

SUPREME COURT OF PAKISTAN
(Appellate Jurisdiction)

Present:

Justice Munib Akhtar
Justice Athar Minallah
Justice Shahid Waheed

C.P.L.A.2400-L/2022

(Against the judgment dated 12.04.2022 passed by the Lahore High Court, Lahore in STR No.5/2014)

The Commissioner Inland Revenue, ...Petitioner(s)
Lahore

Versus

M/s Eagle Cables (Pvt) Ltd, Lahore ...Respondent(s)

For the Petitioner(s) : Ch. Muhammad Zafar Iqbal, ASC

For the Respondent(s) : NR

Date of Hearing : 16.01.2025

ORDER

Shahid Waheed, J: This case involves a sales tax issue stemming from an order issued on the 12th of April, 2022, by a Division Bench of the High Court on an application filed by the Revenue—referred to as the petitioner—under section 47 of the Sales Tax Act, 1990 (**the Act**).

2. At the heart of this matter lies a straightforward yet significant question: Can the taxpayer, referred to as the respondent, be considered to have violated section 8(1)(d) of the Act, by claiming input tax adjustments based on fake invoices? To understand this question fully, it is essential to state, in brief, the facts surrounding the situation.

3. The Deputy Commissioner of Inland Revenue uncovered evidence suggesting that the respondent had improperly claimed input tax deductions relying on fake

invoices purportedly issued by two suppliers—I.J. Traders and DAG Enterprises. The status of these suppliers was indicated as blocked.

4. In response to these serious allegations, the respondent staunchly defended its position. It asserted that during the relevant taxable activities, the status of both suppliers was verified through the official website of the Federal Board of Revenue. This verification process revealed that the status of the suppliers was active at the time. The respondent argued that its purchases were executed in good faith as it fulfilled the necessary conditions for claiming input tax laid out in sections 7 and 73 of the Act. Therefore, it contended that it could not be held guilty of any contravention under the prevailing provisions of the law.

5. An examination of the records lends credence to the position taken by the respondent. The petitioner has failed to provide any concrete evidence indicating that invoices were issued to the respondent during any period of suspension or blacklisting. It is therefore admitted on all hands that at the time the purchases were made, the suppliers involved were neither blacklisted nor inactive. Furthermore, the payments for these purchases were processed through a legitimate banking channel, adhering to the procedures delineated in section 73 of the Act. It is now well established in legal precedents that if a transaction is conducted while the suppliers are active and duly registered, any invoices issued are not automatically invalidated by a

subsequent blacklisting or suspension of those suppliers. Therefore, it follows that the denial of refunds cannot be justified solely based on the later blacklisting of a supplier. In light of this context, according to sub-section (3) of Section 21, all purchasers, including the respondent, who procured goods before the suppliers' registration was suspended or they were blacklisted, and who complied with the conditions outlined in section 73 of the Act, were entitled to claim an adjustment of input tax.

6. So viewed, the demand raised by the Deputy Commissioner of Inland Revenue was unjustifiable, and, as such, it was rightly set aside by subsequent higher forums that reviewed the matter, affirming the respondent's position.

7. In light of this, the petition is found to be without merit and dismissed accordingly. Leave to appeal is refused.

Judge

Judge

Judge