

TAXATION

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Articles

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S.R.O. 1180(I)/2016, dated December 31, 2016.

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Kind regards,

Huzaima Bukhari

Editor

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Concept paper on reverse charge mechanism

by
Nooruddin Pradhan, LL.M

Basic Principles of VAT

There are many differences in the way the value added taxes (VAT) are implemented around the world and across OECD countries (Pakistan is now signatory of OECD). Nevertheless, there are some common core features that can be described as follows:

- VAT is a tax on consumption paid ultimately by final consumers, however, collected by businesses.
- The system is based on tax collection in a staged process with successive businesses entitled to deduct input tax on purchases and account for output tax on sales. Each business in the supply chain takes part in the process of collecting the tax, remitting the proportion of tax corresponding to its margin i.e. on the difference between the VAT paid out to suppliers and the VAT charged to customers. In general, VAT impose the tax at all stages and normally allow immediate deduction of taxes on purchases by all but the final consumer.
- In principle, businesses should not bear the burden of the VAT itself and so there are mechanisms in place that allow for a refund or credit of the tax levied on transactions between businesses.
- Generally, VAT is not part of business decision or feasibility when the total sales are liable to VAT. However, in case sales are exempt from VAT, the respective VAT paid on purchases shall be the cost to the businesses.
- The application of VAT to international trade is based on the destination principle. This means that exports are free of VAT and imports are taxed on the same basis and at the same rate as local production. This destination principle is sanctioned by World Trade Organization rules.

Introduction of Reverse charge

In many VAT systems that operate an invoice – credit method, the VAT on cross-border business-to-business supplies of services and intangibles are collected by the reverse charge mechanism. This is a tax mechanism that switches the liability to pay the tax from the supplier to the customer.

What is its scope?

The reverse charge does not apply to supply of services where both the supplier and the customer belong to the same country. It only applies where services are supplied from one country by a supplier and are received by a service recipient of the other country.

What is the effect of the reverse charge?

If you can attribute the input tax due under the reverse charge to your taxable supplies/services (and so can reclaim it in full) then the reverse charge has no net cost to you. If you cannot (because, for example, you make exempt supplies/services) the effect is to make you pay VAT and that will be your cost.

Reverse charge mechanism and its adjustment under Pakistan Sales Tax Federal and Provincial Laws.**1. Goods****1.1 Reverse charge Mechanism**

Sales tax on VAT mode is being collected at import stage on the taxable goods on the concept of reverse charge basis under section 3(3)(b) of the Sales Tax Act, 1990 [ST Act] in a manner that a person is liable to pay sales tax on the goods imported by him.

- 1.2 Adjustability of sales tax paid at the time of import of goods under reverse charge mechanism is allowed under section 2(14)(b) read with section 7 of the ST Act. However, sales tax paid on reverse charge under provincial laws cannot be adjusted under section 2(14)(d) read with section 7 of the ST Act due to the fact that FBR webportal is not accepting the similar NTN of buyer (i.e. service recipient) and supplier of goods.

2.2 Services

After 18th Amendment of the Constitution of Pakistan, services are made taxable under provincial domain.

3. Sindh Sales Tax on Services Act, 2011. [SSTS Act].

- 3.1 Under section 3(2) of the SSTS Act a service that is not provided by a registered person shall be treated as a taxable service if the service is listed in the Second Schedule to SSTS Act and is provided to resident person by a non-resident person in the course of economic activity. Here, for the sake of discussion we treat non-resident person as a person living outside Pakistan. Under section 9(2) of the SSTS Act, where a service is taxable by virtue of sub-section (2) of section 3 the liability to pay the tax shall be on the person receiving the services.

3.2 Adjustability of sales tax under Reverse charge Mechanism

The adjustability of sales tax is allowed in SSTS in a way that in case a person receiving or procuring taxable services from a non-resident service provider based in a country outside Pakistan paying standard rate of sales tax.

4. Punjab Sales Tax on Services Act, 2012 [PSTS Act]

- 4.1 Reverse charge mechanism is illustrated under section 4(5) of the PSTS Act where rendering of taxable service originates from outside Pakistan but is received or terminated in Punjab, the recipient of such service shall be liable to pay the sales tax to the PRA.

4.2 Adjustability of sales tax paid on Reverse Charge Basis

Under Rule 6 of the Punjab Sales Tax on Services (Adjustment of Tax) Rules, 2012 no input tax adjustment is allowed which is paid under reverse charge mechanism inspite of paying standard rate of sales tax on services.

5. KPK Finance Act, 2013 [KPK Act]

5.1 Reverse charge mechanism is illustrated under section 20(5) of the KPK Act where rendering of taxable service originates from outside Pakistan but is received or terminated in Khyber Pakhtunkhwa, the recipient of such service shall be liable to pay the sales tax to the KPK.

5.2 Adjustability of sales tax paid on Reverse Charge Basis

Under Rule 49(2) of the KPK Draft Rules, no input tax adjustment is allowed which is paid under reverse charge mechanism inspite of paying standard rate of sales tax on services

6. Baluchistan Sales Tax on Services Act, 2015 [BSTS Act]

6.1 Reverse charge Mechanism is illustrated under section 4(5) of the BSTS Act where rendering of taxable service originates from outside Pakistan but is received or terminated in Baluchistan the recipient of such service shall be liable to pay the sales tax to the BRA.

6.2 Adjustability of sales tax paid on Reverse charge basis.

Adjustability of sales tax paid on Reverse charge basis is not expressly defined in the BSTS Act. However, since the Balochistan sales tax is taken on VAT mode, sales tax paid on reverse charge basis should be allowed.

Moreover, the BRA has almost adopted the SRB law and borrowed e-portal of SRB we understand that there would not be any problem in availing sales tax adjustment paid under Reverse charge Basis.

Conclusion and Recommendation

Sales tax paid under reverse charge basis is a valid input tax for adjustment under VAT mode as is being allowed in the case of acquisition of local taxable goods & services. Input tax on reverse charge mechanism is just like an input tax which is paid on import of goods and is allowed for adjustment.

Where the provincial sales tax laws do not allow adjustment against sales tax paid on reverse charge basis, the companies may firstly approach to the authorities to allow such input tax explaining the concept of VAT mode. On their denial, the companies may approach the High Court for legal remedy as was being done in the case when the FBR was not allowing input tax on the sales tax paid under provincial laws. Whereby, during the hearing before the High Court, Companies' lawyers pleaded that the sales tax under ST Act is taken on VAT mode and the sales tax paid under provincial laws is also under VAT mode and therefore, the input tax is the valid input tax for adjustment VAT mode. Consequently,

the High Court has given the order that the sales tax paid under provincial laws is allowed to the Companies. Now, the ST Act has also made necessary amendment in the section 2(14) of the ST Act allowing companies to take input tax paid under provincial laws. However, allowability of adjustment of sales tax paid on services under reserve charge mechanism against output under ST Act still needs to be settled either through dialogue with FBR or through Court.

New Chief Justice, old challenges

by

Huzaima Bukhari & Dr. Ikramul Haq

In any society, administration and dispensation of justice should be the top most priority. A society without a sound, reliable and speedy judicial system, which does not ensure effective dispensation of justice, cannot progress or even survive for a long. Administration and dispensation of justice under the various laws in Pakistan need serious attention as the entire system is at the brink of disaster. There is an urgent need to ensure quick dispensation of justice, enforcement of rule of law and independence of judiciary from the control of administration.

The initiative in the form of National Judicial Policy Making Committee (NJPMC), enforced from June 1, 2009, needs serious appraisal as it has failed to produce the desired results. In its concluding session on May 17, 2009, held under the chairmanship of then Chief Justice, the NJPMC approved the National Judicial Policy containing various short-term and long-term measures for early disposal of cases. The following were some of the steps proposed:

1. "All pre/post-arrest bail applications will be decided within seven days. Criminal cases, punishable with imprisonment up to seven years registered after January 1, 2009, would be decided in the shortest period, which should not exceed six months and cases punishable with imprisonment exceeding seven years, including punishment of death, should be decided within one year.
2. Special steps are suggested for improving the plight of prisoners. Provincial governments are directed to establish new jails at district level or enhance the capacity of existing jails by constructing new barracks. A High Court judge, along with District and Sessions judge, will carry out inspection of prisons periodically for ensuring compliance with prison rules and giving on the spot remedy/relief to the prisoners according to the law.
3. In civil matters, all writ petitions under the Article 199 of the Constitution should be fixed for preliminary hearing on the next date of its institution and disposed of as quickly as possible.

Writ petitions involving service matters, including promotion, transfer and admissions of students in professional colleges and allied matters, should be decided within 60 days. All stay matters under Order 39 Rule 1 & 2 read with section 151 CPC should be decided within 15 days of grant of interim injunction and in case of delay the reasons should be furnished to the high court.

4. Rent cases should be decided within four months in trial courts and appeals should be decided within two months. Family cases, including custody of minors, succession certificate, letter of administration, insolvency and maintenance, should be decided within six months. Civil appeals arising out of family cases, custody of minors and against interim order should be decided within 30 days.
5. Cases filed under Order 37 of CPC regarding suits upon bill of exchange, hundies or promissory notes shall be decided through summary procedure within 90 days.
6. Cases relating to banking and different taxes and duties such as income tax, property tax, etc., should be decided within six months.
7. Labour and environmental cases should also be decided through fast track. Judges of labour courts and tribunals should be appointed amongst the lawyers qualified for appointment to be a district and sessions judge.
8. Priority should be given to quick disposal of women cases, juvenile cases, rent cases, stay orders, bail matters, small claims and minor offences under the Small Claims and Minor Offences Courts Ordinance 2002. The power of small claims and minor offences court may be conferred to all civil judges.
9. For clearing backlog under different categories, special benches will be constituted for each category on the principal seat and branch registry of the Supreme Court and high courts. There will be commitment of judges to decide the old civil and criminal cases up to 2008 within one year. District judges will also adopt such measures that ensure handling of 50% of cases from backlog (filed on or before Dec 31, 2008) and 50% from current cases.
10. For conducting elections, the services of judiciary in future will not be available. The focus of judiciary will be on disposal of cases to redress grievances of the people by dispensation of justice. If the government feels that the election should be held under the supervision of the judiciary, then a request may come and the NJPMC would decide as to what extent and in what form help can be extended in the conduct of elections”.

