

Delay in refund claims, Inflated claims, unreported sales prime factors

LAHORE: Inflated refund claims, unreported sales and domestic sales disguised as exports are prime factors behind a delay in the processing of refund claims under the sales tax regime, said the Federal Board of Revenue (FBR) sources.

They said that other forms of evasion and fraud included non-registration of traders liable to the sales tax regime, claiming credit for taxable supplies used in exempt activities, on private purchases, and invoices from unregistered suppliers besides import of goods illegally, and then sale by adding sales tax but not remitting to the tax authorities, and finally the barter arrangements kept hidden from tax authorities.

The sources have also defended the payment of Rs 100 billion refunds from budget expenditure appropriations, saying that there are two methods of budgeting for tax refunds, including making payments from gross sales tax revenue or paying from budget expenditure appropriations. However, they have agreed that the choice of using the later method was rare in Pakistan.

They sources added that the pattern of refund claims has yet to develop in Pakistan to devise suitable forecasting and monitoring systems in place to anticipate refund levels and make sufficient funds available to meet all legitimate refund claims when they occur. The outbreak of Coronavirus pandemic leading to closing down business activities led the Board to opt for a non-traditional method of paying refunds, they stressed.

However, they have agreed that to ensure that tax authorities are not tempted to delay refunds during periods when the collection targets are under pressure, suitable performance measures should be established to track actual collections and refunds against forecasts, with a requirement to explain variances.

While explaining the factors behind the undue delay in payment of refunds, they said that fraud and evasion come in many forms, ranging from traders omitting the occasional sale from their accounting records to the systematic suppression of sales and falsification of invoices. Other fraudsters have little or no legitimate business activity and register for the sole purpose of stealing sales tax through the refund system.

They said the simplest method is to create fake invoices for purchases never made. Indeed organized crime networks have been known to establish businesses solely to fabricate invoices for sale to those wishing to defraud the revenue.

According to the Board sources, unreported sales is the most usual way of evading sales tax. Evasion by small operators is common, particularly in retail services where taxable inputs are small relative to taxable sales. By concealing sales to the domestic market, traders may not only evade their own obligation to charge tax on their output but, also, generate excess credits to be refunded, they added.

The sources said an attempt is underway for computerized cross-checking of invoices on a grand scale to validate credit claims (as well as identify undisclosed sales). They said monthly sales tax return filed by the claimant is treated as a refund claim once all the supportive documents including the requisite data in the format or software has been received. No refund claim can be entertained if the claimant fails to furnish the claim on the prescribed software along with the supportive documents within sixty days of the filing of return.