

**THE FEDERAL TAX OMBUDSMAN
ISLAMABAD**

COMPLAINT No. 0019/OM/2023

Dated: 19.07.2023¹ HQ, Islamabad

The Secretary,
Revenue Division,
Islamabad.

... Respondent

Dealing Officer : Mr. Muhammad Naseer Butt, Advisor
Appraised by : Mr. Muhammad Tanvir Akhtar, Advisor
Departmental Representatives : Mr. Tariq Iqbal, Secretary-IR (Policy) FBR
Mr. Ehsan ullah Khan, Secretary (BDT-IT),
FBR

FINDINGS/RECOMMENDATIONS

An own motion investigation was initiated on hardships caused to salaried individuals and pensioners by complex tax return format while exercising powers conferred u/s 9(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance). The comments of the Secretary, Revenue Division, Member (Policy) and Member (Information & Technology) were requisitioned in terms of Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. Comments were received from the IR (Policy) and BDT-IT wings of FBR vide letter dated 16.08.2023 and 17.08.2023 which were examined and placed on file.

2. Hearing notice u/s 9(2) of the FOIR Act, was issued for compliance on 21.08.2023. In response to the hearing call, Mr. Tariq Iqbal, Secretary-IR (Policy) and Mr. Ehsan ullah Khan, Secretary (BDT-IT) from FBR attended hearing as Departmental Representatives (DRs) and issues were discussed with them in detail. After having examined all the available documents and

¹ Date of registration in FTO Sectt.,

discussions held with the DRs, the Own Motion is disposed of as under.

3. While investigating various complaints, it was observed that FBR's current mode for filing of tax returns caused hardships to salaried individuals and pensioners as the available tax return format was too complex for an average taxpayer to understand and fill out the tax return. It was observed that out of more than 4.2 million tax payers on Active Taxpayer List, a large number of active filers fell in the category of fixed income group, being either salaried class or pensioners. Returns data analysis of this segment suggested that tax paid with the returns by salaried individual was quite negligible because tax was withheld at the time of payment of salary and that income of pensioner being exempt, the remaining source of income was mostly profit from different savings schemes and profit of debt on bank deposits. Besides, as per prevailing departmental practice, no desk audit/regular audit was conducted in such cases which implied that possibility of additional revenue was almost nonexistent.


4. Secondly, the intricate nature of online tax filing forms with multiple different tabs, input fields and reconciliation requirements were found overwhelming for this class of taxpayers. Present format of salary return was therefore found complex, with many of requirements practically superfluous. Additionally, the complexity in tax return forms available at Iris portal either compels them to hire the services of tax consultants or their declarations inadvertently contain errors and omissions.

5. Furthermore, the pensioners have to declare their pension/profit on debt/Behbood certificates under the tab of "other sources". It also includes a column calling upon taxpayer to show

amount exempt from tax or amount subject to final tax which is often not known to the pensioner. Asking for such information causes hardship for the pensioners. Lastly, it has further been observed that a huge number of such returns choke FBR's online system and the glitches thus caused pose an obstacle for returns involving sizeable revenue along with returns.

6. In view of above, it is evident that while tax is deducted at source from salaried individuals and by Banks & NSCs in the cases of pensioners, hence no further payment of tax is payable by the salaried individuals and pensioners at the time of filing return. Therefore, it was observed that **there is need to:**


- (i) **Introduce FILING OF RETURN: GREEN CHANNEL mode so as to facilitate salaried persons and pensioners, having no other source of income (but for salary, pension and profit on debt).**
- (ii) **A simple electronic window in IRIS may be provided by devising a new simplified return form deleting existing superfluous requirements.**
- (iii) In order to safeguard the interest of revenue and forestall any mis-declaration, the department may incorporate necessary undertaking(s) in the said simplified form whereby the filer will be obligated to confirm that neither has he any other taxable source of income nor has any taxable transactions(s) been made during the relevant tax year.
- (iv) Salaried persons and pensioners having other taxable sources of income or making taxable transactions can continue with the existing format.

