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KTBA identifies 12 issues in FBR's web portal for fast resolution

KARACHI: Tax practitioners on Tuesday appreciated the Federal Board of Revenue (FBR) for enabling taxpayers to file returns in July for tax year 2021, but pointed out that there was a need to fix income classification, computational errors, glitches, and other problems in the IRIS system.

The Karachi Tax Bar Association (KTBA), in a letter written to FBR Chairman Dr Muhammad Ashfaq Ahmed, listed down 12 issues that need to be resolved. KTBA President Muhammad Zeeshan Merchant suggested fixing a joint meeting, either physical or online, between KTBA representatives and FBR's policy, legal, and IT/PRAL divisions during the current week for earliest resolution of the issues.

The letter raised the problems in the computation of capitals gains tax on disposal of immovable property that falls under section 37(1A) of Income Tax Ordinance, 2001. The law prescribes gain tax of immovable property on net amount; however, the return works out the tax liability on gross amount, practitioners pointed out.

Similarly, the IRIS was miscalculating the loss on disposal of securities under section 37A of the ordinance for tax year 2019 and onwards. The letter said "the web portal does not have any enabling/dedicated field/tab to declare amount of loss sustained on disposal of securities and carried forward to future tax periods".

The KTBA pointed out the problem of incorrect working of tax depreciation under section 22 as well. "In order to restrict claim of depreciation up to 50 percent to first time return filers a proviso to section 22(2) is inserted via Finance Act 2020, which to the exclusion of Special Tax Year 2021 is expressly applicable wef July 2020; however, IRIS portal is applying this restriction in cases of Special Tax Year," it noted.

Problems were also noted under section 23 'initial allowance on plant and machinery'; provisions of section 152(1) 'tax on fee for technical services/royalty of a non-resident person'; disclosure of tax collected under section 236D; wealth statement for non-resident individuals; as well as discrepancies in tax computation of commercial importers.

The KTBA observed that IRIS web portal was presently computing and attributing income of persons associated to section 153 and section 234A on certain predefined and programmed formula. It suggested that "such persons should be allowed to compute and

attribute their incomes based on facts” instead of the formulas, while the “relevant field should be relaxed”.

A problem has also been identified in the computation of foreign incomes by the tax body, which observed that the portal was “computing tax for all streams of income on the basis of business income”.

According to the letter, the wealth statement for non-resident individuals showed an anomaly, as the FBR portal pre-populated the statement of wealth for tax year 2021 with the balance of last year’s closing without considering the tax residency of a person.

“Consequently, non-resident individuals who otherwise are not required to file a wealth statement cannot proceed to file a return of income in the presence of such unnecessary disclosure,” the KTBA letter said.

To improve tax compliance of small and medium manufacturers, with a turnover up to Rs250 million, the FBR had introduced simplified returns for the SMEs by adding section 110E read with the 14th schedule through Finance Act, 2021.

However, the KTBA said “in patent disregards for section 237, no draft return for this purpose was notified and a return is uploaded on the portal without any notification, as well as without following the conditions of rule 34A, putting validity of the return in jeopardy”.

There are also further anomalies in the system, including acceptance of turnover in excess of Rs250 million in revenue tab, which should be restricted to Rs250 million. There are also problems for persons not wishing to avail the final tax regime.

The KTBA expressed hope that the issues raised in return filing for tax year 2021, would be resolved at the earliest by the revenue board.