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No fresh registrations: SMEs forced to run businesses with unregistered title: KTBA

KARACHI: The Small and Medium Enterprises (SMEs) are forced to run their businesses with an unregistered title due to what the Karachi Tax Bar Association (KTBA) claimed “virtual halt in fresh registration of taxpayers under the Sales Tax Act, 1990” by the Federal Board of Revenue (FBR).

In a letter addressed to the chairman FBR, the KTBA said that the measure aimed at curbing flying invoices and preventing abuse of input/output tax adjustments has created significant challenges for legitimate businesses.

“This unannounced freeze on new registrations has far-reaching consequences, especially for legitimate businesses. The SMEs are finding themselves unable to obtain sales tax registration, effectively forcing them to operate outside the formal economy,” the letter said.

“This not only hampers their ability to operate formally but also discourages compliance with tax laws,” it added.

The tax base is likely to shrink as emerging SMEs opt to run informally rather than navigate the registration impasse, countering the government’s goals of broadening the tax base.

Moreover, KTBA said that an uneven playing field has emerged, with unregistered businesses operating without contributing to the tax system, creating an unfair advantage over compliant taxpayers.

“The inability to register for sales tax threatens new investments and could significantly hinder the growth of startups and SMEs, which are critical for economic development and expanding the tax-to-GDP ratio,” the KTBA said.

Keeping the said in view, the KTBA suggested implementing enhanced verification mechanisms, including physical verification of business premises, bank account details, and supply chain verification in collaboration with the trade bodies.

Furthermore, the KTBA urged the introduction of a risk-based or provisional registration system initially for six months, and later, businesses with a low risk of non-compliance and

proven track records would be granted permanent registration, while high-risk businesses would undergo stricter scrutiny.

Similarly, the digital integration of IRIS with other government databases (such as NADRA, SECP, SRB, and PRA) could help verify applicant authenticity, while real-time monitoring of transactions could also detect and prevent flying invoices.

The KTBA said that FBR should adopt a balanced approach that targets fraudulent activities while facilitating genuine taxpayers, urging to liberalize economic and tax policies with the involvement of trade bodies and federations—an approach that has historically yielded positive results in various jurisdictions.