

Lahore High Court: Tax Assessment Is Not a Precondition for an AMLA Money-Laundering Investigation

The Lahore High Court held that an AMLA investigation based on scheduled income-tax offences may proceed without waiting for final assessment of tax liability, while the prosecution must still prove the predicate offence, proceeds of crime and every element of money laundering.

Lahore High Court tax-law and anti-money-laundering analysis
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Case: W.P. No. 2928 of 2026 with eighteen connected petitions
Court and date: Lahore High Court | 24 September 2026
Bench: Justice Hassan Nawaz Makhdoom and Justice Khalid Ishaq
Result: Lead petition and eighteen connected petitions dismissed

The ruling in one sentence

The Lahore High Court held that an investigation under the Anti-Money Laundering Act, 2010 may begin and continue where the alleged predicate offences are scheduled income-tax offences without first waiting for a final determination of tax liability under the Income Tax Ordinance, 2001, because AMLA creates a distinct special criminal regime; however, the prosecution must still prove the scheduled offence, proceeds of crime, knowledge or reason to believe, and every other ingredient of money laundering in accordance with law.

The reported judgment is Mahmood Akbar v Federal Board of Revenue etc., W.P. No. 2928 of 2026 with eighteen connected constitutional petitions. A division bench comprising Justice Hassan Nawaz Makhdoom and Justice Khalid Ishaq reserved judgment on 2 July 2026 and announced it on 24 September 2026. Justice Khalid Ishaq authored the judgment, which was approved for reporting.

Why the petitions were filed

The petitioners were taxpayers registered under the Income Tax Ordinance, 2001. The Directorate General of Intelligence and Investigation Inland Revenue initiated proceedings under AMLA read with relevant provisions of the Income Tax Ordinance. According to the department, notices and opportunities to explain the transactions were followed by registration of FIRs and consequential proceedings based on alleged predicate offences.

The petitioners challenged the assumption of jurisdiction, registration of the FIRs, notices and summons. Their central case was that the alleged tax liability had to be determined through the statutory assessment and appellate machinery before an income-tax offence could operate as a predicate offence under AMLA. Some petitioners also relied on tax proceedings said to have concluded in their favour, limitation under the tax regime, and the constitutional guarantees of due process and fair trial.

Other objections concerned the authority of DG I&I and its investigating officers, the use of suspicious transaction reports, the form in which criminal proceedings were initiated, and the validity of SRO 425(I)/2016 through which specified income-tax offences were included in Schedule I to AMLA.

The principal legal question

The Court identified the main question as whether AMLA proceedings founded on alleged offences under the Income Tax Ordinance could be initiated or continued without first determining the corresponding tax liability under the Ordinance.

The petitioners treated tax determination as a jurisdictional precondition. Their argument was that until the fiscal liability was quantified through assessment, there could be no established predicate offence and therefore no proceeds of crime capable of supporting a money-laundering case.

The Court declined to accept that proposition as an absolute rule. It distinguished the fiscal process for assessment, determination and recovery of tax from the criminal process created by AMLA.

Tax proceedings and AMLA proceedings occupy different fields

Assessment under the Income Tax Ordinance determines the taxpayer's fiscal liability. AMLA, by contrast, investigates and prosecutes a separate statutory offence concerned with property alleged to be proceeds of crime and the manner in which that property is acquired, possessed, used, transferred, concealed or disguised.

The Court reasoned that conduct does not lose its criminal character merely because the same facts may also produce civil or fiscal consequences. Civil and criminal remedies may proceed simultaneously, even where their subject matter overlaps, because their purposes, standards and consequences differ.

The availability or pendency of tax proceedings therefore does not by itself exclude an AMLA investigation where the statutory ingredients of money laundering are alleged. An investigating officer under AMLA is not conducting a tax assessment for recovery; the officer is examining the alleged criminal origin and subsequent handling of property.

Why prior conviction or final assessment was not required

The Court placed particular weight on the structure of AMLA. Section 2 defines predicate offence and proceeds of crime, while section 3 creates the substantive offence of money laundering. Explanation II to section 3 expressly states that conviction for the respective predicate offence is not required for proving money laundering.

The Court treated this as a deliberate legislative separation between the existence and proof of criminal activity and the requirement of a prior formal conviction. The scheduled offence remains foundational: without an underlying crime there can be no proceeds of crime. But that does not mean an investigating agency must obtain a conviction or await final civil assessment before it can investigate the independent AMLA offence.

Sections 8 and 9 regulate attachment and the opportunity to contest it; section 21 makes the offence cognizable and provides for registration of an FIR; section 23 supplies an appellate remedy; and section 39 gives AMLA overriding effect. Read together, these provisions establish a special and self-contained framework for investigation, attachment, adjudication and prosecution.

Scheduled income-tax offences remain essential

The judgment does not remove the need for a predicate offence. Sections 192, 192A, 194 and 199 of the Income Tax Ordinance are included in Schedule I to AMLA where the tax sought to be evaded is ten million rupees or more. Their inclusion brings those specified offences within the statutory definition of predicate offence.

The prosecution must therefore prove the relevant scheduled offence and connect the property in question to criminal activity. It must also prove the accused's knowledge or reason to believe and the conduct falling within section 3. Suspicion, an unexplained transaction or the absence of a satisfactory tax explanation does not by itself guarantee conviction.

The Court stressed that the criminal standard remains stringent. If the evidentiary chain breaks or a reasonable doubt arises, the accused receives its benefit. Acquittal also has consequences for property attached under the statutory scheme.