 7. In view of above observations, it is evident that the FBR's current mode of filing of returns is suffering from serious maladministration in terms of section 2(3)(ii) of FTO Ordinance, 2000 reflecting neglect, inattention, and ineptitude which is causing hardships and problems for a fairly large segment of taxpayers.

8. All the above observations were confronted to the FBR to elicit their response. The department filed written comments wherein they raised preliminary objection that the instant 'Own Motion' relates to

determination of liability of tax, interpretation of law, rules and regulation which cannot be taken up by the Hon'ble FTO on account of the same being barred in terms of clause (b) of sub-section (2) of Section 9 of the Federal Tax Ombudsman Ordinance, 2000 and that there is no complainant in the instant case. Furthermore, no mal-administration has been pointed out or involved in the instant 'Own Motion' and on that basis, the 'Own Motion' investigation is not maintainable.

9. The department further stated that a simplified version of income tax return has already been provided for the ease of salaried individuals. Income tax return filing by pensioners who are also earning profit on debt on bahbood saving certificates/Pensioner benefit account are required to enter data in few fields and the system will automatically calculate tax liability. The process was explained as below:

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- (a) Pension received by a pensioner is classified under the head income from salary in terms of section 12 of the Income Tax Ordinance, 2001 (the Ordinance). He is required to enter the amount of pension received in row '1009' titled 'Pay, wages and other remuneration (including arrear of salary)'. Since the pension received is exempt under the Ordinance, therefore, this pension amount will be entered in second row titled 'Amount exempt from tax/subject to fixed/final tax'. The system will automatically reduce pension income chargeable to tax to 'Nil'
 - (b) If the pensioner is also earning profit on debt on bahbood saving certificates/pensioner benefit account, then he is required to enter data with respect to profit on debt by clicking the tax 'other sources' and enter the amount received in row code 5003041. The system will automatically calculate the tax liability on such profit on debt keeping in view the benefit or reduction in tax liability available in terms of clause (6) of Part III of Second Schedule to the Ordinance. The system will automatically calculate normal income tax on profit on debt which is required to be paid by a Pensioner through CPR at the time of filing of simplified income tax return.
 - (c) The pensioners are required to enter amount of withholding on profit on debt since no withholding tax is deducted at source

against profit on debt paid to bahbood saving certificates/Pensioner benefit account holders in terms of clause (36A) of Part IV of Second Schedule to the Ordinance.

- (d) The process is already simplified and does not require much efforts except data entry in few rows in income tax return as explained above.

10. As stated above, the department raised preliminary objections that the instant Own Motion relates to determination of liability of tax, interpretation of law, rules and regulation which is barred in terms of section 9(2)(b) of FTO Ordinance, 2000 and that no maladministration is involved. The legal objection of the department is factually incorrect as the investigation does not relate to assessment or determinations of tax liability. *In fact, Own Motion has been taken up on the issue of hardship created by complex nature of online processes for tax filing forms many of which are redundant for category of taxpayers of fixed income group including salaried class and pensioners. Therefore, it was found that the current mode of return filing facility provided by the FBR is suffering from neglect, inattention and inaptitude which is squarely covered under section 2(3)(ii) of the FTO Ordinance, 2000.*

11. Additionally, one of the purposes of the FTO Ordinance is to rectify any injustice done and in terms of section 9(4) of the said Ordinance *ibid*, this office is empowered to take cognizance of any matter relating to injustice done to a person. Therefore, question of going beyond prescribed jurisdiction does not arise. The objection of the department is not only irrelevant but also misplaced which is, therefore, overruled.

