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TAX UPDATE

Stockbrokers and Sindh Sales Tax on Services

The Sindh High Court on KATS as a "place of business in Sindh"

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On 01.10.2026, a Division Bench of the Honorable Sindh High Court held that, from 01.07.2017, a stockbroker whose trades are executed through the Karachi Automated Trading System ("KATS") has a place of business in Sindh. Its brokerage is therefore a taxable service under the Sindh Sales Tax on Services Act, 2011, even where the broker serves its clients from an office outside Sindh.

For periods before 01.07.2017, the Court followed its earlier judgment in Summit Capital and held that such brokerage is not taxable in Sindh. This update summarizes the judgment, explains what it means for stockbrokers across Pakistan, and notes the questions which, in our respectful view, the Honorable Supreme Court may be asked to consider.

The judgment

The Honorable Sindh High Court decided two sales tax reference applications by a common judgment dated 01.10.2026 in Special Sales Tax Reference Application Nos. 182 and 183 of 2025, titled 'Zafar Securities (Pvt.) Ltd. v. Sindh Revenue Board'. The taxpayer is a stockbroker with its head office in Lahore and a branch in Karachi. It paid sales tax to the Sindh Revenue Board ("SRB") on the brokerage earned from its clients in Sindh, and to the Punjab Revenue Authority ("PRA") on the brokerage earned from its clients in Punjab and other provinces. SRB claimed that the brokerage earned on the clients outside Sindh was also taxable in Sindh, because the trades are matched and executed through KATS, which is owned and operated by the Pakistan Stock Exchange in Karachi.

Section 3(1) of the Act, as it then stood, made a service taxable if it was provided "by a registered person from his registered office or place of business in Sindh" in the course of an economic activity. Section 2(64) defines "place of business in Sindh". By the Sindh Finance Act, 2017, clause (b) of that definition was extended to a person who carries on an economic activity "through virtual presence or a website or a web portal or through any other form of e-Commerce".

For the periods before 01.07.2017, the Court followed the judgment of another Division Bench in the case of Summit Capital (Pvt) Ltd v. Assistant Commissioner (Unit-IV), SRB (2025 PTD 1733) ("Summit Capital"). Summit Capital had held that the KATS portal is not a "person" through whom a broker carries on its activity, and that services provided from an office outside Sindh were not taxable in Sindh. For the periods from 01.07.2017, the Court held that the amended definition applies. It held that a broker whose trades are executed through KATS carries on its economic activity, at least in part, through an electronic trading system situated in Sindh, and therefore has a place of business in Sindh. The Court declined to decide the questions of double taxation and of the constitutional limits on provincial taxation, holding that they did not arise out of the Tribunal's order and could not be determined in its reference jurisdiction.

What it means for stockbrokers across Pakistan

Every trading right entitlement certificate holder routes its clients' orders to KATS, and every trade on the exchange is matched there. It follows from the reasoning of the judgment that, for the periods from 01.07.2017, every stockbroker in the country may be said to have a place of business in Sindh, wherever its offices are and wherever its clients reside. SRB may therefore rely on the judgment to claim sales tax on brokerage earned by brokers in Lahore, Islamabad, Peshawar and Quetta, including on clients who have no connection with Sindh.

At the same time, the Punjab Sales Tax on Services Act, 2012 and the corresponding statutes of the other provinces and the Islamabad Capital Territory continue to tax brokerage provided to their own residents. The Punjab Act also contains the same "virtual presence" wording. The result is that a broker outside Sindh may face two claims on the same commission, one from SRB and one from the authority of its own province. A broker in Karachi serving clients in Sindh faces only one. The Punjab Act limits Punjab's claim, where a provider operates in more than one province, to the tax charged from Punjab residents, and refers disputes to the understanding between the Federal and Provincial Governments. The Sindh Act has no similar provision, and the National Tax Council has not yet put in place a mechanism for resolving such claims.

Our view before this judgment, following Summit Capital, was that brokerage provided from an office outside Sindh to clients outside Sindh was not taxable in Sindh. That remains the position for periods before 01.07.2017. For the later periods, the judgment, unless it is set aside, supports SRB's claims. SRB's own challenge to Summit Capital is pending before the Honorable Supreme Court, and we expect the Supreme Court to be asked to settle the question for both periods.

In the meantime, brokers outside Sindh may like to review their exposure from FY 2017-18 onwards, keep a clear record of the tax already deposited with their own provincial authority on the same turnover, and respond to any notice from SRB with that record in hand. Brokers who receive a demand should also consider the remedies available against it, and the protection of their position pending the decision of the Supreme Court.

Questions arising from the Judgment

The judgment is a careful one, and it gives effect to words which the Provincial Assembly added to the definition in 2017. However, in our respectful view, it leaves open several questions which the Honorable Supreme Court may be asked to consider.

Firstly, KATS is owned and operated by the Pakistan Stock Exchange, which provides the trading system to all of its members as part of its own business. The "virtual presence" limb sits in a clause which otherwise speaks of an activity carried on "through any other person such as an agent, associate, franchisee, branch, office". It may be argued that, read in that setting, the limb refers to a provider's own website, portal or digital presence, and not to a system owned and operated by a third party which every broker in the country uses.

Secondly, Section 3(1)(a) requires the service to be provided "from" a registered office or place of business in Sindh. In Summit Capital, the Court held that services provided from an office in Lahore were not taxable in Sindh, even though the provider also had an office in Karachi. The question is whether, even if KATS is treated as a place of business, a service performed by a broker in Lahore for a client in Lahore is provided "from" it.

Thirdly, the provincial statutes are worded in the same terms, and each Provincial Assembly may make laws for its own Province under Article 141 of the Constitution. A reading under which every broker is taxable in Sindh, while also being taxable in its own Province, produces overlapping claims on the same service. The Supreme Court has held that double taxation is not to be inferred without clear words, and it may be asked whether the Act should be read so as to avoid that result.

Please feel free to contact us if you have any questions about the effect of the judgment on your own position.

This update is prepared by Mandviwalla & Zafar for general information. It summarizes a judgment of the Honorable Sindh High Court dated 01.10.2026 and does not constitute legal advice. Specific advice should be sought on the facts of any particular case.