INTERNATIONAL THE NEWS

April 09, 2025

KTBA calls for review of FIFO method in tax refund processing

KARACHI: The Karachi Tax Bar Association (KTBA) on Tuesday called for a re-examination of the first-in, first-out (Fifo) method in processing income tax and sales tax refund applications, urging that it be aligned with statutory requirements.

In a letter to the chairperson of the Federal Board of Revenue (FBR), the KTBA raised concerns stemming from the FBR's letter 'No4(10)Rev.Bud/2024-25/205490-R' dated October 17, 2024, which directed the adoption of the Fifo method for refund processing. The KTBA highlighted that, while systematic, the Fifo approach presents challenges and inconsistencies with various statutory provisions.

The association said that the Fifo methodology does not account for several contingencies in refund processing. For example, it fails to conform to the timelines mandated under Section 170(4) of the Income Tax Ordinance, 2001, and Sections 10(1) and 66 of the Sales Tax Act, 1990.

It further pointed out that older refund claims are often entangled in audits or documentation issues, which can create bottlenecks in the system and delay the processing of newer, verified claims. The law, through Section 171 of the Ordinance and Section 67 of the Act, provides for the payment of additional compensation on delayed refunds -- regardless of the cause of delay. The KTBA noted that while default surcharges under Sections 205 and 34 are strictly enforced, the same principle is not consistently applied to delayed refunds.

Moreover, under the sales tax regime, refunds are contingent upon meeting prescribed conditions, not the chronological sequence of claims. The Fifo method, it argued, creates exceptions for refunds that are otherwise mandated by orders from the Appellate Tribunal Inland Revenue (ATIR), the Federal Tax Ombudsman (FTO), or other courts. This disparity often leads to unnecessary litigation over refund realisation.

The KTBA urged the FBR to reconsider the Fifo directive and align it with statutory requirements. It also recommended exploring a hybrid approach that prioritises time-bound refunds, verified claims or sector-specific considerations.