12. During hearing the departmental team shared screen shots of the salary returns wherein they highlighted 04 relevant fields out of total 34 fields available on the tax return for Tax Year 2023. They

stated that the salaried person/pensioner is required to enter data in the said 04 fields only and such a person is not required to enter data in any other 30 additional fields visible on the return. The screen shots provided by the FBR team are given as under;

Income from Salary:

Income	Description	Code
Income from salary		1000
Capital Assets	Pay, Wages or Other Remuneration (including Arrears of Salary)	1009
Other Sources	Allowances (including Family Subsistence Allowances)	1049
Foreign Sources / Agriculture	Expenditure Reimbursement	1050
Tax Chargeable - Payments	Value of Perquisites (including Transport Allowance for Government Servants)	1059
Wealth Statement	Profits in Lieu of or in Addition to Pay, Wages or Other Remuneration (including Employment Termination Benefits)	1099

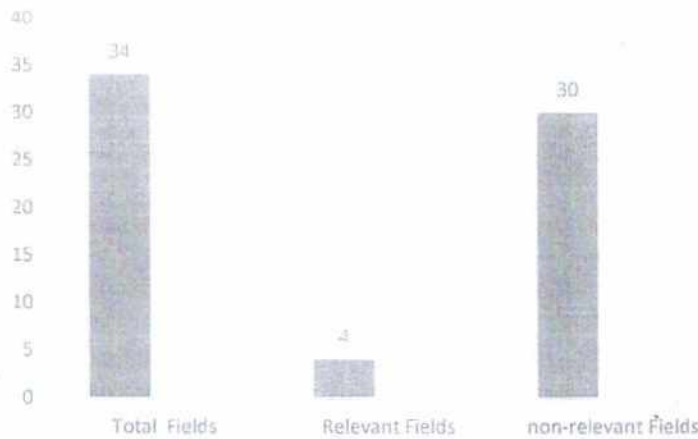
Income from Bahbood/Pensioners Account:

Income	Description	Code
Salary		
Capital Assets	Income (Loss) from Other Sources	5000
Other Sources	Receipts from Other Sources	5029
Foreign Sources / Agriculture	Yield on Bahbood Certificates / Pensioner's Benefit Account / Shuhada Family Benefit Account	5003041
Tax Chargeable - Payments	Profit on Debt (if amount u.s. 75 exceeds 5 million)	500312
Wealth Statement	Other Receipts	5028
	Annuity - Pension	5007

Admitted Tax/Normal Tax:

Payment	Attribute	Vol Number	Description	Code
			Income from Salary	1000
			Income from Other Sources	5000
			Foreign Income	6000
			Agriculture Income	6100
			Tax Income	9000
			Tax on Dividend	9009
			Tax on Income	9100
			Tax on Income	9200
			Normal Income Tax	920000
			Final Dividend Income (Average) Resident/Resident Income Tax	920100
			Tax Reductions	9209
			Tax Credits	9328
			Tax on High Income (Pending 40)	9331022
			Tax on deemed income at 28% (DIT) (DITM)	933103
			Difference of Normal Tax (Gross) at 28% (DIT) (DITM)	933189
			Relevant Income of Other Year (Adjusted) Period of this Year	92101
			Withholding Income Tax	9201
			Advance Income Tax	9202
			Advance Income Tax at 10%	92022
			Admitted Income Tax	9203
			Demanded Income Tax	9204
			Withholding Income Tax	9210

13. The above tax return shots have been reduced to the following graph for analysis;



Handwritten mark resembling the letter 'P'.

14. Analysis of the said data shows that the total number of fields visible on the return devised for the salaried/pensioner class comprise 34 entries whereas admittedly only 04 fields are relevant to the class of taxpayers earning income from salary/pension only meaning thereby that the balance 30 fields are in fact not relevant to such a class of income taxpayers. In terms of percentage, only 11.76% fields are relevant to a person who earns only

salary/pension income. All other non-relevant fields create a lot of complexity and hassle for individuals who are neither familiar with the tax laws and nor are they tech-savvy.