After more than seven years, implementation of National Judicial Policy is still a far cry. The working of existing dispute resolution system, based on conventional appeal and review system under various statutes, is highly unsatisfactory. It confirms that unless there is total reformation of the system, these problems will persist. If causes for unnecessary and avoidable litigation in society are not removed, the system will remain choked. More and more judges will be required to cope with the ever increasing number of cases at all levels. Everybody is totally dissatisfied with the existing justice system. Those imparting justice complain of lack of facilities and extraordinary number of cases, the complainants cry for early orders but have to wait for years (sometimes decades), and the Government keeps on worrying about the blockade of colossal amount of money in litigation process.

Justice Mian Saqib Nisar, who took oath as 25th Chief Justice of Pakistan on last day of 2016, highlighted these issues in his speech on April 3, 2016 at his alma mater:

“I am not happy about the functioning of the current justice system in the country and the main reason behind its failure are judges themselves. I decided a case a few days ago which was 54 years old, which showed the failure of the judicial system. We are not making progress unluckily due to non-functioning of our justice system. It is a responsibility of the judges to provide justice to the people of this country. I believe that the confidence is a key to what I have achieved in his life, and this sheer confidence was inculcated in me by the Government College Lahore, where I had not only studied but also spent most cherished moments of my life. The basic difference between developed and under-developed countries is education and justice; the countries which have quality education and the rule of law are developed countries. Indeed, it has become mandatory that we immediately lay a foundation for a strong justice system and if we fail to lay this foundation, our sustainability will be in question. Laws are there but their effective implementation is lacking. We need to train our judges to strengthen the judicial system of the country”.

The right of access to justice for all citizens of State and even for aliens coming for temporary stays is a well-recognized inviolable right enshrined in the Constitution of Pakistan. It concludes **“the right to be treated according to law, the right to have a fair and proper trial and the right to have an impartial court or tribunal.** Justice therefore can only be done if there is an independent judiciary (PLD 1982 SC 146), totally separate from executive, comprising of competent judges.

The honourable apex court of Pakistan has elaborated the principle of separation of judiciary from executive in *Government of Baluchistan v Azizullah Memon* PLD 1993 SC 31 by holding that “**separation of judiciary from executive is the cornerstone of independence of judiciary**”. But practically, every regime has violated this principle. The most recent appointments under the present regime in tax and other tribunals speak for themselves. Recently, in the internal meetings, it was decided that all appointments in quasi-judicial fora, Federal Tax Ombudsman, chairman and members of the federal service and other tribunals will be made on the recommendations of the party leadership. The same was the declared policy of the previous government (Press statement of October 7, 2004 of then Federal Law Minister, Wasi Zafar).

It is a matter of record that none of the governments in Pakistan, military or civilian, has ever followed the directions of the honourable apex court. In the given Pakistani political milieu, it is imperative that all the judicial and quasi-judicial authorities should be regulated and supervised by the High Court under whose territorial jurisdiction they work. This is the only way to ensure independence of judiciary in its true substance and constitutional requirement [Article 203].

In the process of revamping our justice system there can be two choices; reform the existing system or introduce an entirely new structure. A national debate is needed on this issue. In a democratic setup it is necessary to debate a question of such a sensitive nature having far reaching effects on dispensation of justice and independence of judiciary. A thinker rightly pointed out that: *It is better to debate a question without settling it than to settle a question without debating it*—Joseph Joubert (1754 – 1824).

The following issues must be debated vis-à-vis problems faced by the existing judicial system and for meaningful judicial reforms:

Prevalent Problems:

- Quality of adjudicators/judges and provision for their training
- Specialised benches and appointment on ad-hoc basis of competent men to clear the back-log.
- Selection process
- Delays – due to heavy pendency or irrational distribution of work
- Ineffective controls and poor management
- Cumbersome and time-consuming procedures.

Objectives for change:

- Need for professional adjudicators/judges and their continuous on-job training. Appointment of specialists for clearing back-log working as special benches.
- Selection through parliamentary/public hearing process

- Simple and cost effective procedures and rapid disposal of cases

An efficient justice system can only be established if efforts are made to produce highly competent adjudicators at lower levels. It will help produce competent judges for higher courts in future. All existing appointments of members in all the special tribunals created under Article 212 must be placed before the Chief Justice of the province in which the members are performing their duties. The Chief Justice himself or any other Judge authorized by or committee appointed by him may look into such appointments to approve or disapprove the same, which would be binding on the Federal Government. All existing and future appointments in appellate tribunals must be screened by the judicial organ of the State.

It is vital for the success of judicial reform strategy to go for a paradigm shift rather than patchwork or some changes here and there. The system must be forward-looking and supportive of the modern day needs. We are still following the outdated procedures and methods whereas many countries have adopted e-system for filing of cases and their quick disposal through fast-track follow up.

The main aim of reform measures should be elimination of massive litigation and facilitating smooth running of affairs between the State and its citizens. Once both learn to act within the four corners of law, there will be substantial reduction in litigation.

It is shocking and painful that presently the state itself is the main litigant and source of litigation. The officers of different departments act unlawfully and usurp the rights of people. The highhandedness and arbitrary use of powers by state functionaries drags the citizens in courts, majority of whom cannot afford the costly litigation. In this scenario, the apex court should establish a commission, headed by a retired judge of Supreme Court, representing all stakeholders to determine the reasons for the existing sorry state of affairs. The Commission must also suggest agenda for comprehensive judicial reforms. The principles underlying reforms should be elimination of massive litigation and quick disposal of existing backlog as well as how to reduce occurrence of avoidable litigation in future. The Commission must suggest roadmap for efficient justice system involving all organs of state—Legislature, Judiciary and Executive.

One-window refund system can be introduced: FBR

The Federal Board of Revenue (FBR) can introduce a simple one-window system for obtaining refunds by those persons, who are not liable to file returns, but paying higher rates of withholding tax being treated as 'non-filers'.

Speaking as a guest in 'Paisa Bolta Hai' of Aaj News with Anjum Ibrahim here on Sunday, FBR Member and Spokesman Dr Muhammad Iqbal said, "We would try to introduce some system to simplify process for obtaining refunds, by those who are not liable to file returns but pay higher rates of withholding tax on different transactions."

Under the law, everyone, who intends to obtain refund, has to file return electronically. Obviously, the law has been specified for those having taxable income, but the same law is applicable to everyone. This is also applicable to cases of pensioners and students for which they have to get electronic registration with the FBR. Ideally, there should be a system to issue refunds to them under one-window operation.

Tax lawyer Waheed Shahzad Butt suggested that the budget (2017-18) introduce a one-widow facility for those seeking refunds in cases where persons are not liable to file returns and pay taxes. If the FBR wanted to maintain a difference between the filers and non-filers for the payment of withholding tax, the FBR should simplify procedure for the payment of refunds to those not liable to file returns.

The persons, who are not liable to file returns, should not go through the cumbersome process of enrolment/registration electronically.

He said that the difference between filers and non-filers should be maintained to ensure payment of taxes by those doing businesses but not registered with the tax department. However, it is unjustified to collect withholding tax from those who are not obliged to file income tax returns like students, housewives and pensioners. The Commissioner concerned having jurisdiction over non-filers must be empowered by the FBR to issue exemption certificates to those paying higher rates of withholding taxes, but not liable to file returns. The exemption certificates be issued to avoid deduction of tax from those not liable to file returns.

The FBR is getting revenue from non-filers, but such persons have included the amount of withholding tax paid in their cost of doing

business. The FBR can easily collect data of non-filers from bank transactions where tax has been deducted as non-filers, Waheed Shahzad Butt added.

To a query, the FBR spokesman stated that two major policy initiatives have been implemented in the past. Firstly, real estate and stock exchanges were properly brought under the regime of capital gains tax. Secondly, higher rates of withholding tax have been collected from non-filers of income tax returns to increase their cost of doing business.

When asked why family unit cannot file return collectively, he said that every individual has to file return having taxable income under the law. In Pakistan, if all transactions are documented, it is easy to differentiate between the filers and non-filers.

About the Tax Directory of Parliamentarians, Dr Muhammad Iqbal said that the level of compliance has been improved following publication of tax directory of Parliamentarians every year. Since publication of tax directory, there is a substantial increase in contribution made by the Parliamentarians. The FBR is issuing Annual Tax Directories includes names of parliamentarians, corporations, Association of Persons (AoPs) and individuals. Tax Directory of Parliamentarians covers tax details of all Members of Senate of Pakistan and the National Assembly of Pakistan and the Provincial Assemblies. It is easy to pick non-filer Parliamentarians on the basis of filers mentioned in the tax directory, the FBR Member added. – *Courtesy Business Recorder*

Number of return filers up by 50 percent, ECC told

The Economic Co-ordination Committee of the Cabinet was informed that there is 50 percent increase in the number of income tax return filers during the current fiscal year as compared to the same period of 2015-16. Sources told here on Saturday that the meeting of the ECC chaired by Finance Minister Ishaq Dar was submitted a proposal by the Federal Board of Revenue (FBR) for extension in date for reduced rate of 0.4 percent withholding tax on banking transactions for non-filers.

