

**Arrears, current demand, FBR lists reasons behind Rs13bn fall in FY20 collection**

ISLAMABAD: The Federal Board of Revenue (FBR) has declared that the restriction on administrative/enforcement measures including bar on conducting raids on business premises and bank account attachments after informing its chief executive officer/owner, etc, are major reasons for decline of Rs 13 billion in revenue collection from arrears and current demand during 2019-20.

According to the FBR report on revenue collection for 2019-20, the FBR has held responsible former FBR Chairman's administrative restraint on collection through active enforcement measures as a major reason for decline in revenue collection from arrear and current demand during first half of 2019-20.

The board has analyzed components of income tax Collection on Demand (CoD). This part of the collection is very important as it reflects departmental efforts to fetch revenue. Unfortunately, the collection from this head has declined by 39.7 percent in first half of 2019-20 as compared to same period of previous fiscal year. In absolute terms, around Rs. 13.0 billion lesser amount has been collected from CoD during first half of 2019-20 as compared to first half of previous fiscal year. The collection from arrear demand and current demand has recorded a negative growth of 34.2 percent and 42.6 percent respectively. This sharp decline can be attributed to administrative restraint on collection through active enforcement measures which resulted in decline in collection from arrear and current demand. This underlines the need to boost departmental efforts in audit and subsequent recovery, FBR report added.

A conspicuous feature of FBR's performance in this period is the surprising decline in the collection of income tax under the head "collection on demand," which according to the review has been attributed to "administrative restraint on collection through active enforcement measures," which resulted in decline in collection of taxes from arrear and current demand. It is noteworthy to mention that the then Chairman FBR had put in place an arbitrary ban on all enforcement related measures that tax officials usually employ for revenue collection from defaulters. This ban eventually resulted into 39.7 percent decline in revenue from "collection on demand" from Jul to Dec 2019. The restrictions on enforcement measures such as bank account attachment, search of premises of tax dodgers and evaders, and blacklisting of fraudulent elements in Sales Tax, etc resulted in the revenue loss of Rs. 13 billion during the period of six months.

In May 2019, the then Chairman Federal Board of Revenue (FBR) Shabbar Zaidi issued his first major directive to the field formations that there would be no bank account attachment unless taxpayer's chief executive officer/owner is informed at least 24 hours prior to attachment and the approval of the chairman FBR is obtained.

The tax laws provide for different enforcement measures which empower tax authorities to ensure collection of arrear and current tax liabilities from defaulters and the unscrupulous, who are unwilling to voluntarily pay their due taxes. These measures include recovery from bank accounts of defaulters through attachment, search of premises of taxpayers not providing their records for compulsory audit, blacklisting of fraudsters issuing fake and flying invoices, etc. The law has provided these powers to the Commissioners of IRS working in the field formations of FBR, to ensure timely recoveries of federal taxes.

However, the Chairman at that time, in an arbitrary and controversial move, froze all the legal powers of enforcement given to Commissioners through administrative notifications, thus depriving FBR from collecting its routine taxes, which resulted into a loss to the national exchequer.

Tax experts said that it is not surprising to see decline in revenue collection in the absence of enforcement measures. How can FBR find any amount for collection in the account by attachment, if they inform the defaulter 24 hour prior to attachment? This is extremely comical and against the spirit of law. The defaulter would obviously take out any money present in the account, and the attachment would only be a futile exercise.

Enforcement measures are given to the tax authorities in every country to ensure smooth collection and get rid of arrears from defaulters. In the absence of such measures, decline in revenue collection is only natural.

Tax experts raised question that it is not surprising to see decline in revenue collection in the absence of enforcement measures. How can FBR find any amount for collection in the bank account by attachment, if they inform the defaulter 24 hour prior to attachment? This is extremely comical and against the spirit of tax laws. The defaulter would obviously take out any money present in the account, and the attachment would only be a futile exercise. It is like asking the cat to watch for milk, and the same happened with the FBR.