

TAXPAYERS' AUDIT POLICY

2017

TAXPAYERS' AUDIT WING, FEDERAL BOARD OF REVENUE, ISLAMABAD

3/28/2018

1. Historical Perspective of FBR Audit Policy:

Since 2001 voluntary compliance for filing of returns has been the primary focus of Federal Board of Revenue (FBR). Self Assessment and Amnesty Schemes were introduced by FBR from time to time. FBR has always trusted tax payers for their declarations. Universal self assessment scheme has however necessitated effective tax audit based on risk management strategies in order to promote tax culture and compliance to tax laws. To achieve this end many audit policies were launched by FBR in the past.

For the purpose of audit, selection of cases was mostly made through random ballot in the past. The '**Audit Policy' 2016 for Tax Year 2015**, however, introduced a paradigm shift from the past. Its focus was realigned *from random to parametric selection* and *from general to risk based approach*. This approach minimized chances of selection of compliant tax payers resulting in saving the scarce resources and building the confidence of the tax payers in the Audit System. This new practice in taxpayers' audit has promoted compliance with the existing tax laws. The Audit Policy, 2017 for Tax Year 2016, has been prepared on similar lines to ensure sustainability of the risk based audit selection by FBR. The purpose of such audit is to create deterrence against non-compliance with tax Laws through systematic examination & inspection of accounting record of the taxpayer. However, in order to facilitate the tax payers, it has been decided by the Board that the case of the tax payer once selected for audit will not be selected for audit for next (consecutive) two tax years under section 214C of the Income Tax Ordinance, 2001, under section 72B of the Sales Tax Act, 1990 and 42B of the Federal Excise Act, 2005 respectively. For such purpose base year would be Tax Year 2015 for Income Tax & Tax Periods July 2014 to June 2015 for Sales Tax & Federal Excise Duty.

2. Exclusions

FBR shall conduct computer ballot on parametric basis for selection of 7.5% cases for audit out of the total filers after exclusions in Income Tax, Sales Tax and FED returns filed for Tax Year 2016 and Tax Periods i.e. July 2015 to June 2016. 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.

2.1 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, 2016 ;
- ii. All cases already selected for audit by the Director I&I (IR) under section 177 of the Income Tax Ordinance for Tax Year, 2016.
- iii. All cases already selected for audit under section 214D of the Income Tax Ordinance, 2001, for the Tax Year, 2016.
- iv. All cases selected for audit u/s 214C for Tax Year 2015.
- v. All cases of Income from Salary where the salary exceeds 50% of taxable income except cases having business income.
- vi. Cases under Voluntary Tax Compliance Scheme (VTCS) for traders.
- vii. All cases falling under Final Tax Regime (FTR).

2.2 Sales Tax

- i. All cases already taken up for audit for Tax Period(s) July 2015 to June, 2016 under section 25, and 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 2015 to June, 2016 u/s 25/38 of the Sales Tax Act 1990 by the Directorate of I&I (IR);
- iii. All cases selected for audit u/s72B for Tax Periods July 2014 to June 2015.
- iv. All cases of Steel Melters, Steel Re-rollers who are paying sales tax under the Sales Tax Special Procedure Rules, 2007;
- v. Federal, Provincial and Local Government Departments.

2.3 Federal Excise

- i. All cases already taken up for audit for Tax Periods July 2015 to June, 2016, by the Commissioners Inland Revenue;
- ii. Cases already taken up for audit / Investigation for Tax Periods July 2015 to June, 2016 u/s 46 of the Federal Excise Act, 2005, by the Directorate General of I&I (IR);

- iii. Federal, Provincial and Local Government Departments;
- iv. All cases of audit selected u/s 42B for the Tax Periods July 2014 to June 2015.

3. Parameters

3.1 Income Tax

Under section 214C (1A) the parameters are not to be disclosed.

3.2 Sales Tax

Following risk parameters have been determined by the Board for selection of cases for audit for Tax Periods July 2015 to June 2016 under clause (i) of sub-rule (2) of rule 44A of the Sales Tax Rules, 2006.

a. Sales Tax (Corporate)

- i. Decline in value of supplies is greater than 10% over last year;
- ii. Consistent decrease in output tax/input tax ratio over last three years;
- iii. Decrease in ratio of taxable supplies to total supplies by 10% or more as compared to previous year;
- iv. Non-filer, nil-filer or null-filer for more than 6 months in the year in case the Registered Person is showing any turnover in income tax return of the corresponding period;
- v. Manufacturers showing value addition of less than 10%;
- vi. Where more than 30% purchases are from “unregistered persons”.
- vii. Where more than 30% sales are to “unregistered persons”.
- viii. Increase in carry forward of input tax and reduction in sales by margin of 10%.

b. Sales Tax (Non-Corporate)

- i. Decline in value of supplies is greater than 10% over last year;
- ii. Consistent decrease in output tax/input tax ratio over last three years;
- iii. Decrease in proportion of taxable supplies to total supplies by 10% or more as compared to previous year;
- iv. Non-filer, nil-filer or null-filer for more than 6 months in the year in case the Registered Person is showing any turnover in income tax return of the corresponding period;
- v. Manufacturers showing value addition of less than 10%;
- vi. Where more than 30% purchases are from “unregistered persons”;
- vii. Where more than 30% sales are to “unregistered persons”;
- viii. Increase in carry forward of input tax and reduction in sales by margin of 10%.

3.3 Federal Excise

Following risk parameters have been determined by the Board for selection of cases for audit for Tax Periods July 2015 to June 2016 under clause (i) of sub-rule (2) of rule 73A of the Federal Excise Rules, 2005.

- i. Decline in value of supplies is greater than 10% over last year;
- ii. Consistent decrease in output tax/input tax ratio over last three years;
- iii. Decrease in proportion of taxable supplies to total supplies by 10% as compared to previous year;
- iv. Non-filer, nil-filer or null-filer for more than 6 months in the year, in case the Registered Person is showing any turnover in income tax return of the corresponding period;
- v. Manufacturers showing value addition of less than 10%;
- vi. Where more than 30% purchases are from “unregistered persons”;
- vii. Where more than 30% sales are to “unregistered persons”;
- viii. Increase in carry forward of input tax and reduction in sales by margin of 10%.

AUDIT POLICY 2017 -APPROVAL BY THE BOARD IN COUNCIL

The Audit Policy 2017 was placed before the Board in Council on _____, 2018, 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-IR) _____
10. Member (Customs) _____
11. Member (SPR&S) _____
12. Member(IT) _____
13. Member(Legal & Accounting-Customs) _____