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 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 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 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.

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 the 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).

4. Parameters

4.1   Income Tax

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

4.2   Sales Tax

Following risk parameters have been determined by the Board for selection of cases for audit for Tax Period(s) July 2014 to June 2015 under section 72B of the Sales Tax Act, 1990 and 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 more 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, short-filer, nil-filer or null-filer for more than 6 months in the year but showing turnover in income tax return of the corresponding period;

v.   Manufacturers showing value addition less than 10%;

vi.   Where more than 30% purchases are from "unregistered person".

vii.   Where more than 30% sales are to "unregistered person".

viii.   Increase in carry forward and reduction in sales by margin of 10%.

b) Sales Tax (Non-Corporate)

i.   Decline in value of supplies more 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, short-filer, nil-filer or null-filer for more than 6 months in the year but showing turnover in income tax return of the corresponding period;

v.   Manufacturers showing value addition less than 10%;

vi.   Where more than 30% purchases are from "unregistered person".

vii. Where more than 30% Sales are to "unregistered person"

viii. Increase in carry forward and reduction in sales by margin of 10%.

4.3 Federal Excise

Following risk parameters have been determined by the Board for selection of cases for audit for Tax Period(s) July 2014 to June 2015 under section 42B of the Federal Excise Act, 2005 and clause (i) of sub-rule (2) of Rule 73A of the Federal Excise Rules, 2005.

i.   Decline in value of supplies more than 10% over last year;

ii.   Consistent decrease in output tax/input tax ratio over last three years;

iii. Decrease in proportion of dutiable/ taxable supplies to total supplies by 10% as compared to previous year;

iv.   Non-filer, short-filer, nil-filer or null-filer for more than 6 months in the year but showing turnover in income tax return of the corresponding period;

v.   Manufacturers showing value addition less than 10%;

vi.   Where more than 30% purchases are from "unregistered person".

vii. Where more than 30% sales are to "unregistered person".

viii. Increase in carry forward and reduction in sales by margin of 10%.

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   _____