

FBR reopens probes against three firms in mega sales tax refund scam

KARACHI: Tax authorities have reinitiated investigations into an eight-year-old Rs230 million sales tax refund scam and freeze bank accounts and deposits of three fake companies, which were suspected to siphon off millions of rupees through fake trade invoices, officials said on Tuesday.

The Regional Tax Office (RTO)-II Karachi has initiated criminal proceedings and registered three FIRs against M/s Oriental Chemical Industries, M/s Premier Industries and M/s Yonus Enterprises for channelising sales tax refunds on “fake/flying invoices to the tune of about Rs230 million during tax year 2011/2012”.

The names of owners of these companies have been put on the Exit Control List (ECL). “Further, bank accounts of the companies have been frozen for recovery,” a tax official said. “Letters to all banks have also been written for getting information about the beneficiary bank accounts, whereby cheques issued as result of the generated ROPs were deposited.” The official said tax department has also approached property registrar offices, Defence Housing Authority and Bahria Town authorities “to get information about properties and assets of suspects for recovery”.

FBR officials said these cases would lead to mega sales tax refund scam in which the national exchequer was deprived of around Rs40 billion, besides income tax and federal excise duty.

It is worth mentioning that thousands of fake companies were registered with three RTOs in Karachi, and persons associated with those companies obtained about Rs40 billion bogus refunds in sales tax through fake and flying invoices during tax years 2010, 2011 and 2012. At that time the tax officials had estimated that the national exchequer was deprived of about Rs88 billion in the said scam through income tax evasion.

In July 2013, the FBR launched a crackdown against the bogus companies and blacklisted over 4,000 companies. However, since then legal proceedings against the culprits were either stopped or slowed down. Early in 2014, some senior officers of the RTOs sent a report bypassing the FBR headquarters to the finance minister, FBR chairman and other authorities, mentioning the involvement of tax officials in the scam.

According to the report, the three RTOs blacklisted the sales tax registration of about 4,000 registered persons under section 21 (3) of the Sales Tax Act 1990 who were involved in tax fraud. “But no such coercive or corrective measures were ever taken by the RTOs to recover the evaded amount of Rs40 billion sales tax, (and) forge/bogus sales tax refund awarded with the collaboration of some senior tax officials,” according to an official document. The document also noted that delinquent intention of the Inland Revenue Officers was apparently cleared as no such income tax assessment or re-assessment order was ever passed against such bogus or so called purchases made from blacklisted suppliers/transactions.

It observed, "Although, the Inland Revenue Officers blacklisted the sales tax registrations of the culprits/fraudsters, but neither recovery action nor re-assessment order of income tax was ever passed by them."

Sources said the FBR remained deliberately silent during the period despite an inquiry revealing that sales tax statements were filed from the tax offices on behalf of the dummy companies. They said that inquiry discovered the monthly sales tax returns for the scam were mostly filed using IP addresses of computers in the RTOs.