

THE AUDIT POLICY 2018

TAXPAYERS' AUDIT WING,
FEDERAL BOARD REVENUE, ISLAMABAD

Dated: 4 April 2019

1 Introduction:

The tax policies formulated by the Federal Board of Revenue underline the need of voluntary compliance of filing of returns and place great emphasis on facilitation of tax payers. To meet these goals, the universal self-assessment scheme has been introduced by FBR in which all declarations of a taxpayer are deemed to be true. However, to ensure compliance of tax laws, promote tax culture and discourage the practice of giving false declarations with impunity, selecting tax payers for audit becomes an essential practice.

In line with the earlier practice, this year for Audit Policy 2018, the FBR would do a parametric selection. Data analytics would be run on available population based upon identified risk parameters. This strategy would ensure that only non-compliant taxpayers are selected for audit and minimizes the chance of selection of compliant tax payers, preventing squandering of scarce human resource of the department on cases where there is no potential.

The FBR would conduct computer ballot on parametric basis for selection of 2.3% of cases for audit out of the total filers after exclusions in Income Tax for Tax Year 2017. For Sales Tax and FED, the FBR would select 2.5% and 7.7% cases for audit respectively out of the total filers after exclusions for tax periods corresponding to accounting period adopted for the purpose of return of income for TY 2017 under the Income Tax Ordinance 2001.

For Audit Policy 2018, the FBR would select an overall 2.3% of total cases available after exclusions for Audit in Income Tax, Sales Tax, and FED.

2. Exclusions

The following exclusions have been identified and approved by the Board under relevant rules where selection for audit by the Board is not required.

2.1 Income Tax

- i. All cases already selected for audit by the Commissioners Inland Revenue or Director I&I (IR) under section 177 of the Income Tax Ordinance for any of the preceding three Tax Years i.e 2014, 2015, 2016
- ii. All cases already selected for audit under section 214D of the Income Tax Ordinance, 2001, for any of the preceding three Tax Years i.e 2014, 2015, 2016
- iii. All cases where income chargeable to tax under the head salary exceeds 50% of taxable income, except cases having business income. Directors of companies do not qualify for this exclusion.
- iv. All cases where entire income is covered under Final Tax Regime (FTR)

2.2 Sales Tax

- i. All cases already selected under section 25 and 38 of Sales Tax Act, 1990 by the Commissioner Inland Revenue or Director I&I (IR) for tax periods corresponding to the accounting period adopted for the purpose of return of

income under the Income Tax Ordinance, 2001 for Tax Year 2016

Provided that where only a part of the said accounting period had been audited already, the relevant authority may select the remaining period for audit.

- ii. All cases already selected for audit under section 72B through computer ballot held under Taxpayers' Audit Policy, 2017
- iii. All cases of Steel Melters and Steel Re-rollers who are paying sales tax under the Sales Tax Special Procedure Rules, 2007.
- iv. Federal, Provincial and Local Government Departments.

2.3 Federal Excise

- i. All cases already selected under section 46 of the Federal Excise Act, 2005 by the Commissioner Inland Revenue or Director I&I (IR) for tax periods corresponding to the accounting period adopted for the purpose of return of income under the Income Tax Ordinance, 2001 for tax year 2016

Provided that where only a part of the said accounting period had been audited already, the relevant authority may select the remaining period for audit.

- ii. All cases already selected for audit under section 42B through computer ballot held under Taxpayers' Audit Policy, 2017

iii. Federal, Provincial and Local Government Department

3 Risk Parameters:

3.1 Income Tax:

The risk parameters would not be disclosed in accordance with section 214 C (1A) of Income Tax Ordinance, 2001.

3.2 Sales Tax:

The following risk parameters have been determined by the Board for selection of cases for audit under clause (i) of the sub-rule (2) of rule 44A of the Sales Tax Rules, 2006:

- i. Decline in value of supplies as compared to corresponding months of previous year
- ii. Consistent increase in input tax/output tax ratio over corresponding months of previous three years
- iii. Decrease in taxable supplies to total supplies ratio as compared to corresponding months of previous year
- iv. Difference in declared value of sales as compared to declared turnover in Income Tax Return
- v. Persons declaring reduced rate sales
- vi. Manufactures showing inadequate value addition.
- vii. Declared sales are less than imports
- viii. Decrease in payment of tax as compared to corresponding months of previous year

- ix. Increase in refund claimed as compared to corresponding months of previous year
- x. Unclaimed purchase to declared purchases ratio is high
- xi. Utilities to sales ratio is high
- xii. Discrepancy identified by CREST

3.3 Federal Excise Duty:

The following risk parameters have been determined by the Board for selection of cases for audit under clause (i) of sub-rule (2) of rule 73A of the Federal Excise Rules, 2005:

- i. Decrease in payment as compared to corresponding months of previous year
- ii. Decline in value of supplies as compared to corresponding months of previous year
- iii. Consistent increase in input tax/output tax ratio over corresponding months of previous three years
- iv. Decrease in taxable supplies to total supplies ratio as compared to corresponding months of previous year
- v. Difference in declared value of sales with declared turnover in Income Tax Return
- vi. Persons declaring reduced rate sales
- vii. Manufactures showing inadequate value addition
- viii. Declared sales are less than imports
- ix. Decrease in payment as compared to corresponding months of previous year

- x. Increase in refund claimed as compared to corresponding months of previous year
- xi. Unclaimed purchase to declared purchases ratio is high
- xii. Utilities to sales ratio is high