BUSINESS RECORDER
Founded by M.A. Zuberi

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19th November, 2020

Minimum tax liability, LTBA points out 'glaring miscalculation' by IRIS system

ISLAMABAD: The Federal Board of Revenue (FBR) has received serious complaints on the miscalculation of minimum tax liability by the IRIS system in the income tax return form 2020.

The issue has been highlighted by the Lahore Tax Bar Association (LTBA) in a letter addressed to the chairman FBR, here on Wednesday.

According to the LTBA, a number of complaints have been received from the members of the Bar that system was calculating incorrect Minimum Tax Liability in cases of service provider, commercial importers, supplies of goods, contractors, and brokers etc, especially if there was another source of Income in a Tax Return for Tax year 2020, and in deviation of Income Tax Ordinance, 2001.

The formula as built in the portal to calculate Minimum Tax Liability was with regard to final tax and not for minimum tax cases.

In the garb of minimum tax liability huge amounts of legitimate tax payments are going to be usurped in the name of difference in minimum tax or system was raising undue tax demands.

The provision of correct calculation of tax liability in the portal is the legal right of the taxpayers and due to miscalculation of minimum tax liability, a number of taxpayers are not able to file their tax returns, the last date of which is December 08, 2020.

It is requested that dispute as arising may be resolved on top-priority basis, and formulas of calculation of Minimum Tax Liability built in portal may be corrected as soon as possible and as per law, otherwise, the Lahore Tax Bar Association will have no option except to request for further extension of time, it added.

When contacted, tax experts told Business Recorder that in the draft income tax return, the FBR notified only text of the tax return.

Formulas designed in the back end were not notified.

Therefore, the stakeholders were not able to point out incorrect formulas.

In every case, we are facing difficulty to know the basis of calculation of tax liability.

The main mistake committed by the FBR is working out incorrect minimum tax liability.

Interestingly, all mistakes have been committed in such a way that higher tax liability is working out. Income tax return is basically a taxpayer's document.

The FBR cannot impose incorrect formulas to calculate tax higher than what is legally required to pay.

In the cases where any tax credit such as 'rebate on Behbud Saving Certificate or Pensioner Benefit Account' or 'rebate on share from taxed income of AOP', formulas have been designed in such a manner that if on one side system allows a tax credit, it on the other hand create minimum tax liability so high that it absorbs all tax credit rather some time create minimum tax liability even greater than the tax credit allowable under the law.

"We are citing here a case where the taxpayer has only two sources of income; share from taxed income of AOP and income from services rendered on which tax is deducted @ 10%. In this case, tax liability is worked out at Rs.59,724 but FBR's system calculates minimum tax liability of Rs.54,712 (by allocating proportionate share of tax of Rs.2,288 only) in addition to tax liability of Rs.59,724 [total Rs.114,436]", an expert quoted an example.