Placement, layering and integration are factual descriptions

The department presented allegations categorized as placement, layering and integration. The Court explained that these internationally recognized expressions describe how laundering may occur, but they are not separately defined statutory elements of the charge under section 3.

The prosecution must prove the actual ingredients enacted by Parliament: proceeds of crime, the relevant dealing with property, and the required mental element. Whether the transactions in these cases truly amounted to criminal placement, layering or integration remained a factual matter for investigation and, where prosecution followed, for the competent court on evidence.

At the constitutional stage, the Court did not accept those allegations as established facts. It held only that they went beyond a simple computation of unpaid tax and required investigation rather than summary determination in writ jurisdiction.

AMLA procedure could not be replaced by the general law

The petitioners questioned the use of terms such as police station, police officer, investigating officer and complaint by reference to the Code of Criminal Procedure and other enactments.

The Court held that statutory expressions take their meaning from the enactment, context and object in which they appear. AMLA expressly identifies DG I&I as an investigating and prosecuting agency and creates its own process involving reporting entities, suspicious transaction reports, analysis by the Financial Monitoring Unit, referral, inquiry, investigation and court-supervised measures.

Applying the principle that a special law prevails over a general law to the extent of inconsistency, the Court held that the AMLA mechanism could not be displaced by importing a different procedure from the general criminal law or the tax-assessment regime.

Due process depended on the statutory framework

The petitioners placed Articles 4 and 10A of the Constitution at the centre of their challenge. The Court accepted the importance of due process but emphasized that its requirements must be assessed in the factual and statutory setting of each case.

AMLA provides procedures for inquiry, attachment, notice, hearing, appeal and trial. The existence of those safeguards and remedies was relevant when the petitioners asked the High Court to terminate the process at its inception.

During the hearing, the authorized departmental officers stated that the petitioners would not be arrested provided they joined the investigation. The judgment recorded that assurance while separately deciding the legal validity of allowing the investigations to proceed.

Why Taj International did not control these cases

The petitioners relied substantially on Directorate of Intelligence and Investigation-FBR v Taj International (Pvt.) Ltd., reported as PLD 2025 SC 633 and 2025 PTD 1270. That judgment arose under the Sales Tax Act, 1990 and addressed the relationship between assessment, quantified tax liability and criminal action within that statute.

The Lahore High Court held that Taj International could not be converted into a universal rule governing every AMLA case. AMLA has a different object, statutory text, ingredients, procedure and remedies. It creates an independent offence directed at proceeds of crime rather than another method for assessing or recovering tax.

The Court also noted that the relevant sales-tax provision had subsequently been amended. A precedent must be read for what it actually decides and in the context of the statutory language before the court. On that basis, Taj International did not establish that every AMLA investigation must remain suspended until income-tax assessment proceedings attain finality.

Limits of constitutional interference with an FIR

The High Court recognized that registration of an FIR and conduct of an investigation are amenable to judicial review where a clear jurisdictional defect, mala fide action or other exceptional circumstance is established.

But constitutional jurisdiction does not ordinarily replace the investigation or trial. The petitions raised disputed questions concerning the source and character of funds, alleged proceeds of crime, the petitioners' explanations, documentary material and the purpose of multiple transactions. Those issues required collection and evaluation of evidence.

The Court held that it could not assume the functions of DG I&I or the Special Court and decide those matters in advance. If challans were submitted, the accused could invoke the remedies available before the competent criminal court, including an appropriate application under section 249-A Cr.P.C.

The final outcome

The Lahore High Court dismissed the lead petition and all eighteen connected constitutional petitions. It refused to quash the FIRs or halt the AMLA proceedings at the investigation stage.

The judgment expressly clarified that its observations were confined to the legal questions raised before the High Court. They were not to prejudice the respective cases before the investigating agency or competent court, which must decide each matter according to the evidence and the law.

What the judgment does not hold

The judgment does not declare the petitioners guilty of tax offences or money laundering. It permits the statutory process to continue and leaves proof of the allegations to the proper forum.

It does not hold that every tax dispute can automatically become an AMLA case. The alleged predicate offence must be one included in Schedule I, the statutory monetary threshold and other requirements must be met, and the prosecution must establish proceeds of crime and the ingredients of section 3.

It does not dispense with tax law where assessment or recovery is sought. Fiscal liability remains governed by the Income Tax Ordinance and its own assessment and appellate processes. The holding is that final tax assessment is not an added jurisdictional condition for commencing an otherwise lawful AMLA investigation.

It does not make suspicious transaction reports conclusive evidence. Such material may trigger analysis and investigation, but criminal liability must ultimately be proved through admissible evidence under the applicable standard.

Practical implications for taxpayers and investigators

Taxpayers facing parallel proceedings should keep the two statutory tracks distinct. Their response should address both the tax position and the alleged flow, ownership, source and use of the property said to be proceeds of crime. Assessment orders, appellate decisions and limitation issues remain relevant evidence, but they do not automatically terminate an AMLA inquiry.

Investigators should identify the precise scheduled offence, monetary threshold, alleged property, link to criminal activity, conduct under section 3 and material supporting knowledge or reason to believe. Using AMLA merely as pressure for tax recovery would remain open to legal challenge because the Act addresses money laundering, not ordinary assessment or collection.

Counsel considering constitutional relief should isolate a genuine jurisdictional defect or exceptional circumstance. Where the dispute turns on the credibility of explanations, banking trails, beneficial ownership or the character of transactions, the High Court is likely to leave those factual questions to investigation and trial. The judgment permits investigation without prior final assessment while preserving the prosecution's full burden of criminal proof.

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