



TAXPAYERS AUDIT WING

AUDIT POLICY 2014

for

Tax Year 2013 (Income Tax)

/Tax Period 1st July 2012 to 30th June 2013 (Sales Tax/FED)

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PREAMBLE

Federal Board of Revenue, Pakistan (FBR) continues to follow a broad policy of facilitation to Taxpayers and encourages voluntary compliance through minimizing interface between taxpayers and tax collectors and extensive use of computer-based system. Universal Self Assessment Scheme is thus a corner stone of the aforesaid policy.

A Taxpayer or a Registered Person voluntarily declares his tax liability and declares his return to be correct and that he has maintained supporting books and records under the existing provisions of Sales Tax Act 1990, Income Tax Ordinance 2001 and Federal Excise Act 2005. Audit is an internationally accepted mechanism by which tax authorities can determine the veracity and correctness or otherwise of a declaration.

In order to ensure proper compliance with the law, it is imperative that a certain proportion of Tax Returns filed under the Income Tax, Sales Tax and Federal Excise laws are audited every year. This process is nothing adverse to the taxpayer. If the tax auditors observe some discrepancies which are not properly explained or reconciled by the taxpayer, a show cause notice is issued under the law for appropriate corrective action for proper tax assessment. Such process and practices are universally followed by similar tax administrators as in Pakistan.

Taxpayers' Audit for the Tax Year 2012 (income tax) /tax period 1st July 2011 to 30th June 2012 (sales tax /FED) was undertaken on the basis of random computer ballot and certain categories were excluded particularly keeping in view that

no purpose of audit could be served through audit of fixed income groups such as Salary cases, cases of exclusively share income from AOPs and the cases that fell under the final tax regime (FTR) and Presumptive Tax Regime (PTR) as the receipts in such cases were verifiable and the tax payable thereon had been fully withheld/ deducted/paid in advance.

This policy document takes into consideration all guidelines, constraints and restrictions, legal or otherwise and ensures that a transparent and judicious system of Audit for tax year 2013 (Income Tax)/ tax period 1st July 2012 to 30th June 2013 (Sales Tax/ FED) is implemented. While the focus remains on facilitation of Taxpayers and Registered Persons, the policy ensures presence of an effective deterrent through Audit for curbing the menace of evasion of tax. Audit cannot be applied indiscriminately to such taxpayers whose incomes are exempt or who earn only fixed incomes such as Salary (only) cases. Auditing fixed income cases would negate the spirit of facilitation envisaged in the USAS. Taxpayers who availed immunity from Audit under the Prime Minister's Incentives Scheme also cannot be subjected to Audit for the tax years including tax year 2013, for which such immunity from Audit shall be available to them as provided in S.R.O. 1040 (I)/ 2013 dated 5th December, 2013 read with Circular Number 15 of 2013 (Income Tax) dated 10th December, 2013.

Every tax payer/registered person cannot be audited due to time and resource constraints. Selection of cases for audit is a significant feature of any Audit Policy as segregation process needs logical grounds in the form of identification of risk areas and determination of the basis for audit through a transparent and fair process.

For the purposes of audit for tax year 2013, the Federal Board of Revenue (FBR) has adopted a policy of selection of cases for audit through random ballot. Certain cases of taxpayers falling under Final Tax Regime e.g. fixed incomes, incomes subjected to advance withholding of tax and where such tax is deemed to be full and final discharge of tax liability, deriving only share income from an AOP and those already selected for audit by FBR through random computer Ballot for tax year 2012 (income tax)/ tax period 1st July 2011 to 30th June 2012 (Sales Tax/FED), have been excluded. In addition to the above cases of taxpayers deriving only salary income under section 12 and only income from house property u/s 15 have also been excluded. Audit Policy 2014, for selection of cases by FBR for audit for Tax year 2013 (Income Tax) / Tax Period 1st July 2012 to 30th June 2013 (Sales Tax/FED) is without prejudice to the proceedings initiated for Audit u/s 177 of Income Tax Ordinance, 2001, section 25 of the Sales Tax Act, 1990 and section 46 of the Federal Excise Act 2005 by Commissioners of Inland Revenue for Tax year 2013 (Income Tax) / Tax Period 1st July 2012 to 30th June 2013 (Sales Tax/FED).

Audit Policy for Tax year 2013 (Income Tax)/ Tax Period 1st July 2012 to 30th June 2013 (Sales Tax/ FED) and its aims and objectives as defined hereunder, shall become effective after approval by the Board in Council. Identification of exclusion cases for segregation purpose shall be followed by random computer ballot in liaison with PRAL, dissemination of cases selected for audit to field offices, keeping an audit trail through the Taxpayers' Audit Monitoring System (TAMS) and other measures related to audit.

Cases for audit shall be selected through random computer balloting up to the extent of 12% of total returns of taxpayers filed for the Tax Year 2013 (Income Tax) /Tax Period 1st July 2012 to 30th June 2013 (Sales Tax/FED).