The ECC was further informed that through Finance Act 2015, a new section 236P was introduced in the Income Tax Ordinance 2001, whereby an adjustable advance income tax at the rate of 0.6 percent of the amount of transaction was levied which was to be collected by banking companies on all banking instruments and

other modes of transfer of funds through banks in case of persons who do not file income tax returns.

However, through the Income Tax (Amendment) Act 2016, the federal government was empowered to amend the rate of 0.6 percent on the recommendations of Economic Co-ordination Committee of the Cabinet. In exercise of these powers, the federal government reduced the rate from 0.6 percent to 0.3 percent up till 29-02-2016 and, subsequently, to 0.4 percent w.e.f. 1st March 2016 to 31st December, 2016, on the recommendations of ECC of the Cabinet. As recommendation of ECC of the Cabinet is mandatory, therefore it is proposed that the Economic Co-ordination Committee of the Cabinet may recommend to the federal government to extend the period of applicability of reduced rate of 0.4% to 31st March 2017 on banking transactions for non-filers under section 236P of the Income Tax Ordinance, 2001. Finance Minister Ishaq Dar has approved its submission to the ECC of the Cabinet, sources added. – *Courtesy Business Recorder*

FBR cuts ST on POL products

The Federal Board of Revenue (FBR) has reduced sales tax on different petroleum products from January 1, 2017 including high speed diesel oil, kerosene and light diesel oil. According to an SRO.1180(I)/2016 issued by the FBR, sales tax on motor spirit remains unchanged at 14.5 percent.

Sales tax rate on kerosene has been reduced from two percent to zero percent from January 1. Sales tax on high speed diesel oil has been decreased from 31 to 25.5 percent, reflecting a decrease of 5.5 percent. – *Courtesy Business Recorder*

Inter-city movement of POL products: government data to be used to finalise GST formula

The federal and provincial data pertaining to crude oil production/supplies, petroleum products and effective sales tax rate on POL products would be used to finalise an equitable mechanism or formula for sales tax collection on the services of inter-city transportation of POL products.

According to the letter of Member Tax Reforms Commission (TRC) Ashfaq Tola, who has been assigned to submit a comprehensive report on this issue, he sought data pertaining to 2015-16 and 2014-15 from the Ministry of Petroleum for finalisation of the

equitable mechanism or formula for sales tax collection on the services of inter-city transportation of petroleum (POL) products. The exercise is aimed at resolving issue between the Federal Board of Revenue (FBR) and provincial sales tax authorities regarding input tax adjustment on provincial sales tax on the services of inter-city transportation of POL products.

The letter of the member TRC has referred to a meeting held at the Ministry of Petroleum & Natural Resources to resolve the issue between the FBR and provincial sales tax authorities regarding input tax adjustment on provincial sales tax on the services of inter-city transportation of POL products. He was assigned to submit a comprehensive report on an equitable mechanism for collection of sales tax on services of inter-city transportation of petroleum products.

In this connection, information will be required for the last two years ie form July 2014 to June 2015 and from July 2015 to June 2016 preliminary: local crude oil production (in barrels) for each province; quantity of crude oil supplied to refineries within the province by each province (in barrels for each province); quantity of crude oil supplied to refineries outside the province by each province (in barrels) and quantity of petrol and diesel originated by each province from OMCs and supplied to each province and areas under Federation in following format (in litres).

Data also included average rent of Oil Tankers per litre with respect to supplies both within and inter-province for each province in the format as under (Oil Tankers Contractors' Association may be directed to provide this information): The member TRC has also sought data pertaining to the effective sales tax rate (after adjustment of input taxes) with respect to each provincial revenue authority/board and FBR for the last two years.
– *Courtesy Business Recorder*

GST on transportation services: provinces to hold applicability in abeyance till March 31st

The provincial governments would issue necessary notifications to hold in abeyance the applicability of sales tax on transportation services till March 31, 2017. Sources told here on Monday that a meeting under the chairmanship of additional secretary, Ministry of Petroleum and Natural Resources, was held to discuss and resolve the issues regarding imposition of sales tax on transportation services by the provincial governments.

The notifications for applicability of sales tax on transportation services would be held in abeyance by provincial governments till March 31, 2017. The aim of the whole exercise is to finalise an equitable mechanism or formula for sales tax collection on the services of inter-city transportation of POL products. The issue would be resolved between the Federal Board of Revenue (FBR) and provincial sales tax authorities regarding input tax adjustment on provincial sales tax on the services of inter-city transportation of POL products.

After thorough discussions with all the stakeholders, the following decisions have been taken:

Firstly, Sindh Revenue Board (SRB)/ Punjab Revenue Authority (PRA) would furnish their agreed stance on the issue of sales tax collection based on the origination/destination and tax nature based on single/reduced rate duly endorsed by Khyber Pakhtunkhwa Revenue Authority (KPRA) and Balochistan Revenue Authority (BRA).

Secondly, Ashfaque Tola, Legal/Tax Consultant of Oil Tankers Contractors Association (OTCA) will submit proposals for permanent resolution of the subject tax including registration of either oil tankers companies with provincial revenue authorities or OMCs, as withholding agents, latest by 15th January, 2017 to the Ministry of Petroleum and Natural Resources.

Thirdly, Ministry of Petroleum and Natural Resources would share these proposals to all the concerned stakeholders for convening a meeting by the end of January, 2017 in order to conclude the matter.

Fourthly, the provincial governments would issue necessary notification for extending the applicability of subject sales tax till March 31, 2017. – *Courtesy Business Recorder*

FBR chief presides over passing-out ceremony

The Federal Board of Revenue (FBR) Chairman Nisar Muhammad Khan presided over a passing out ceremony of 43rd Common at the Inland Revenue Service on Monday. As many as 61 officials, including 26 female officers, passed out and received certificates from the Chairman FBR. He also distributed commemorative shields to the position holders including Umar Hayat Malik, Mehk Fatima and Kamran Hussain.

The chairman FBR termed the Inland Revenue Service as the best service in the country. – *Courtesy Business Recorder*

FTO holds workshop for medium, small scale enterprises

Federal Tax Ombudsman (FTO) has organised an awareness workshop regarding its project titled “Public Awareness and Advocacy About Dispute Resolution Mechanism of Federal Tax Ombudsman” for medium and small scale enterprises on Monday at a local hotel of Lahore.

M Asif, Director General Administration FTO, shed light on the historical perspective of the Ombudsman office. He said at present, there are 150 Ombudsman offices in the world. In Pakistan, the Ombudsman office was established in 1983 and in year 2000, an independent office of Federal Tax Ombudsman was established. He elaborated in detail the complaint filing procedure and other available facilities provided by the FTO office to aggrieved taxpayers.

He said the mandate of FTO office is to ensure prompt and inexpensive redress of taxpayers’ genuine grievances against maladministration by the tax employees of Federal Board of Revenue (FBR)/Revenue Division, Government of Pakistan.

He said an average 1500 complaints annually are currently being handled by the FTO offices across Pakistan. Asif also highlighted the success stories of the FTO office since its establishment in year 2000. He said the tax-payers can file their complaints by courier, by hand, online or through e-mail. He said the services of FTO offices are free of cost, citizens friendly and the complaints are decided in 60 days.

He said Form-A is available on the website (www.fto.gov.pk) of the FTO on which tax-payers can lodge their complaints. The form can also be obtained from the FTO offices, besides its Islamabad secretariat, located in Lahore, Karachi, Quetta, Peshawar, Sukkur, Abbottabad, Multan and Faisalabad.

He further said Wafaqi Tax Mohtasib is working to eliminate fear of traders so that they can freely lodge their complaints with the FTO offices located across Pakistan.

The traders gave useful feedback to the FTO team comprising DG Administration Muhammad Asif, Advisor Incharge Munir Qureshi and Advisor Muhammad Siddique. Naeem Meer, General Secretary All Pakistan Anjuman-e-Taajran, Ashraf Bhatti, President Anjuman-e-Taajran, Mehboob Ali Sarki, President Punjab Anjuman-e-Taajran, Haji Farrukh Iqbal, Chairman Crockery Shah Alam Market, Safdar Butt, President Lahore Trade Alliance and others also addressed the event.

The session was moderated by Ali Nasir, Media Manager, FTO Secretariat, Islamabad. – *Courtesy Business Recorder*

Audit for TY15: FBR to select cases on basis of risk-based parameters

The Federal Board of Revenue (FBR) has replaced computerised random balloting mechanism with risk-based parametric selection procedure for picking 7.5 percent cases for audit for Tax Year 2015. According to the FBR sources, the FBR will not carry out random computer ballot this year for selection of cases for audit out of the total Income Tax, Sales Tax and FED returns filed for Tax Year 2015.

The Board would select cases on the basis of risk-based parameters for audit. Under the new audit policy, instead of random computer ballot, the FBR will conduct parametric selection through risk based approach. In the presence of risk-based parameters, there is no need to elaborate exclusions from audit. Similarly, parameters would be applied in such a way that would exclude required categories of taxpayers from audit. For example, the risk-based parameters have already excluded salaried class from audit.

According to the audit policy 2016 issued by the FBR, since 2001 voluntarily compliance has been the primary focus of FBR. FBR has always trusted tax payers for their declarations. In order to promote tax culture and compliance many audit policies were launched in the past. This Audit policy has been carefully drafted keeping in mind the wisdom and experience behind the past policies.

