

**THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

OWN MOTION NO 0003/OM/2023

**REGISTRATION OF FAKE COMPANIES & TAX FRAUD AT
KARACHI**

Dated 16.02.2023¹ R. O. Karachi

The Secretary,
Revenue Division,
Islamabad.

... Respondent

Dealing Officer
Appraising Officer

: Mr. Badruddin Ahmad Quraishi Advisor
: Mr. Muhammad Tanvir Akhtar, Advisor

FINDINGS/RECOMMENDATIONS

The above mentioned Own Motion (OM) investigation was initiated through exercise of jurisdiction under Section 9(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) to look into the registration of two fake companies in Sales Tax since 2008 (after snatching of original CNIC along with mobile phone of Mr. Ghazi Hammad Haider, CNIC 4220109415503), and fix responsibility for neglect, incompetence, inefficiency & ineptitude in the administration of discharge of duties and responsibilities.

BACK GROUND:

2. While investigating a complaint (# 4969/KHI/IT/2022) lodged by Mr. Ghazi Hammad Haider, (CNIC 4220109415503), a salaried individual, wherein original CNIC of the complainant was snatched along with mobile phone on 17.07.2007 and subsequently following two fake companies were registered with FBR at Karachi:

- **M/s Ghazi Packages** was registered on 28.05.2008 with NTN 3128879-7. Its status was updated on 01.08.2010 declaring his business Address as G-114 Main Market, Sector 11/L Opp: Salim Centre, North Karachi.

¹ Date of registration in FTO Sectt.,

- Later on, another entity M/s **M.K. Enterprises** was registered in sales tax vide STRN: 1700312887919 on 07.03.2012 against the same CNIC, having registered address Plot No.1723/376-C, Baldia Town, Karachi

FIR was timely lodged and concerned field formations of FBR were duly informed yet neither any corrective measure was taken nor were the external fraudsters and their internal cohorts identified and pursued. The snatched CNIC was used for establishing fake business entities, registration in income tax through IRIS, sales tax registration, opening bank accounts, filing & claiming income tax / sales tax refunds. Even the latest 'Taxpayer's Profile Inquiry' in IRIS was showing jurisdiction of RTO-I Karachi and reflecting status as:

Income tax:	Active
Sales Tax:	Operative

The current status reflected that the fraudsters had been using CNIC of the complainant and conducting business since 2008 with the connivance of department. The business transactions as well as fake bank accounts were used. The annual income tax returns were regularly filed since 2008 whereas monthly sales tax returns were filed regularly since 2012 reflecting neglect, incompetence, inefficiency and ineptitude, in the administration or discharge of duties and responsibilities.

3. Accordingly, the issue was referred to the Secretary, Revenue Division for comments, in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013 and the field formations were confronted to inquire into factors of fake registration including loss of revenue (if any) and fix responsibility for this crime.

4. In response thereto, the Chief Commissioner, RTO-II Karachi, vide letter dated 05.04.2023 after conducting investigation

submitted detailed report on this issue. As per this report, the physical verification of the business in question (fake companies) was conducted by Mr. Mumtaz Ali Nizamani, Inspector Inland Revenue on 14.05.2012 who confirmed in writing the status of the business as manufacturer / Importer / Exporter. This physical verification report was ultimately forwarded by the Chief Commissioner along with record/ documents to the Joint Director, Central registration Office, PRAL Islamabad for necessary registration under business name of 'M.A.K. Packages'

5. The detailed investigation further revealed that sales tax returns were filed regularly w.e.f. tax period August 2013 till December 2022 declaring 'NIL' activity. However, the taxable activity was declared from June 2012 to July 2013. During this period, purchases were declared worth of Rs.108,219,747 involving sales tax of Rs.17,315,164 from following suppliers:

S#	NAME OF SUPPLIERS	NTN	JURISDICTION
i.	M/s G.M. & Sons	0685572-5	CTO Karachi
ii	M/s Hamdan Paper Products (Pvt) Ltd	3167053-9	LTO Karachi
iii	M/s Rex Trading Co	2452525=1	RTO-1 Karachi

During this period of June 2012 to July 2013, sales were declared at Rs.120,257,334/- to unregistered persons @ 0% tax (zero rated supplies under item no. 4 of SRO 549(I)/2008). Thus, the chance of adjustment of input tax against sales invoices issued by this fake RP in onward supply chain is 'NIL'


6. As a result, no loss of revenue can be established as far as input tax claimed on the strength of supplies of this fake RP. However, further tax from the supplier's M/s G.M. & Sons, M/s Hamdan Paper Products (Pvt) Ltd and M/s Rex Trading Co are required to be recovered as they concealed their supplies to unregistered / fake registered persons under the business name of

Ghazi Packages / M.A.K Packages for which letters were issued to respective field office by the Commissioner, Zone IV, RTO-1 Karachi.

7. To prevent further loss of revenue, the STRN of M/s Ghazi Packages / MAK Packages, was suspended vide order dated 28.03.2023 and later on deregistered vide order dated 31.03.2023. As regards fixing responsibility for this crime, prima facie, the Official who conducted physical verification of the business and submitted clearance report is responsible for neglect, incompetence, inefficiency and ineptitude, in the administration or discharge of duties and the consequent loss of revenue. The said official Mr. Mumtaz Ali Nizamani, Inspector Inland Revenue has already been terminated from service and facing ongoing inquiry.

FINDINGS:

8. The above state of affairs paints a very pathetic picture of FBR's internal controls and vigilance. Following areas are noteworthy;

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- i. The complainant's repeated intimations flagging the snatching of CNIC didn't raise any alert for years and years and only after the intervention of this office the fake units were suspended/de-registered. Deep slumber is evident.
 - ii. The whole burden has been shifted to one Inspector, who is already out of service. If departmental version is to be believed, no one else in the hierarchy appears to be party to this blatant case of tax fraud. It means the remaining statutory and supervisory tiers are just cosmetic, allowing an Inspector to hijack the whole regime.
 - iii. Thus far, neither any effort has been made to identify the real beneficiaries of this fraud, nor officials/officers dealing with the fraudulent units were named or questioned.

In short it is a perfect case of maladministration in terms of section 2(3)(i)(d) & (ii) of FTO Ordinance, 2000.

RECOMMENDATIONS:

9. FBR is directed to;
- (i) assign the instant case to Directorate General I&I-IR for a professional inquiry in the light of discussions above; and
 - (ii) report compliance within 60 days.

(Dr. Asif Mahmood Jah)
(Hilal-i-Imtiaz) (Sitara-i-Imtiaz)
Federal Tax Ombudsman

Dated: 11/5/2023

*Approved for
reporting*


Director
FTO Secretariat
Islamabad