- for various tax periods from January 2022 to September 2024. Out of this, Rs. 478,032,908/- was sanctioned through the FASTER system, while Rs. 402,985,745/- was deferred for further processing through STARR. It was explained that the deferred claims are subject to scrutiny and verification under the applicable provisions of the Sales Tax Act and Rules. For claims pertaining to January 2022 to June 2024, Show Cause Notice No. 259 dated 19.05.2026 has already been issued and proceedings are under examination, while the claims for July and August 2024 are subject to STARR objections/further verification. Moreover, the September 2024 claim under section 8B, the department stated that its processing requires departmental audit and the requisite value-addition certificate/report. The complainant had furnished only partial record and sought adjournment up to 10.10.2026 for compliance. The department further stated that proceedings under section 11E have been initiated in compliance with the earlier FTO complaint, and that refund claims are being processed on a FIFO basis in accordance with the Board's instructions dated 17.10.2024. The allegations of deliberate delay, non-compliance, or maladministration were denied, with the department maintaining that the claims will be finalized according to law after completion of the required scrutiny, verification, and submission of requisite documents.



4. Arguments heard and records perused.
5. Board's notification dated 17.10.2024 itself excludes Court/FTO cases from the operations of said circular. Moreover, statutory timelines for disposal of refund as provided under Sales Tax Act and Rules cannot be overturned/replaced through administrative instructions. This plea of FBR has already been dismissed by

Presidency in a large number of representations filed by FBR on this account. The matter has attained finality. Preliminary objection is therefore overruled.

FINDINGS:

6. As the Complainant's case involves differed refunds as well as **excess carry-forward amounts** or **input tax carried forward under Section 8B**. Legal position on both is detailed hereunder.

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- i. Timeline for processing sales tax refund claims deferred via the **FASTER** system:
 - **Memo Generation & Notification:** FASTER generates a deferred memo after 12 validation cycles, notifying both the taxpayer and field office.
 - **Document Submission:** Taxpayers have **7 days** from the memo date to submit required supporting records to the field office.
 - **Further Processing:** Non-compliance results in objection memos or show-cause notices, while compliant cases undergo STARR verification, examination, and Refund Payment Order (RPO) issuance.
 - **Statutory Limit:** Section 10(1) of the Sales Tax Act, 1990 mandates disposal within **45 days** of filing, excluding excess carry-forward or Section 8B input tax claims.
 - ii. FBR directives clarify that refund claims relating to **excess carry-forward amounts** or **input tax carried forward under Section 8B** do not fall under standard automated fast-track timelines (such as the FASTER system reserved primarily for zero-rated/export refunds) and undergo detailed manual/systemic scrutiny. Claims for excess carry-forward or input tax restricted under **Section 8B** of the Sales Tax Act, 1990 (which caps input tax adjustments at 90% of output tax for a given tax period) are finalized through the legal framework provided by the Sales Tax Act, 1990, and the Sales Tax Rules, 2006:

a. Under **Section 8B(2)** and the Sales Tax Rules, 2006, registered persons who are unable to adjust their input tax due to the Section 8B restriction may apply for a **refund** of the excess unadjusted amount, subject to specific statutory conditions:

- **Audited Accounts Condition:** In the case of registered persons whose accounts are subject to statutory audit under the Companies Act the refund claim for excess/unadjusted Section 8B input tax can be filed after the end of their financial year (or as prescribed by rules).

- **Submission of Requisite Documents:** Finalization requires verification of core compliance records, including:

- E-filed monthly sales tax returns (STR-7) and annexures.
- Sales and purchase invoices and Goods Declarations (GDs).
- Bank account details and proof of payment compliance under **Section 73** of the Sales Tax Act.
- Monthly sales/purchase registers and audit/undertaking documents.

Upon submission, the designated processing/refund officer verifies document completeness. Any objections or deficiencies must be communicated to the claimant within the prescribed legal framework of the Sales Tax Rules, 2006.

b. The unadjusted excess input tax (the portion exceeding the 90% limit, or general excess carry-forward) is not lost; it is **carried forward** to the next tax period and treated as input tax of that subsequent period.

c. Once an excess input tax amount is claimed as a refund under these rules, the claimant must ensure



the same amount is not simultaneously reflected or carried forward as an outstanding credit in subsequent monthly returns

- d. **Exceptions to the 90% Limit:** The cap does not apply to fixed assets/capital goods, or to sectors/persons specifically excluded or exempted by the Federal Board of Revenue (FBR) via official notifications (such as S.R.O. 1190(I)/2019).
- iii. In case of refund claim u/s 8B, the complainant is required to submit the requisite documents for processing in terms of Rule 34 read with Rule 29 & 30. During hearing as well as in parawise comments, the Deptt raised an objection against refund claim u/s 8B filed for September 2024 instead of August 2024 in accordance with the applicable provision of law. In response, the AR has submitted that due to one month late filing of the refund claim, there is no loss of revenue and the CIR may kindly condone the late filing. The comments of the AR carries weight as the Hon'ble Supreme Court of Pakistan in its judgment reported as PLD1998 SC 64 and this forum in a case reported as 2012 PTD 309, has held that the genuine refund could not be refused, even if refund applications were filed late. Moreover, the fundamental rights as enshrined in Article 24 (1) of the Constitution of Islamic Republic of Pakistan, 1973 postulate that: "No person shall be compulsorily deprived of his property save in accordance with Law".
- iv. Notwithstanding the above, while processing the desired ST refunds, the department apart from above is also required to ascertain whether;
- a. **M/S. COLONY TEXTILE MILLS LIMITED has filed audited account for Tax Years 2022 to 2025;**
- b. ***Related chunk of this amount of Rs. 404.060 million is declared as asset in the relevant business balance sheet or not. In case it is declared the stance of the Complainant would be vindicated otherwise it only indicates that the incidence of taxation had been passed on through inflating expenses. Hence, the refund claim needs to be examined***



in terms of section 3B read with last proviso to section 66 of the Sales Tax Act, 1990.

- v. Admittedly, the complainant, a manufacturer-cum-exporter filed sales tax refund claims for tax periods Jan 2022 to Aug 2024 through the FASTER Refund system, but an amount of Rs. 68,294,826 for Jan 2022 to Aug 2024 remains pending on account of deferred refund claim before LTO Karachi for processing. These refund claims are required to be processed within forty-five days of the filing of refund claims in terms of Section 10(1) of the Sales Tax Act 1990 (the Act). Delay on this account is established.

Non-processing of outstanding sales tax deferred refund claims for tax periods Jan 2022 to Aug 2024 within the prescribed period of forty-five days is tantamount to maladministration in terms of section 2(3)(i)(a)(b) & (ii) of the FTO Ordinance.

RECOMMENDATIONS:

7. FBR to direct the CIR, Refund Zone, LTO Karachi to:-
- to conclude the proceeding against deferred outstanding sales tax refund claims for Jan 2022 to Aug 2024, in accordance with law;
 - process refund claim for September 2024 amounting to Rs. 335,765,680 arising in view of restriction of 90% input tax u/s 8B of the Act in terms of Rule 34 read with Rule 29 & 30; and
 - report compliance within 45 days.

Dated:
Azeem

27 OCT 2026

(M. Zafar ul Haq Hijazi)
Federal Tax Ombudsman