For the audit purposes, the selection of cases in the past was mostly through random ballot. The Audit Policy 2016, has proposed a paradigm shift from the past. Its focus has been realigned from random to parametric selection and from general to risk based approach. This approach will minimise chances or selection of compliant tax payers resulting ill increased confidence in the system. This new trend in taxpayers' audit will not only promote compliance with the existing tax laws but will also generate increased revenues through better declarations for better public spending by the Government. The right audit approach will help FBR in broadening the tax base and in focusing on high risk areas. This can be assured through equitable tax policies where a taxpayer knows that good citizens are appreciated, the FBR said. The FBR shall conduct computer ballot on parametric basis for

selection of 7.5% cases for audit out of the total Income Tax, Sales Tax and FED returns filed for Tax Year 2015 and Tax Periods ie 1st July 2014 to June 2015 as determined by the Board-in-Council.

Exclusion: Following exclusions have been identified and approved by the Board under relevant rules which pertain to cases where selection (or audit by the Board is not required for the year. **Income Tax:** All cases already selected for audit by the Commissioners Inland Revenue under section 177 of the Income Tax Ordinance for Tax Year, 2015. All cases already selected for audit by the Director I&I (IR) under section 177 of the Income Tax Ordinance for Tax Year, 2015. All cases already selected for audit under section 214 D or the Income Tax Ordinance, 2001 for the Tax Year, 2015.

Sales Tax Exclusions: All cases already taken up for audit for Tax Period(s) July 2014 to June 2015 under section 25 or 38 of the Sales Tax Act, 1990 by the Commissioners Inland Revenue: Cases already taken up for audit/investigation for tax period(s) July 2014 to June 2015 under section 25 or 38 of the Sales Tax Act, 1990 by the Directorate of I&I (IR).

Federal Excise: All cases already taken up for audit for tax period(s) July 2014 to June 2015 under section 46 of the Federal Excise Act, 2005 by the Commissioners Inland Revenue and cases already taken up for audit/investigation for tax period(s) July 2014 to June 2015 under section 46 of the Federal Excise Act, 2005 by the Directorate of I&I (IR). – *Courtesy Business Recorder*

FBR wing unearths chain of fake or flying invoices

The Directorate General of Intelligence and Investigation Inland Revenue (IR) has unearthed a chain of fake and flying invoices involving an importer/exporter of Gujranwala and his beneficiaries in Karachi for availing fraudulent adjustment of sales tax on the basis of fake imports.

Sources said that the agency has established the chain of fake sales tax invoices starting from Gujranwala and linking with two units in Karachi. The entire chain of units involved in claiming illegal adjustments through fake/flying sales tax invoices has been detected and cases have been framed against the accused persons/units. Directorate experts' team analysed the data for detection of the entire chain involved in the said fraud.

The investigation proceedings in the case of subject registered person were initiated on the basis of information of evasion of sales

tax. The inquiry conducted by I&I-IR reveals that the company of Karachi (MACO International) is allegedly involved in utilisation of fake and flying invoices for fraudulent adjustment of sales tax. There was also dummy unit of Karachi, which facilitated the subject registered person in provision of fake and flying invoices. In order to probe the matter, notice u/s 37 of the Sales Tax Act, 1990 was issued, but the taxpayer did not pay any heed to the statutory notice. However, it has established that the subject person neither made any purchases from the alleged supplier nor paid tax on the goods/material used for subsequent taxable supplies. He wilfully adjusted inadmissible input tax amounting to Rs 2,184,585. Thus sales tax amounting to Rs 2,534,119 including the amount of penalty is recoverable from the registered person. For adjudication of the matter and recovery of the evaded tax, contravention report has been sent to the Chief Commissioner-IR, RTO-III, Karachi for necessary action by the agency.

Brief facts of the case are that credible information was received that M/s Al Rehman Traders, Gujranwala is involved in issuance of fake invoices on the strength of fake imports. To probe further into the matter, approval for investigation under section 38 read with section 25(2) of the Sales Tax Act, 1990 was sought from the competent authority. After the approval, physical verification of the said unit of Gujranwala was conducted. However, the accused Ilham ur Rehman proprietor was not available at the given address mentioned in tax profile.

As per tax profile of this unit, it has been registered with sales tax since 16.4.2008 as importer/exporter with principal activity as "retail sale via mail order houses or via internet." In the beginning, the unit either remained non-filer or filed null sales tax returns for the period July 2008 to June 2010. Later on from July 2010 to June 2011, the unit showed huge imports of Rs 774,585,153 in one year on which it claimed input tax of Rs 161,847,886.

Further investigation revealed that the unit had shown total fake imports and claimed inadmissible input tax as these imports could not be verified from PRAL/ ITMS database. On the basis of this fake input tax, he declared sales amounting to Rs 445,543,701 and evaded sales tax amounting to Rs 77,734,689 (principal amount). On the strength of this information FIR No 05/2015 dated 20.10.2015, was lodged against the unit located at Wahdat Colony, Gujranwala, and its buyers, beneficiaries, suppliers, connivers, abettors and others.

A company of Karachi is one of the beneficiaries of M/s Al-Rehman Traders as during the periods 04/2014, 06/2014, 07/2014, 08/2014, 09/2014, 10/2014, 11/2014, 12/2014, 01/2015 & 02/2015 they have fraudulently claimed illegal/inadmissible input tax adjustment amounting to Rs 2,184,585 on the strength of fake/flying invoices of Karachi-based company which have shown their purchases from Gujranwala unit that issued fake invoices on the strength of fake imports.

In order to proceed further in the matter, notices under section 37 of the Sales Tax 1990 vide Cno 4376 dated 09.05.2016 and reminder vide CNo 42 dated 13.07.2016 were sent to Karachi based company at address of Adam Cottage, 91/3, Bahadurabad, Karachi, being one of the beneficiaries in fake transactions for production of record related to purchases made in the shape of invoices, proof of physical movement of goods, mode of payment and personal appearance to justify that their purchases were bona fide and legitimate. But Karachi based company did not respond which clearly shows that it has nothing to say in its defence.

It is clear that during the period 04/2014, 06/2014, 07/2014, 08/2014, 09/2014, 10/2014, 11/2014, 12/2014, 01/2015 & 02/2015, Karachi based company has neither purchased any goods/raw material from M/s Pak Traders Karachi not paid any inland tax on goods/raw material used for subsequently taxable supplies thus, have violated the provisions of Sections 3, 6, 7, 8, 8A, 22, 26, 37(2) & 73 of the Sales Tax Act 1990 and from them under section 8A & section 11 of the Sales Tax Act, 1990 along with penalty amounting to Rs 2,534,119 under sections 3(5), 33(8), 33(11c), 33(13), 33(16) & 33(19) read with section 2(37) *ibid* and default surcharge (to be calculated at the time of recovery) under section 34 of the Sales Tax Act, 1990.

The reported position pertains to so-called supplies shown by a trading company of Karachi to Maco International Karachi, therefore, it will not restrict the department to proceed further in accordance with the provisions of law, if at any later stage it comes into the notice of the department that the unit had adjusted input tax against fake and flying invoices of other suppliers or in violation of section 73 of the Sales Tax Act, 1990 or committed any other offence under the law. A separate report in this regard will be issued by the directorate for recovery of said amount along with default surcharge and penalty from the registered person, the report added. – *Courtesy Business Recorder*

Unregistered persons 19 percent ST to be charged on supply of software

The Federal Board of Revenue (FBR) will charge 19 percent sales tax (17 percent sales tax plus two percent further tax) on supply of software to unregistered persons. In this regard, the FBR has issued a sales tax clarification to the Chief Commissioners of Large Taxpayer Unit and Regional Tax Offices (RTOs) on the taxability of software under Sales Tax Act 1990.

According to the FBR's clarification, all softwares falling under Chapter 85 to the Pakistan Customs Tariff, are chargeable to standard rate of sales tax at 17% on their import as well as on local supply, despite sales tax exemption provided to "Laptop computers, notebooks whether or not incorporating multimedia kit and personal computers" which fall in Chapter 84 of the Pakistan Customs Tariff. It is also clarified that supplies of taxable goods to the un-registered persons are also chargeable to further tax @2% under section 3(1A) of the Sales Tax Act, 1990.

In view of this, supply of softwares is chargeable to sales tax @17% under section 3(1) of the Sales Tax Act, 1990. Moreover, further tax @2% is also to be charged on the supplies made to unregistered persons in addition to the standard rate of sales tax, the FBR added. – *Courtesy Business Recorder*

Clarification sought on governments' powers to tax services under FEA

The Deputy Attorney General of Pakistan has asked the Law and Justice Division and the Federal Board of Revenue (FBR) to clarify whether province or the federation has exclusive power to tax services under Federal Excise Act (FEA) 2005 after the 18th Amendment.

Sources told here on Monday that writ petitions have been filed in Lahore High Court. One set of petitions has been filed by airline companies to assail the vires of Punjab Sales Tax on Services Act, 2012 as being violative of Article 142 read with entry 53 of the Federal Legislative List. In the second set of petition filed by companies the payment of Federal Excise Duty on franchise services, etc, under the Federal Excise Act, 2005 has been challenged on the ground that after 18th Amendment, tax on services can only be levied by the province. The section 3 (1) (d) of Federal Excise Act, 2005 has been challenged.

After the 18th Amendment of the Constitution, it is a complex legal issue that has arisen. It is whether the tax on services is to be levied by the provincial legislature only or whether the same may be taxed by the federal government under the Federal Excise Act, 2005. In case some or all services are taxed under the Federal Excise Act, 2005 then by the virtue of Article 143, the provincial legislature may not be able to impose the tax on such services, the deputy AGP said.

Furthermore, if the service originates in one province but concludes in any other province then whether the inter-provincial service may not be taxed by province under Article 151 of the Constitution, as it relates to inter-provincial trade and commerce, he questioned.

Lastly, the federation may consider whether it wishes to tax inter-provincial services, but leave out the services that are rendered exclusively within domain of one particular province. Such an arrangement may be in accordance to the scheme envisaged in Federal Legislative List as matters relating to the inter-provincial trade and commerce, companies on entitles that are trans provincial/inter provincial or are governed by federal laws.

