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New methodology to improve FBR capacity to conduct audits under study

ISLAMABAD: The government is focusing on new methodology to improve the capacity of Federal Board of Revenue (FBR) to conduct comprehensive field audits and risk-based audits of large taxpayers and big corporate entities.

Sources told Business Recorder here on Friday that the restructuring of the FBR Audit Wing and risk-based audit selection of big taxpayers are important components of the reforms in the audit regime in Pakistan.

The FBR is actively working on the risk-based audit system. Under the guidance of the consultants of the Tax Accelerating Growth and Reform (TAGR) project, the FBR is in the process of developing risk-based audit selection software to be finalized by February 2020.

According to sources, the prototype of the software for developing risk-based audit selection system is under process.

Under the risk-based audit programme, the FBR is expected to establish Compliance Wing for selection of cases for audit under the restructuring of the FBR Audit Wing.

Under the restructuring plan of FBR Audit Wing, the Audit Wing would be equipped enough to conduct tax audits of the registered persons.

The new risk based audit strategy would cover 15 comprehensive field audits of large taxpayers selected by the risk-based selection tools. The number of comprehensive field audits of large taxpayers would be increased from 25 to 45 per year.

Chairman Federal Board of Revenue (FBR) Shabbar Zaidi had said that FBR will launch new audit framework in the first week of October 2019. According to a tweet of Shabbar Zaidi, a taxpayers' friendly, easy, simple and effective audit framework will be launched in the first week of October 2019. The purpose is to facilitate reasonable taxpayers. It will be designed to have a paradigm shift in tax culture.

Under the new audit framework, there would be least personal interaction, Shabbar Zaidi added. For Tax Year 2017, the FBR had laid down 12 risk- parameters for selection of sales tax and federal excise cases for audit. The FBR Audit Policy-2018 issued on April 4, 2019 revealed that the FBR has conducted 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 Federal Excise Duty (FED), the FBR selected 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.

The FBR Audit Policy-2018 said that advanced data analytics have been used to design parameters to make sure that only non-compliant tax payers are selected. As a result, the FBR has selected a small number of high-risk cases for audit compared to previous years. This year only 2.3% of total cases available for audit for income tax, sales tax, and FED have been selected through ballot compared with 7.5% cases selected in last year's ballot.

Furthermore, the FBR has decided that taxpayers who have been audited in Income Tax in any of the preceding three Tax Years i.e. 2014-2016 and salaried individuals would be excluded from this year's Ballot. Similarly, taxpayers who have been selected for audit under Audit Policy 2017 for Sales Tax and FED have been excluded from this year's ballot, past audit policy added.