15. The FBR has also introduced a new software *wizard* as *simplified tax return assistant* which is expected to guide the taxpayer through to the closure of the tax filing exercise. The analysis of the said software has also been made as follows;

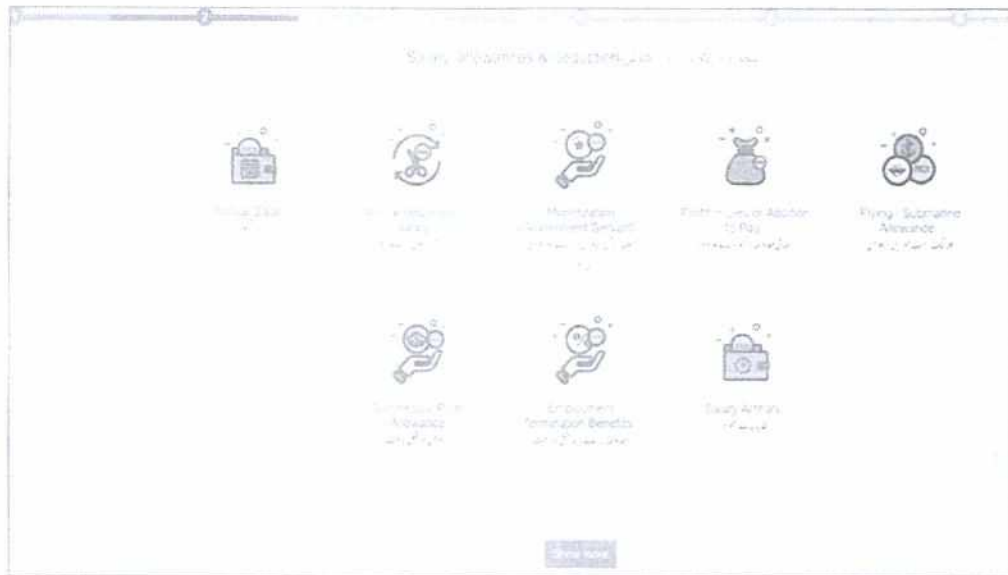
STEP 01:



STEP 02:



08 Salarytabs in Step 02:

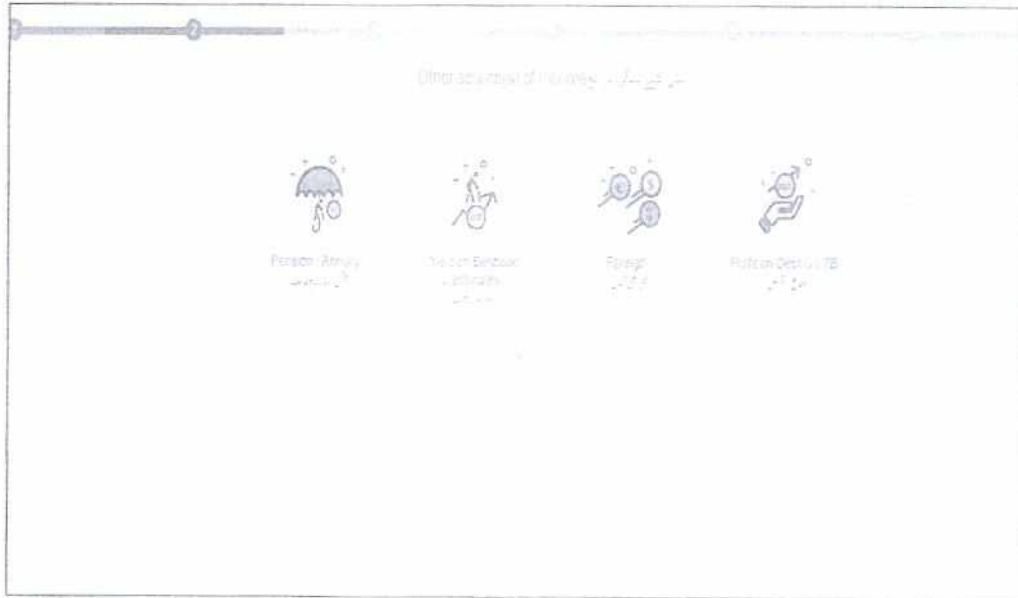


03 more tabs in step 02:

P



04 more tabs in step 02:



Step 03:



Q

STEP 04:

I had tax deducted from

Zakat
Other
Zakat
Priority
Advance Tax on Dividend
Withholding tax on Sale of Securities
Finance/Governance Charges

04 more tabs in step 04:

Let's add your banking transactions

Banking Transactions
Profit on debt
Credit / Debt Card Deductions
Profit on debt

Handwritten signature or mark.