Express instructions from the federal government are required as to whether the federal government wished to tax services after the 18th amendment and if so, which services it wants to tax. Secondly whether the province or federation has exclusive power to tax services, the Deputy AGP added. – *Courtesy Business Recorder*

592 seizures at Jinnah Airport in six months

592 seizures worth Rs 325 million were made by the staff of Preventive Collectorate at Jinnah International Airport during the last six months. According to official details currency worth Rs 84 millions equivalent to US \$0.8 million, 7.578 kg gold and gold jewellery worth Rs 33 million, 2,544 cell phones of assorted brands worth Rs 30 million, narcotics worth Rs 170 million and more than 2,527 bottles of foreign liquor worth Rs 4.4 million were apprehended during July-December 2016 period.

Besides that, the Air Freight Unit (AFU) of Model Collectorate of Customs (Preventive) Karachi also achieved its revenue target amounting to over Rs 20 billion during the aforesaid period. – *Courtesy Business Recorder*

Oman Air announces new policy on baggage

Oman Air is pleased to introduce a new policy on baggage, moving away from the traditional 'kilogram' weight based allowance and excess baggage charges to a more simple policy, based on the number of bags being checked-in which will be cost effective for the travelling guests. The costly excess baggage rates charged per kilogram are to be abolished from 9th January 2017. The policy includes free luggage allowance for one piece of baggage up to 30kg in economy class and two pieces of baggage up to 50kg for Business and First class.

Silver and Gold Sinbad members will have the incentive of extra allowance for one more piece of baggage up to 20kg for economy class, and two pieces of baggage up to 60kg in business and first class free of cost. Extra pieces of baggage can be purchased for as little as OMR16 per piece of luggage weighing up to 20kg.

Under the new policy, Oman Air guests will continue to receive a generous free baggage allowance for all destinations as follows: Economy class guests: 1 piece of baggage up to 30kg. Business and first class: 1 piece of baggage up to 30kg plus 1 additional piece of baggage up to 20kg.

Oman Air's Silver and Gold Sinbad members will get total free baggage allowance as follows: Economy class guests: 1 piece of baggage of up to 30kg plus 1 additional piece of baggage up to 20kg. Business and First class guests: 1 piece of baggage of up to 30kg and 1 additional piece of baggage up to 30kg. In addition to the free allowances, a new low cost, flat-rate fee will be introduced for guests who wish to carry more luggages on board.

The old, traditional excess baggage that charged up to OMR11.6 per kg will be eliminated and guests can now purchase extra baggage starting at only OMR16 for a 20kg bag. Guests can choose to purchase extra baggage at the airport when checking in or can avail a 20% discount by purchasing extra baggage in advance from their website www.omanair.com. Initially, guests will be able to purchase up to one extra piece of luggage on routes within the GCC, Middle East, Africa and Indian sub-continent.

However, guests on our long haul services to Europe and the Far East will be able to purchase up to 4 extra pieces of baggage, all at the same low-price flat rate. To complement the new policy, Oman Air will introduce low charges for specialist cargo which includes items such as pets and sporting equipment. – *Courtesy Business Recorder*

Customs department in process to restructure its presence at airports

The Customs department is in the process of restructuring its presence at the airports to facilitate passengers, said sources. According to reliable sources, an important meeting of Customs officials is set to take place at the Federal Board of Revenue (FBR), where they would consider the proposal of unifying the role of Anti Narcotics Force (ANF) and Customs officials with the Airport Security Force (ASF).

Under the plan, the separate desks of ANF and Customs would be removed and the staff of both ANF and Customs would accompany the ASF for luggage search of passengers at the airports. They said repeated checking of the luggage creates hassle to the passengers who are habitual of arriving at the airport at the last moment of entry. Sources said the Customs officials finalised the proposal in a meeting held at the Customs House on Wednesday. – *Courtesy Business Recorder*

MCC Port Qasim surpasses 1H revenue collection

The Model Customs Collectorate (MCC), Port Qasim has surpassed its half yearly revenue collection by Rs 36.54 billion as against the collection made during preceding period. According to details, the collectorate has collected Rs 186.82 billion during July-December period, depicting 24.32 per cent growth as compared to last period collection of Rs 150.27 billion.

Around Rs 57.03 billion was generated on account of Customs Duty, depicting 34.47 per cent growth as compared to last period collection of Rs 42.41 billion. Similarly, the revenue collection of Rs 104.9 billion made on account of sales tax has shown 23.13 per cent growth as against Rs 85.22 billion collection of preceding period.

Moreover, the Collectorate has made Rs 23.09 billion as Income Tax (IT) and Rs 1.76 billion as Federal Excise Duty (FED) during last six months of current fiscal year as compared to Rs 21.14 billion as IT and Rs 1.5 billion as FED collected last corresponding period.

Meanwhile, Collector Port Qasim Mukaram Jaa said that collectorate had started facilitating imports designated for special projects, which he termed one of the reasons to surpass revenue collection during first six months of current financial year. While

hoping to achieve monthly revenue targets of next two months - January and February, he said that revenue targets for last four months - March to June of current fiscal year was formidable task, adding that collectorate has rolled up sleeves to accelerate auction, recovery exercise and others to meet the uphill task. – *Courtesy Business Recorder*

DGI&I IR convenes Directors' Conference today

Directorate General of Intelligence and Investigation Inland Revenue (IR), Federal Board of Revenue (FBR), has convened Directors' Conference today (Thursday) to review performance of the intelligence agency in detection of mega scams, tax fraud cases and anti-money laundering activities. Sources told on Wednesday that the agency has detected tax evasion, concealment, frauds etc to the tune of billions of rupees in different sectors/industries during the first half of 2016-17.

The national strategy would be finalised for taking action against the tax evaders during the remaining period of 2016-17. The conference would also finalise enforcement action against the potential industries and sectors in the remaining period of 2016-17. The conference would also discuss enforcement measures to assist the FBR in achievement of assigned revenue collection target for 2016-17.

In order to review the performance of the directorates from 01.07.2016 to 31.12.2016, a conference has been planned at Islamabad office which will be chaired by Khawaja Tanveer Ahmad, Director General Intelligence & Investigation (IR). The conference would review progress on strategy paper for 2016-2017, performance in High Networth Individual (HNI) cases, progress in finalisation of cases by the field formations, progress regarding litigation cases, progress on STRs-anti money laundering activities, enforcement activities such as raids, FIRs, arrests, etc and sharing of out of box investigation carried out by each directorate. – *Courtesy Business Recorder*

Conference to discuss revenue shortfall on January 6

The chief commissioners conference scheduled for January 6 (Friday) will chalk out strategy to overcome revenue shortfall of over Rs 140 billion during the fiscal half (July-December) 2016-17. Sources told here on Wednesday that Federal Board of Revenue

(FBR) has called chief commissioners conference of large taxpayer units (LTUs) and regional tax offices (RTOs) to assess the performance of the tax machinery.

The main objective of the conference is to identify reasons for revenue shortfall and measures to overcome it in the second half (January-June) of 2016-17. So far, the FBR has provisionally collected Rs 1.452 trillion during July-December period of 2016-17.

The government has set annual target of Rs 3.621 trillion for current fiscal year ie 16% higher than the final collection of the previous fiscal year. The tax machinery was aiming at collecting 44% of it or Rs 1.593 trillion in first half of this fiscal year.

According to sources, collection primarily dipped due to changes in sales tax rates on petroleum products, fertilizer and five-export oriented sectors. The conference is also expected to discuss the impact of taxation measures taken in last budget, enforcement measures and broadening of tax base strategy implemented in the field formations. – *Courtesy Business Recorder*

Heavy taxation hitting revenues, quality of service: Mian Zahid

The president of the Pakistan Businessmen's and Intellectuals Forum (PBIF), Mian Zahid Hussain, has proposed that the government should reconsider heavy taxation which he said is hitting revenue and quality of service. He said growth in the telecom sector is imperative for boosting GDP and reducing poverty.

Mian Zahid Hussain said that heavy taxation is discouraging investment in this sector but a European company has planned to invest 400 million dollars in Pakistan, and it should be given all the facilities for the effort. He said that the telecom sector has great potential which is yet to be realised. According to an estimate the sector will attract investments of over two billion dollar until 2020 and it will contribute Rs 620 billion in taxes. The number of subscribers will jump to 160 million, he added.

The business leader said that the sector earned Rs 446 billion in 2014-15 and Rs 452 billion in 2015-16. It paid Rs 126 billion as taxes in 2014-15, which jumped to Rs 157 billion in 2015-16. He said that the telecom sector had paid Rs 243 billion in taxes in 2013-14, which indicates that heavy taxation has damaged its capacity, and this is a matter which should be considered by the policymakers.

The number of people seeking high-speed broadband has jumped to 25 million after the launch of 3G and 4G but quality has been disappointing in many ways, which is an impediment in the way of the digital revolution in other countries. It is estimated that usage of broadband will jump to 44 percent by 2020 which will push GDP up by 4.1 percent for which government should resolve the issues of this sector and ensure production of mobile sets in the country, he demanded. – *Courtesy Business Recorder*

Mass transit projects:: ECC likely to grant exemption from taxes, duties

The Economic Co-ordination Committee (ECC) of the Cabinet is likely to grant exemption from taxes and duties on import of equipment for rail-based mass transit projects in provinces under China-Pakistan Economic Corridor (CPEC) today (Friday). Sources told that the ECC will also consider a request for reduction in the price of imported urea available with National Fertilizer Marketing Limited (NFML).

The proposal of Ministry of Planning Development and Reforms is on the agenda of the ECC meeting. The ministry has requested for exemption in duties and taxes, including withholding tax, on the import of equipment for Lahore Orange Line mass transit project as well as for Quetta and Karachi projects.