1. AIMS AND OBJECTIVES

Following are the aims and objectives of the Audit Policy 2014:

Random computer ballot for selection of cases for audit under the Sales Tax Act 1990, Income Tax Ordinance 2001 and Federal Excise Act, 2005 shall be conducted separately and the whole process based upon the following guidelines:

- i) Setting out exclusions objectively in such a way to avoid selection of fixed income, final tax regime, cases qualifying for immunity from audit under S.R.O. 1040(I)/2013 dated 5th December, 2013, cases already selected for audit through computer random ballot for the previous tax year i.e. tax year 2012 (income tax)/ tax period 1st July 2011 to 30th June 2012 (sales tax/FED), cases pertaining to tax year 2013 (income tax) / tax period 1st July 2012 to 30th June 2013 (Sales Tax /FED) already selected by Commissioners Inland Revenue (CIR) for audit and Null filers as well as government departments for Sales Tax and Federal Excise Duty returns ballot;
- ii) Selection of cases for audit in a transparent manner through computer ballot.
- iii) To ensure that selection of cases for audit doesn't cause any prejudice to a taxpayer/ Registered Person in any manner. If after an audit the declaration of a taxpayer/Registered Person is found in

order the audit shall be closed. This will allay the fear of the taxpayer/ Registered Person whose case is being audited.

- iv) Conducting of audit in a professional manner.
- v) To create an effective deterrence against tax evasion.
- vi) To identify tax avoidance loopholes through audit.
- vii) To ensure that separate notices under different tax laws are issued to taxpayers selected for audit in order to make the process transparent.
- viii) To ensure that all correspondence (Notices etc.) are routed through Taxpayers' Audit Monitoring System.
- ix) To ensure that all statutory notices are served by legally approved modes only.

2. METHODOLOGY FOR SELECTION OF CASES FOR AUDIT

FBR has decided to go for random computer ballot for selection of upto 12% cases out of the total returns filed for tax year 2013 (income tax) /tax period 1st July 2012 to 30th June 2013 (sales tax/FED) for audit. Certain exclusions have been identified and approved by the Board which pertain to cases where audit is not required. Those exclusions are as under:

2.1 Income Tax Corporate Returns

- a) All Final Tax Regime (FTR) cases;
- b) All cases already taken up for audit under section 177 of the Income Tax Ordinance, 2001 for tax year 2013 whether under process or finalized;
- c) All cases qualifying for immunity from audit under section 214C under "Prime Minister's Tax Incentive Scheme" under S.R.O. 1040(I)/2013 dated 5th December, 2013 read with FBR's circular number 15 of 2013;

- d) All cases already selected for audit through computer random ballot for tax year 2012 whether under process or finalized;
- e) All cases where no business is stated to have been conducted for tax year 2013.

2.2 Income Tax Non-Corporate Returns

- a) Cases falling under the Final tax Regime (FTR)
- b) Taxable income only from salary
- c) All cases qualifying for immunity from audit under section 214C under “Prime Minister’s Tax Incentive Scheme” under S.R.O. 1040 (I)/ 2013 dated 5th December, 2013 read with Board’s circular number 15 of 2013;
- d) Taxable income only from house property
- e) Taxable income only from share from Association of Persons (AOP)
- f) All cases already taken up for audit u/s 177 of the Income Tax Ordinance, 2001 for tax year 2013 whether finalized or pending for assessment
- g) All cases already selected for audit through computer random ballot for tax year 2012 whether under process or finalized.
- h) All cases where no business is stated to have been conducted for tax year 2013.

2.3 Sales Tax Corporate Returns

- a) Null returns
- b) Government departments
- c) Cases already taken up for audit for tax period 1st July 2012 to 30th June 2013 by the Commissioners Inland Revenue
- d) All cases already selected for audit through computer random ballot for tax period 1st July 2011 to 30th June 2012 whether under process or finalized.

2.4 Sales Tax Non-Corporate Returns

- a) Null returns
- b) Government departments
- c) Cases already taken up for audit for tax period 1st July 2012 to 30th June 2013 by the Commissioners Inland Revenue
- d) All cases already selected for audit through computer random ballot for tax period 1st July 2011 to 30th June 2012 whether under process or finalized.

2.5 FED Corporate Returns

- a) Null returns
- b) Government departments
- c) Cases already taken up for audit for tax period 1st July 2012 to 30th June 2013 by the Commissioners Inland Revenue
- d) All cases already selected for audit through computer random ballot for tax period 1st July 2011 to 30th June 2012 whether under process or finalized.

2.6 FED Non- Corporate Returns

- a) Null returns
- b) Government departments
- c) Cases already taken up for audit for tax period 1st July 2012 to 30th June 2013 by the Commissioners Inland Revenue
- d) All cases already selected for audit through computer random ballot for tax period 1st July 2011 to 30th June 2012 whether under process or finalized.

2.7 Random Number Generation Process

In order to have a transparent mechanism for selection of cases for audit a third party non-personal oracle based software has been put in place for conducting random computer ballot for selection of cases for audit.

AUDIT POLICY 2014 PLACED AND APPROVED BY THE BOARD IN COUNCIL

The Audit Policy 2014 for tax year 2013 (income tax) /tax period 1st July 2012 to 30th June 2013 was placed before the Board in Council on 9th September, 2014 and was approved.

1. Chairman FBR _____

2. Member (IR-Policy) _____

3. Member (FATE) _____

4. Member (IR-OPS) _____

5. Member (Legal) _____

6. Member (Accounting) _____

7. Member (TPA) _____

8. Member (Customs) _____

9. Member (SPR&S) _____

10. Member (Admin) _____

11. Member (IT) _____

12. Member (Enf & WHT) _____

13. Member FBR (HQs) _____