06 more tabs in step 04:

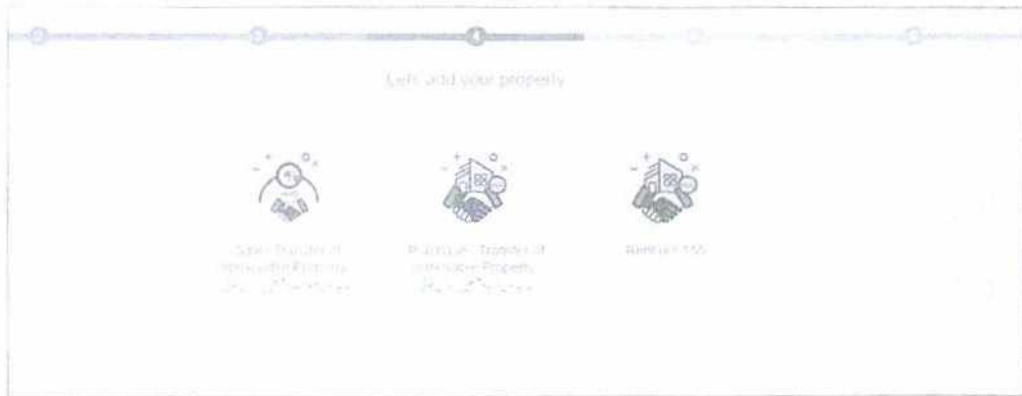


07 more tabs in step 04:



f

03 more tabs in step 04:



STEP 05:

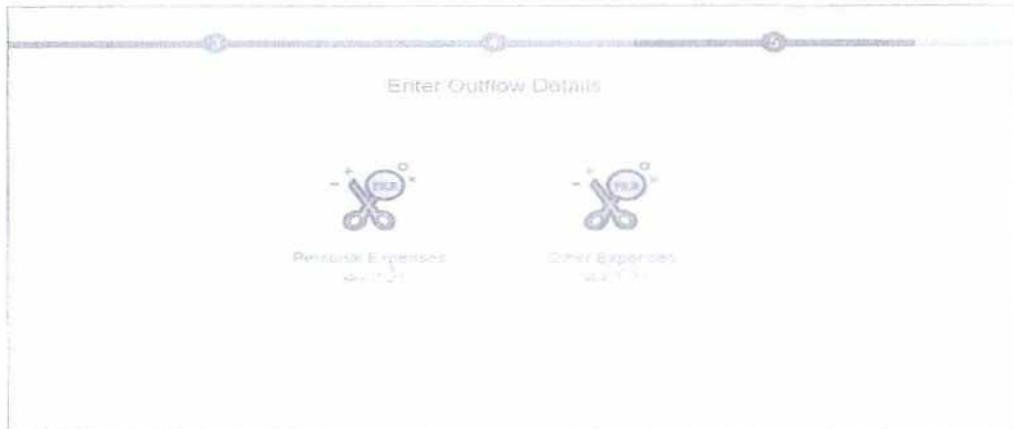


09 more tabs in sept 05:

P



02 more tabs in step 05:



STEP 06: ←
STEP 07: ←

These two steps relate to attachments of documents.

16. The above information shows that there are at least 66 tabs involved for filing of return for a taxpayer and a salaried/pensioner filer will have to sail through all these tabs for first identifying the relevant fields then to fill it out or skip it. The following graph describes the situation in a nutshell for further clarity.