The governments of Pakistan and China entered into a Framework Agreement on 22nd May, 2014 for construction, equipment, procurement and financing of Lahore Orange Line Metro Train Project. As per framework agreement, the Orange Line will be designed, constructed and supervised by Chinese enterprises. Identification of Chinese companies for execution of the project from amongst the recommended companies through a competitive bidding procedure was also agreed upon.

The project to be executed on EPC (Engineering Procurement and Construction) mode envisages construction of a 27.1 kilometres-long dedicated signal-free corridor for rail-based mass transit system in Lahore along with 26 stations, one depot and procurement of rolling stock with allied facilities. The project was approved by the ECNEC on 13th May, 2015 at the cost of Rs 165.226 billion including a Foreign Exchange Component (FEC) of Rs 103.0986 billion without involvement of funding from the federal PSDP. The loan amount would be repaid by the government of Punjab.

Punjab transport department is getting the project implemented through the Punjab Mass Transit Authority and Lahore Development Authority respectively. Bids from two Chinese companies, namely CR-NORINCO JV and SINORAIL - JV, were received on 18th July, 2014.

The government of Punjab signed the commercial contract agreement on 20th April, 2015 with the lowest evaluated bidder ie CR-NORINCO-JV for implementation of the project. The commercial contract includes provision and installation of electrical and mechanical (E&M) equipment with testing and commissioning, besides civil work being sublet to the Pakistani side.

The contract included withholding income tax at the rate of 6% applicable at the time of bidding in the bid price. As per commercial contract, the income withholding tax for E&M works, 6% of contract price for E&M works, was considered. The employer will be responsible for the payment of balance due to increase in income tax withholding rate in accordance with the regulations of Pakistan. Unless otherwise stated, the contractor would be exempted from all obligations or responsibilities for the payment of all the other Pakistani taxes arising of the contract such as sales tax and contract tax.

Furthermore, the Chinese contractor, under the commercial contract, will be importing all E&M equipment under its own name for subsequent ownership of the Pakistani side. The commercial contract further reads that unless otherwise stated in this contract, the employer would pay all customs, import duties and taxes in consequences of the importation of equipment to be furnished in the Orange Line Project. If the contractor is required to pay such customs, import duties and taxes, the employer would reimburse the amount, thereof, within 30 days upon submission of proper documentation, invoice and proof of payment.

The total incidence of tax on CR-NORINCO JV increases beyond 6%, the additional tax liability, if any, will have to be paid for by the Pakistani side in accordance with the provisions of contract agreement. As a result, the government of Punjab has estimated that roughly Rs 20 billion are to be paid in the form of taxes and duties on import of equipment for Lahore Orange Line Metro Train Project which will have to be borne by the provincial government as charge on Provincial Consolidated Fund, if exemptions are not granted.

The government of Punjab, therefore, requested for a grant of exemption from the ECC in respect of Lahore Orange Line Metro Train Project on the lines allowed to NHA for CPEC infrastructure projects on grounds that this project is acknowledged within CPEC framework by the Chinese side as ongoing building of CPEC in the framework agreement that CR-NORINCO JV may be exempted from withholding income tax beyond 6% of E&M contract price and CR-NORINCO JV may be exempted from all tax amounts including but not limited to income taxes, withholding taxes, sales taxes, custom duties and taxes on import of equipment to be furnished in Orange Line Project.

The Quetta Mass Transit Project sponsored by Balochistan has been agreed upon with the Chinese side for implementation through CPEC under Chinese financing. Furthermore, Karachi Circular Railway (KCR) project sponsored by the government of Sindh has also been approved. Modalities of both projects were discussed with the Chinese side in the Joint Co-operation Committee (JCC) meeting. The cost of these projects including the loan repayment will be borne by the respective provincial governments.

The ministry forwarded a proposal to the ECC requesting the grant of exemptions from income tax withholding beyond 6% of E&M contract price and taxes and duties on import of equipment to be furnished / installed for Quetta Mass Transit Project and Karachi Circular Railway (KCR) may also be considered, in principle. – *Courtesy Business Recorder*

There's 'way out' for those who want to come into tax net: Dar

Following selection of 93,277 cases for audit through computerised balloting, Finance Minister Ishaq Dar said Thursday that some 'way out' could be provided to those who wanted to come into tax net after witnessing developments on OECD's anti-tax evasion agreement at international level and making global asset registry mandatory through fresh companies ordinance in Pakistan.

He was addressing a function arranged by the Federal Board of Revenue (FBR) to select parameter and risk-based audit through computerised balloting at the FBR House here on Thursday. Parametric computer ballot was carried out as per Audit Policy 2016 for selection of cases for audit for Tax Year 2015 and Tax period July 1, 2014 to June 30, 2015, in respect of Income Tax, *Tax Review International* 2017

Sales Tax & FED. Ishaq Dar pushed the button to select the cases for corporate sector of income tax.

Out of total 93,277 cases, the FBR has selected 2,173 cases for audit from corporate sector income tax, 82,090 cases from non-corporate sector of income tax, 987 cases from Sales Tax (corporate), 7,976 from Sales Tax (non-corporate), 30 cases from Federal Excise Duty (corporate) and 21 cases from FED (non-corporate). National Tax Numbers (NTNs) of cases selected for audit have been displayed on the official website of FBR.

Dar dispelled the impression that the revenue has been increased through imposition of new taxes, saying, "No new taxes have been imposed but tax net has been widened." He said in 2018, the energy crisis will not only come to an end but the electricity will be available in surplus.

While addressing the ceremony for selection of audit, Ishaq Dar said that the FBR has selected 7.5 per cent cases for holding audit out of total received returns under Universal Self Assessment Scheme (USAS). Dar said that all those who are honest should not worry about it if their names were included into the list of selected audit cases. He said that he had faced such things in life but came out with clean hands.

Without mentioning anyone's name, the minister said that the jet plane was declared on company's name but it was being used for political purposes. The minister said that he was the one who dared present summaries before the cabinet for signing Organisation for Economic Co-operation and Development (OECD) agreement on anti-tax evasion for exchange of information and for initiating agreement with Swiss authorities on bilateral level. "We have refused to grant extraordinary concessions to Swiss authorities and now they have invited us to initiate talks on exchange of information," he maintained.

He cited examples of the US and UK and said that one rich woman was selected for audit and put behind the bar for three years because she had declared one painting on her company's name but had hung it at her own house. He said that Swiss authorities had demanded reduction in taxes and MFN status in their favour but they did not succumb to the pressure. He said that the SECP issued notices to 42,000 companies related to global asset registry after promulgation of fresh companies' ordinance that was replaced after 34 years. He said that one should pay his due taxes as the FBR achieved 60 per cent

revenue in last three years as it was used to achieve growth of just 3.3 per cent before 2013.

Special Assistant to PM on Revenues Haroon Akhtar Khan said that it was lifeline for USAS to hold audit in effective manner as it could jeopardise the whole system if the audit remained ineffective. He said that unfortunately the audit was challenged into courts so now they decided to hold parameters and risk-based audit after getting guidelines from the judiciary. “We have excluded 65 per cent returns from the audit as only those sectors were included which possessed high risks,” he added.

In UK, the IR authorities could check restaurants so deterrence is needed to be put in place to make USAS successful in Pakistan, he said. Haroon Akhtar emphasised the importance of audit in a country like Pakistan where universal self assessment scheme is prevalent. He ensured that the tax audit shall be conducted in a professional and transparent manner.

FBR Chairman Nisar Muhammad Khan apprised of the paradigm shift in selection of cases for audit. Earlier, it was random ballot but for the Tax Year 2015, the selection is based on risk parameters. Resultantly compliant taxpayers will not be selected. Later on, computer ballot was conducted in respect of SIX categories ie corporate cases of Income Tax, Sales Tax & FED & Non-corporate case of Income Tax, Sales Tax and FED. The ceremony was attended by representatives of Federation of Pakistan Chamber of Commerce and Industry (FPCCI), Institute of Chartered Accountant of Pakistan (ICAP), Pakistan Tax Bars Association (PTBA), Pakistan Tax Advisors Association (PTAA), Islamabad Women Chamber of Commerce and Industry, and FBR officers.

Ishaq Dar initiated the ballot process by pressing computer button for Income Tax (Corporate), Haroon Akhtar Khan pressed button for Income Tax (Non-Corporate), Vice President of FPCCI Mian Shaukat Masood pressed the button for Sales Tax (Corporate) and Mian Abdul Ghaffar, Advocate President of Pakistan Tax Advisors Association, pressed the button for Sales Tax (Non-Corporate). Further Selection of cases for Federal Excise (Corporate) was made by Mohsin Nadeem, President Pakistan Tax Bar Associations, and Samina Fazal, representative of Islamabad Women Chamber of Commerce & Industry, completed the process by pressing the button for Federal Excise (Non-Corporate). – *Courtesy Business Recorder*

SBP proposes issuance of ISBs, tax exemption on NSS

The State Bank of Pakistan (SBP) has proposed introduction of Islamic Saving Bonds and tax exemption on National Savings Scheme's return on small investment aimed at attracting more investment. The downward revision in NSS rates continued to dampen the net investment in NSS instruments, which recorded an increase of only Rs 26.8 billion during Q1-FY17, the SBP revealed in its recent report.

According to a report, the composition of NSS indicates that all major schemes, except for Defense Saving Certificate (DSC), witnessed decline in inflows during the quarter. The major contribution came from Behbood Saving Certificate (BSC) that is being exempted from withholding tax and Zakat.

