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FBR pursues bank accountholders holding government securities

KARACHI: The Federal Board of Revenue (FBR) has directed banks to provide details of their account holders with 'huge' investments in government securities in a bid to net tax evaders, sources said on Saturday.

The sources said Large Taxpayers Unit (LTU) Karachi issued notices to chief executives and presidents of commercial banks to provide details of high volume deposits and their transactions in compliance with FBR Chairman's directives.

The sources said the FBR is focusing account holders having exposures in government papers, including treasury bills or investment bonds invested on behalf of the banks.

An official at the LTU Karachi said that the unit had sent notices to the banks several times in the past but banks were reluctant to provide the details.

The official said the banks were not complying with the legal obligation. The banks are required to provide information of their account holders under a section (165A) of Income Tax Ordinance 2001.

Last week, FBR Chairman Shabbar Zaidi directed the banks to provide details of individual investors of government bonds.

Zaidi said bank's role is to act as a trustee / custodian on behalf of the various customers for the acquisition of T-bills and Pakistan Investment Bonds. "No information in this respect has been received so far."

Sources said there are indications in various cases, especially those related to individuals, that the amount held under the bank accounts were not appropriately disclosed in the individual personal income tax returns.

The exposures of banks into government papers increased significantly during the current fiscal year after ban on the government to borrow from the central bank for deficit financing.

The investment in government securities by the banks increased to Rs295 billion as of October 25, 2019 compared with retirement of Rs2.6 trillion as of October 26, 2018.

The total payable by the government to commercial banks till June-end 2019 was Rs5.75 trillion.

In 2010, the State Bank of Pakistan (SBP) allowed banks to offer investor portfolio securities (IPS) accounts to broaden the investor base of government securities.

The IPS account is necessary for investing in treasury bills. The banks hold treasury bills in IPS accounts on behalf of their customers. Customer is the legal owner of the securities with banks in accordance with instructions of the SBP.

The sources said enforcement of provisions under Income Tax Ordinance, 2001 has priorities over Banking Companies Ordinance, 1962, the Protection of Economic Reforms Act, 1992, the Foreign Exchange Regulation Act, 1947 and the regulations made under the State Bank of Pakistan Act, 1956.