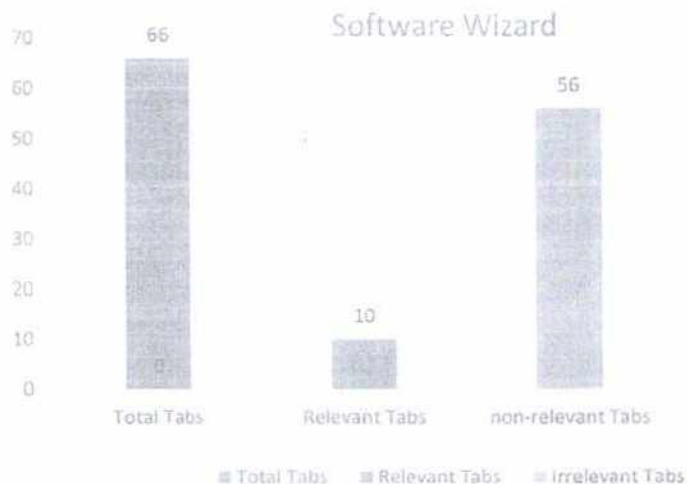
f



17. As is evident from the above data, there are 07 steps involved in this process. However, each step has various tabs ranging from 02 to 27 tabs and total tabs involved in these steps come to 66. This means that a salaried taxpayer having income source only from salary/pension has to scroll through as many as 66 different tabs to reach closure of return filing exercise. Such an elaborate exercise provided by software wizard defeats the purpose of simplicity and facilitation. Rather such software wizard creates complex environment for an average taxpayer who is not so conversant with Iris. The tabs actually relevant to a salaried person have been as under;

- (i) Salary
- (ii) Annual tax deduction
- (iii) Salary arrears
- (iv) Yield on bahbood certificate
- (v) Full time Teachers/ Researcher
- (vi) Other deductions
- (vii) Profit on debt
- (viii) Assets
- (ix) Liability
- (x) Reconciliation

The following is the graphic descriptions of relevant tabs;



18. The analysis of the above data reveals that only about 10 tabs to the maximum are relevant for a salary individual or pensioner. There are 07 tabs which relate to income statement and 03 tabs relate to statement of assets/liability including reconciliation meaning thereby that the remaining 56 tabs are not relevant to such a person.

19. In order to provide simplified version of returns it is, therefore, befitting to devise a separate tax return for salaried individuals having only minimum fields relevant to his source of income. It may be stated that such a return can be generated through Artificial Intelligence (AI) using historical data of tax returns available with PRAL/FBR in respect of persons having source of income from Salary/Pension. It may be further stated that as per data of returns for Tax Year 2022 provided by the FBR, the number of filers who declared income from only salary stood at 1.3 million. However, if pensioners may also be included the figure may safely cross 1.4 million filers who will be direct beneficiary from the suggested simplified separate return. In addition, many non-filers may be tempted to file tax returns by availing simplified version of tax return and in such a situation, FBR will be the direct beneficiary. Thus, this win-win situation will bring in dividends for all the stakeholders.

FINDINGS:

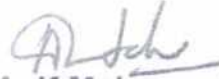
20. The above statistical and descriptive analysis reveals that the present format of tax return for salaried individuals is too complex for an ordinary individual to understand as the prescribed format contains many fields which are not relevant to a taxpayer whose only source of income is salary/pension. While filing return such a person has to unnecessarily go through all the fields to fill

up the relevant fields. Besides, the so called simplified form introduced through software *wizard* is also beyond comprehension of an ordinary individual who is neither familiar with tax terminology and nor is he computer literate. Therefore, there is a dire need to devise a separate salary return in simplified form or provide a separate window in Iris to facilitate about 1.4 million taxpayers.

RECOMMENDATIONS:

21. FBR to:

- (i) direct Member (Policy) and Member (Information & Technology) to devise a new return form and also reopen new window in existing Iris for salaried only taxpayer within 30 days;
- (ii) direct the Member PR to widely publicize the said streamlined return filing facility for awareness through media and SMS for the salaried/pensioner class; and
- (iii) report compliance within 45 days.


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

Dated: 30:8:2023

Approved for reporting


Director
FTO Secretariat
Islamabad