

**Audits closed, penalties waived for salaried people**

ISLAMABAD: The government has announced it will close all audits and waive the penalty for as many as 342,314 salaried individuals selected for automatic audit for late filing of tax returns in the years from 2015 to 2017.

The announcement came on Tuesday in a mid-day tweet from Minister of State for Revenue Hammad Azhar and an order about the decision was uploaded on the Federal Board of Revenue's (FBR) website at night.

The order said that "in view of the hardship faced by salaried persons and to encourage and facilitate filers of returns" the FBR has decided to "direct that such persons who have filed returns under section 114... declaring only income under the head of salary with or without profit on debt and/or dividend are exempted from payment of entire amount of penalty payable by them under section 214E" of the Income Tax Ordinance.

FBR chairman Jehanzeb Khan told Dawn the FBR board had the power to waive the penalty and no special legislation was required. The decision leaves out all non-salaried persons and entities who have received the same audit notices.

**Non-salaried people and entities to comply with FBR audit notices**

The FBR has issued audit notices to 637,596 non-salaried individuals mostly those with their own business, as well as 25,551 associations of persons (AoPs) and 30,414 companies. All these parties will have to comply with the terms of the audit notices.

The FBR issued electronic audit notices to as many as 1,035,875 late filers since November 14 with a deadline to provide record, documents and books of account. These taxpayers had submitted their returns for tax years 2015, 2016 and 2017 after the deadlines in the respective tax years.

In these notices, salaried individuals were given the option to pay a penalty of Rs20,000 for automatic closure of audit proceedings. The deadline for availing the facility was November 30.

Meanwhile, non-salaried persons and entities were offered the option to automatically close audit under Section 214E of the Income Tax Ordinance till Dec 31.

Under the Finance Supplementary (Amendment) Act 2018, non-salaried individuals, AoPs and companies are provided an option to get their audits closed on the payment of either 25 per cent higher taxes than the tax paid with the return or in case no tax was payable 2pc of the turnover and to file revised return by Dec 31.

An amendment in income tax law was made through Finance Act 2015 by the previous government that provided for automatic selection for audit if a person had not filed return of income by the due date stipulated under the law.

Through Finance Act 2018 this amendment was withdrawn; however the cases that were automatically selected under the said provision prior to its withdrawal were still to be audited, even though no notices had been served on them.

It has also been reported that some individuals have obtained stay orders from courts to stop the audit proceedings in the wake of notices being sent to them electronically.

The matter began as far back as June 20, when the Pakistan Tax Bar Association raised it in a letter sent to then FBR chairman that “approximately 1,000,000 cases are pending for disposal selected for audit” under the amendment that had been removed in budget 2019.

In this letter the tax bar association made the suggestion that those selected under this audit could be cleared by paying “25 per cent higher tax than the tax paid in the immediate preceding year” or tax paid at 2pc of turnover or “the tax payable under part 1 of First Schedule, whichever is higher”. This was for non-salaried persons and entities.

For salaried people the advice from the tax bar said a simple “desk audit” ought to be enough. The law places a penalty of Rs20,000 on late filing of returns, and the law drafted by the government gave salaried individuals the opportunity to close their desk audit by paying the penalty.

“We anticipate that besides disposal of a large number of cases, some reasonable amount of revenue would also be generated if the above proposals are accepted,” the letter said.

The interim government left it to its successors to decide on the proposal. The PTI government decided to act on the advice given by the tax bar association, and served the notices. The action sparked a furore and allegations began to fly that the government was using innovative means to squeeze compliant tax filers in its thirst for additional revenues. With the latest reversal, at least one third of that furore can now subside.

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