

**BEFORE
THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

0080/OM/2019

Dated: 08.03.2019* R.O. Karachi

The Secretary,
Revenue Division,
Islamabad.

... Respondent

Dealing Officer : Syed Ayaz Mahmood, Advisor
Appraisal Officer : Mr. Shahid Ahmad, Advisor
Departmental Representative : (i) Mr. Haroon Islam, DCIR/DR
(ii) Mr. Ahmed Ali Mukhtiar, DCIR

FINDINGS/RECOMMENDATIONS

This is an own motion investigation initiated while exercising powers conferred under Section 9(1) of the Federal Tax Ombudsman Ordinance, 2000 to investigate irregularities committed by the FBR field formations in processing and sanctioning of bogus sales tax refunds during the period 2011-14 identified by Directorate General I&I-IR of FBR. The "Red Alerts" were issued to the field formations concerned but neither any action was initiated against fake claimants nor their connivers within the Deptt, who were involved in bogus registration, processing and sanctioning of fraudulent refunds and issuance of refund cheques, nor was any action proposed against the related officers/officials of bank branches concerned and PRAL management.

2. In the case of M/s Glow Industries, STRN.1700391407214, a Registered Person (RP), engaged in the manufacturing of basic

Zone-I, Corporate RTO, Karachi vide letter dated 20.11.2019 requested RTO-II, Karachi to transfer the case record of the RP but no response was received. It was further averred that the Commissioner-IR, Zone-I, Corporate RTO, Karachi took action on consecutive non-filing of sales tax returns and suspended the registration of the RP vide Order dated 23.01.2017 and subsequently, passed Order of blacklisting on 24.02.2017.

6. Averments of the Deptt considered and case record perused.

7. It is observed that a country wide investigation against issuance of huge bogus refunds was carried out by the Directorate of I&I-IR, Karachi. After painstaking exercise, the I&I-IR unearthed number of cases, where fake RPs were registered with the connivance of the staff. The fake RPs claimed on the basis of fake and flying invoices, bogus refund and in most of the cases get away with fraudulent refund, causing colossal loss to already cash starved exchequer.

8. In the case of instant RP also on the basis of investigation, Red Alert was issued by the Director I&I-IR Karachi vide letter dated 12.03.2013 pointing out certain discrepancies and inconsistencies requiring the Deptt for further investigation and immediate roll back of claims of the RP. Unfortunately, the Deptt did not grasp gravity of the state of affairs, and except blacklisting the RP after delay of more than four years, no serious effort appears to had been made to unearth the culprits from within and without, who were involved in sales tax registration of the RP and for retrieving loss of revenue incurred on account of sanctioning inadmissible refund of Rs.7.819 and input tax adjustment by the

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RECOMMENDATIONS:

11. FBR to-


- (i) direct the Chief Commissioner-IR, Corporate RTO, Karachi to investigate and indentify the officials/officers who failed to verify the fulfillment of registration by the RP and initiate legal action against them;
- (ii) direct the Chief Commissioner-IR, Corporate RTO, Karachi to investigate and identify officials/officers involved in sanctioning and issuing inadmissible refund and failed to initiate recovery proceedings to recover Rs.7.819 million sanctioned for tax period September and November 2012 and take appropriate criminal/disciplinary action against them;
- (iii) initiate appropriate action including criminal proceedings leading to prosecution of RP and recovery of amount, swindled from public exchequer through claiming inadmissible input tax/refund; and
- (iv) report compliance within 45 days.

Dated:
HUK

5/3/2020

(Mushtaq Ahmad Sukhera)
Federal Tax Ombudsman

Certified to be True Copy

Deputy Registrar
FTO Secretariat
Islamabad