Special Saving Scheme (SSS) and Regular Income Certificate (RIC) witnessed net retirements during the period. It is worth noting that the share of NSS in domestic debt stock has been falling persistently. This trend needs to be reversed in order to reduce the government's reliance on borrowing from banks and external sources. Therefore, the SBP, in its first quarterly report on economy, has suggested the following recommendations to increase NSS inflows through introduction of new retail instruments as well as changes in the existing ones.

Expanding distribution network: Distribution is an important factor in mobilising funds through retail debt issuing activity. In areas without national saving centers and/or banks, the NSS instruments could be offered to general public through retail shops offering some money transfer facility or through better marketing and optimally utilising the existing set-up of Pakistan Post Offices.

Allowing flexibility on premature withdrawal: Anecdotal evidence suggests that some retail savers do not want to lock in their savings for a longer period, and hold cash to meet expenses related to children's education or marriage, etc. Therefore, offering an option to withdraw investment without much cost in terms of forgone interest - that is, offering return on pro-rata basis - could encourage that segment to invest in NSS instruments and withdraw when the need arises.

Islamic bonds (floating rate/asset based): A large segment of the population in Pakistan does not like to keep their savings in bank accounts or invest in NSS instruments to avoid interest. Introduction of retail products on the lines of Ijara Sukuk might

attract such small savers who prefer to invest in instruments based on the principles of Islamic finance.

Electronic retail system: The objective to design electronic retail debt instruments is to reach the investors who consider it cumbersome to go to a bank or national saving centre. Although the individuals in Pakistan have direct access to primary market of government securities through Investor Portfolio Services Account, no such facility is available for non-tradable retail debt instruments. The introduction of electronic retail system to subscribe retail debt instruments or withdraw their investment would not only attract more retail investors but also could make it a relatively cost-efficient option.

Tax exemption on return for a minimum investment: The return/profit on most NSS instruments are subject to withholding taxes, except for BSC and PBA. To attract more investment from small savers, return on some minimum level of investment can be exempted from the withholding tax.

Inflation-indexed bonds: In countries where inflation is relatively high and volatile, people would want to protect the purchasing power of their assets. In inflation-indexed bonds, both the capital and coupon are linked to the consumer price inflation. Many countries, such as US, UK, Japan and South Africa, offer inflation indexed retail bonds to the savers. However, the disadvantage to government for issuing such bonds is the increase in cost with the increase in inflation.

Exchange rate indexed bonds: Some investors are more concerned about the value of their assets in terms of foreign currency. To make debt instruments attractive to such investors, creating a linkage to an international currency might be an alternate option. Such bonds are generally denominated in domestic currency but the coupon and capital amount are linked to an international currency. Thus, the government does not need to have foreign exchange to serve this type of debt. – *Courtesy Business Recorder*

GST collection: FBR implementing new system for cellular companies

The Federal Board of Revenue (FBR) is implementing a new system for cellular companies for accurate collection/deposit of withholding tax from its subscribers through online withholding data integration with all mobile operators. Senior FBR officials

informed that the tax authorities have decided to commence the process for establishing online withholding data integration with all cellular companies simultaneously to ensure precision in the count of taxes collected from phone users.

“The FBR has decided to launch a pilot project for real time connectivity from January 17 to ensure precision in the count of taxes collected from phone users,” said FBR officials while briefing the Senate Standing Committee on Information Technology and Telecom. The committee met with Shahi Syed in the chair here on Thursday.

The committee was briefed on the mechanism adopted by FBR and Pakistan Telecommunication Authority (PTA) regarding collection of taxes ie GST and WHT from cellular operators. The committee raised question on the mechanism of tax collection from mobile users and its deposit in the national exchequer.

The chairman of the committee observed that it is a serious issue whereby billions of rupees are being collected on account of GST, WHT and Service charges from cellular subscribers, even from poor people of Pakistan who do not fall under the tax network, and unfortunately the FBR has still no mechanism to analyse the data of taxes collected by Telcos; resultantly, the FBR has failed to provide relief to the common man. Members of the committee suggested that legislation may be brought in the Parliament in this regard.

The FBR officials admitted that it is a policy issue and endorsed the idea making legislation in this regard. The FBR officials informed that Rs 47 billion were collected as WHT from consumers, where Rs 14 billion were adjusted. However, the chairman said that the amount is estimated to be huge. He further said telecom companies are collecting an estimated amount of Rs 81 billion per annum from consumers in the name of maintenance and services.

Regarding the mechanism adopted by FBR for collection of taxes from cellular operators, the FBR representative briefed the committee that they have established a new Intelligent Tax System with the help of PRAL (Pakistan Revenue Automation Pvt Ltd), which will help out analyse the exact data of taxes collected by the mobile phone operators. Through this system the exact usage and taxes collection process will be properly monitored by the FBR. For this purpose a pilot project for real-time connectivity is being launched which might start working by January 17, 2017.

Senator Rehman Malik asked about the details and figures collected on account of withholding tax from cellular phone subscribers and the mechanism adopted for returning the same to them. The FBR replied that a mechanism is being worked out and in three to four months they would submit a detailed report in this regard with the committee.

The chairman committee also directed to provide comprehensive details of Sales Tax/FED deposited by the Telcos into the government treasury of the Federation as well as all provinces, during the last three years.

The committee also asked about the action taken by the ministry on the recommendations of committee given in its last meeting regarding payment of pension to the pensioners of PTCL at the rate announced by the government from time to time. The committee was briefed by the ministry that the matter is still sub judice in the apex court. On a query raised by the chairman committee regarding next date of hearing of the case, it was apprised that the same has not been fixed yet. – *Courtesy Business Recorder*

Tax evasion in various sectors needs to be checked, taxmen told

Directorate General of Intelligence and Investigation Inland Revenue (IR), Federal Board of Revenue (FBR), will implement a national enforcement strategy to control the illicit trade of non-duty paid cigarettes and take measures to control tax evasion in cement sector, sugar mills, services sector/professionals, paper/paper board industry and cosmetic sector.

Sources told here on Thursday that the daylong Directors' Conference of the Intelligence and Investigation IR was held at the FBR House. Beside all intelligence directors of I&I IR, the morning session was attended by FBR Chairman Nisar Muhammad Khan. Evening session was attended and addressed by Special Assistant to PM on Revenues Haroon Akhtar Khan. FBR Members and senior intelligence officials from the field formations attended the conference.

It was a first of its kind of conference which focused whole day on different strategies and measures to control evasion in potential sectors. The conference discussed novel ideas/proposals to check tax evasion, revenue leakages, frauds and money laundering under

the mandate of the agency and took important decisions. Khawaja Tanveer Ahmad, Director General Intelligence & Investigation (IR) approved a strategy paper to check tax evasion and fiscal frauds. The conference reviewed the overall performance of each Directorate of I&I IR and assigned new targets to the field formations to assist the FBR in achievement of assigned revenue collection target for 2016-17.

Directorate General of Intelligence and Investigation Inland Revenue (IR), Federal Board of Revenue (FBR), will take new measures to control the illicit trade of non-duty paid cigarettes by strengthening the agency's workforce and joint actions by DG I&I IR and customs intelligence.

Sources said that the issue of illicit trade in tobacco sector was discussed during the Directors' Conference of the Intelligence and Investigation IR held at the FBR House. It was noted with concern that the tax evasion in tobacco industry has increased which requires immediate enforcement measures to check movement of non-duty paid/smuggled cigarettes. It has been proposed to establish check posts of the Intelligence and Investigation IR to control movement of non-duty paid cigarettes. This would be instrumental in seizure of non-duty paid items on the spot.

Another proposal is to conduct joint enforcement actions by the DG I&I IR and customs intelligence.

Sources said that joint operations by the DG I&I IR and customs intelligence could also play an important role in checking tax evasion in the tobacco industry. The conference noted with concern that there are reports of tax evasion in sugar sector, cement manufactures, cosmetic industry, services providers including doctors and medical practitioners and high net individuals operating out of the tax net.

The conference also discussed the issue of stay orders granted by the courts, which are hindering actions in big cases of tax frauds and tax evasion. Only in Karachi 58 stay orders have been issued against the agency's enforcement actions of tax evasion and concealments. The agency's high-ups also informed the conference about huge revenue implications involved in major cases where stay orders were issued without hearing directorate general I&I IR side.

The FBR's intelligence arm is confident to complete action against the tax evaders and those committing tax frauds to ensure recovery of the evaded amount to the tune of billions of rupees,

they said. The Directorate General of I&I-IR was established under section 230 of the Income Tax Ordinance 2001 and has been conferred upon with powers through respective FBR's SROs vide Nos. 115(1)/2015, 116(1)/2015 and 117(1)/2015 dated 09.02.2015. Directorate General of I&I-IR is mandated with enforcement of Income Tax Ordinance, 2001, Sales Tax Act, 1990 and FED Act, 2005. The key function of the Directorate General is to act against tax frauds/evasion and create deterrence against such fiscal crimes.

The conference was informed that since inception, the Directorate General I&I-IR has been highly successful in its core functions of enforcement, deterrence and revenue realisation in short span of time. Having faced deterring actions by I&I-IR, the tax evading community has developed a reactive trend of incessant litigation against the department. Success rate of department's actions under respective sections of fiscal statutes and prosecution proceedings has been very encouraging. Consequentially the taxpayers are in a rush to file suits and writ petitions in the courts. The courts have granted stay/restraining orders against the departmental proceedings consequent to legal actions taken under sections 175, 176 and 177 of Income Tax Ordinance, 2001 and section 37B, 38 and 40 of the Sales Tax Act, 1990 and section 23 of FED Act, 2005 in particular.

The agency also decided to intensify efforts to complete investigations of anti-money laundering cases. New cases of money laundering cases are being detected based on suspicious transactions reports received by the agency.

The conference reviewed in detail progress on strategy paper for 2016-2017, performance in High Networth Individual (HNI) cases, progress in finalisation of cases by the field formations, progress regarding litigation cases, progress on STRs-anti money laundering activities, enforcement activities such as raids, FIRs, arrests, etc, and sharing of out of box investigation carried out by each directorate. – *Courtesy Business Recorder*

FBR sends list of over 100 taxpayers to field formation

The Federal Board of Revenue (FBR) has reportedly communicated a list of over 100 taxpayers to its field formation for aggressive tax recovery exercise in order to overcome a whopping revenue shortfall of over Rs 127 billion reported in the first half of current fiscal year; it is learnt here Thursday.

According to sources, the FBR has appeared panicky especially after witnessing a revenue shortfall of over Rs 127 billion in the first half of current fiscal year hence the list of over 100 taxpayers has been established to commence aggressive tax recovery exercise. In first six months of current fiscal year, the revenue collection of Rs 1466 billion was made as against the target of Rs 1593 billion, depicting a whopping revenue shortfall of over Rs 127 billion.

Keeping the said in view, the list of over 100 taxpayers has been made in haphazard manner because the board has also included non-resident companies in it, which the sources termed as sheer negligence of law. They said that the board had communicated the said list to its field formation and directed them to ensure tax recoveries at any cost. Therefore, the field officers despite realizing that it was against the law have no option but to start attaching the bank accounts for tax recoveries, dragging the taxpayers in a state of hysteria.

Meanwhile, Adnan Mufti confirmed that the FBR has initiated tax recovery exercise against non-resident companies, saying that board without fulfilling due procedure has also attached the bank accounts of non-resident companies. He further said that the issue came on surface when the withholding zone of regional tax office had issued tax recovery notice of Rs 1.5 million to the non-resident company and its bank accounts have later been attached without issuing recovery order or giving hearing opportunity.

When contacted, top tax official denied to have established the list of over 100 taxpayers for tax recoveries, saying that FBR did not communicate any list to its field formation. He also assured to inquire the matter and resolve the issue if any such practice being continued at tax departments across the country. – *Courtesy Business Recorder*

Firpo asks Nawaz to withdraw FBR's discretionary powers

President of Karachi Chamber of Commerce and Industry (KCCI), Shamim Ahmed Firpo has urged the Prime Minister Mian Muhammad Nawaz Sharif to withdraw all discretionary powers given to the Federal Board of Review (FBR) which have proven to be counterproductive.

In a letter to the Prime Minister, on behalf of the KCCI, Firpo urged him to withdraw all the discretionary powers given to the

FBR in the last four budgets which, the letter said, proved to be counterproductive and a tool to harass the business and industrialist community alongside increasing corruption manifolds. The letter further said that Karachi Chamber being the largest chamber of the country and representing the business and industrialist community of Karachi whose participation in the economy/revenue of Pakistan is exceptional and undeniable, had been submitting budget proposals in the past.

“However, this was not the case anymore as our Budget Proposals submitted during the last four budgets have been totally ignored and we were never taken on board prior to finalising these budget documents. On the contrary, massive discretionary powers were entrusted to corrupt FBR officials who used these powers to further twist arms and squeeze the existing registered taxpayers and that is the basic reason why the overall tax-base remains limited between 800,000 to 900,000 income taxpayers, and also the number of registered Sales Tax payers remains similar,” complained the letter.

For that reason KCCI, under protest, decided not to submit budget proposals now.

The KCCI letter praised finance minister Ishaq Dar saying he is doing a great job but somehow FBR Officials have been successful in acquiring these discretionary powers through the Finance Bill and even blocking the recommendations of Tariff Reform Commission (TRC) on the subject matter.

The KCCI letter requested the Prime Minister to consider the hardships being faced by the business and industrialist community due to widespread corruption and arm-twisting tactics by the FBR which has to be tackled. Shamim Firpo proposed that the problem could be sorted out by completely withdrawing the discretionary powers and that would strengthen business and industrialist environment for the progress and prosperity of Pakistan. He said that the KCCI's proposal the only way forward to enhance the revenue collection by attracting new taxpayers into the net. KCCI president pointed out following discretionary powers of the FBR: SALES TAX ACT 1990: (1) Section 37, Sub Section (3); (2) Section 37A; (3) Section 37B; (4) Section 51; (5) Section 3 (Sub Section-7); & (6) Section-3 (Sales Tax Scheme Chapter-II of Sales Tax Special procedure 2007).

INCOME TAX: (1) Powers to Enter and Search U/S 175(1) & (2); & (2) Powers to Obtain Information under Section 176 of the Income

Tax Ordinance 2001 The letter said that federal excise duty (FED) under Federal Excise Act 2005, causes dual and exorbitant taxations and also proved to be very detrimental for numerous businesses so such FED should be immediately phased out or drastically reduced after consultation with concerned stakeholders.

– *Courtesy Business Recorder*

S.R.O. 1180(I)/2016, Islamabad, the 31st December, 2016.– In exercise of the powers conferred by clause (b) of sub-section (2) and sub-section (6) of section 3 of the Sales Tax Act, 1990, the Federal Government is pleased to direct that the following further amendment shall be made in its Notification No. S.R.O. 57(I)/2016, dated the 29th January, 2016, namely:–

In the aforesaid Notification, for the existing Table, the following shall be substituted, namely:–

“TABLE

S. No.	Description	PCT heading	Rate
(1)	(2)	(3)	(4)
1.	Motor spirit excluding HOBC	2710.1210	14.5% <i>ad valorem</i>
2.	Kerosene	2710.1911	0% <i>ad valorem</i>
3.	High speed diesel oil	2710.1931	25.5% <i>ad valorem</i>
4.	Light diesel oil	2710.1921	0% <i>ad valorem</i> .”

No.SRB-3-4/1/2017, Karachi, the 2nd January, 2017.– In exercise of the powers conferred by sub-section (1) of section 34 of the Sindh Sales Tax on Services Act, 2011 (Sindh Act No. XII of 2011), read with sections 35 and 36 thereof, the Board is pleased to direct that the following further amendments shall be made in its notification No. SRB-3-4/22/2016 dated 1st December, 2016:–

In the aforesaid Notification, in Table:–

- (i) against S.No. 2 in column (1), for the words “Ms. Madiha Mahmood” in column (2), the words “Mr. Naheed Ahmed Mirani” shall be substituted; and
- (ii) against S.No. 3 in column (1), for the words “Mr. Naheed Ahmed Mirani”, the words “Ms. Madiha Mahmood” shall be substituted.

TAXPAYERS' AUDIT POLICY 2016

TAXPAYERS' AUDIT WING, FEDERAL BOARD OF REVENUE, ISLAMABAD

11/23/2016

1. Paradigm Shift

Since 2001 voluntarily compliance has been the primary focus of Federal Board of Revenue (FBR). FBR has always trusted tax payers for their declarations. In order to promote tax culture and compliance many audit policies were launched in the past. This Audit policy has been carefully drafted keeping in mind the wisdom and experience behind the pas policies.

For the audit purposes, the selection of cases in the past was mostly through random ballot. The '**Audit Policy**' 2016, has proposed a paradigm shift from the past. Its focus has been realigned from random to parametric selection and from general to risk based approach. This approach will minimize chances of selection of compliant tax payers resulting in increased confidence in the system. This new trend in taxpayers' audit will not only promote compliance with the existing tax laws but will also general increased revenues through better declarations for better public spending by the Government. The right audit approach will help FBR in broadening the tax base and in focusing on thigh risk areas. This can be assured though equitable tax policies where a taxpayer knows that good citizens are appreciated.

2. Percentage of Selection

FBR shall conduct computer ballot on parametric basis for selection of 7.5% cases for audit out of the total Income Tax, Sales Tax and FED returns filed for Tax Year 2015 and Tax Periods i.e. 1st July 2014 to June 2015 as determined by the Board-in-Council.

3. Exclusion

Following exclusions have been identified and approved by the Board under relevant rules which pertain to cases where selection for audit by the Board is not required for the year.

3.1 Income Tax

- i. All cases already selected for audit by the Commissioners Inland Revenue under section 177 of the Income Tax Ordinance for Tax Year, 2015;
- ii. All cases already selected for audit by the Director I&I (IR) under section 177 of the Income Tax Ordinance for Tax Year, 2015;
- iii. All cases already selected for audit under section 214D of the Income Tax Ordinance, 2001 for Tax Year, 2015.

3.2 Sales Tax

- i. All cases already taken up for audit for Tax Period(s) July 2014 to June 2015 under section 25 or 38 of the Sales Tax Act, 1990 by the Commissioners Inland Revenue;
- ii. Cases already taken up for audit/Investigation for Tax Period(s) July 2014 to June 2015 under section 25 or 38 of the Sales Tax Act, 1990 by the Directorate of I&I (IR).

3.3 Federal Excise

- i. All cases already taken up for audit for Tax Period(s) July 2014 to June 2015 under section 46 of the Federal Excise Act, 2005 by the Commissioners Inland Revenue;
- ii. Cases already taken up for audit/Investigation for Tax Period(s) July 2014 to June 2015 under section 46 of the Federal Excise Act, 2005 by the Directorate of I&I (IR).

AUDIT POLICY 2016 – APPROVAL BY THE BOARD IN COUNCIL

The Audit Policy 2016 was placed before the Board in Council on 23rd November, 2016, for consideration and approval. The following Members and Chairman of the Board in Council approved the said Policy:

- 1. Chairman FBR _____
- 2. Member (Taxpayers’ Audit) _____
- 3. Member (HRM) _____
- 4. Member (IR-OPS) _____
- 5. Member (FATE) _____
- 6. Member (Accounting) _____
- 7. Member (Admin) _____
- 8. Member (IR-Policy) _____
- 9. Member (Legal) _____
- 10. Member (Customs) _____
- 11. Member (SPR&S)/IT _____