THE FEDERAL TAX OMBUDSMAN
ISLAMABAD

COMPLAINT NO.0133/OM/2023
Dated: 30/11/2023* R.O. Karachi

Subject: **INVESTIGATION INTO TAX AFFAIRS OF M/S INDUS MEDICAL COLLEGE TANDO MUHAMMAD KHAN**

Dealing Officer	: Dr. Faiz Illahi Memon, Advisor
Appraising Officer	: Mr. Muhammad Tanvir Akhtar, Advisor
Departmental Representative	: Ms. Amina Shah, DCIR/ DR, RTO, Hyderabad

FINDINGS/RECOMMENDATIONS

Based on the news items and reports published in print and social media, this forum vide No.0133/OM/2023 initiated Own Motion Investigation into tax affairs of **M/s Indus Medical College Tando Muhammad Khan** relying on Section 9(1) of the FTO Ordinance.

BACKGROUND OF OWN MOTION INVESTIGATION:

The background of above referred OM in respect of M/s Indus Medical College Tando Muhammad Khan is given here-under:

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2. Currently, in addition to Public Sector Medical & Dental Colleges, there are various PMDC approved Medical & Dental Colleges in Pakistan. Though PMDC maintains a structured regulatory mechanism yet tax matters of these private colleges have not been appropriately attended by FBR. During the past few years there has been regular reporting in the national press as well as in various medical related websites about the irregularities and violation of tax laws committed by Private Medical Colleges in Pakistan. Most recently, a report has been published in the **'Business Recorder'** dated 25.07.2023.

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* Date of registration in FTO Secretariat

3. The above referred report contains a detailed account of the irregularities committed by the medical colleges, improper compliance of withholding taxes, non-conformity with stipulations attached to well-structured audit of withholding taxes. The main issues involved in the above referred report are briefly summarized as below:

i. Private Medical Colleges are not discharging their tax withholding obligations properly.

ii. There is no proper withholding tax audit conducted by FBR field offices.

iii. Fees charged from overseas students is not reflected in accounts for taxation.

iv. Allegedly, the Private Medical Colleges siphon off receipts from overseas students, to unknown accounts, thus depriving the Tax Deptt. from due withholding on the same.

v. The Private Medical Colleges suppress their receipts as declared before the Tax Deptt.

vi. The Private Medical Colleges get heavy donations from affluent parents in the range of 14 lacs to 40 lacs but do not declare in accounts subjected to audit.

vii. At times, even the tax return(s) are not filed or even if filed, they are deficient owing to non-submission of audited accounts and essential corroborating mandatory details.

The contents of the above referred press report exhibit serious threats to proper taxation and withholding taxes. Prima facie, the above given malpractices and violations occur because of lack of stringent and well-defined periodic audit of tax withholding.

4. In view of above given account, an Own Motion Investigation vide No. 0133/OM/2023 into tax affairs in the case of M/s Indus Medical College Tando Muhammad Khan was conducted.

5. Accordingly, the Revenue Division was issued notice under Section 10(4) of the FTO Ordinance, 2000 dated 15.01.2024. In response thereto, the Deptt. submitted comments which are spelled out as under:

i) Indus Medical College, Tando Muhammad Khan has not availed any exemption u/s 2(36) of the Income Tax Ordinance, 2001.

ii) Returns have been duly filed with income being offered to tax.

iii) Further, summary of income tax affairs in the subject case as per Income Tax Returns filed is as under:

Tax Year 2021

Description	Amount (in Rs.)
Income from property	782,400
Income from Business	116,252,488
Total Income	117,034,888
Total Tax Chargeable	33,969,528
Withholding Income Tax	2,482,220
Advance Income Tax	12,000,000
Admitted Income Tax	19,487,308

Tax Year 2022

Description	Amount (in Rs.)
Income from property	4,611,300
Income from Business	121,184,202
Total Income	125,795,502
Total Tax Chargeable	36,247,525
Withholding Income Tax	4,675,055
Advance Income Tax	23,850,000
Admitted Income Tax	7,722,470

Tax Year 2023

Description	Amount (in Rs.)
Income from property	4,872,720
Income from Business	79,813,075
Total Income	84,685,795
Total Tax Chargeable	24,698,150
Withholding Income Tax	13,777,685
Advance Income Tax	31,532,191
Refundable Income Tax	20,611,726

6. The parawise comments received through the Chief Commissioner IR, RTO, Hyderabad on 24.01.2024 have been seen and placed on record.

FINDINGS:

7. Examination of details submitted by the Deptt. would reveal the following: -

i) MBBS, a five-year degree, would cumulatively cost one student Rs.10.4(M), whereas, each year the tuition fee would start from 1.8(M) and finally reaches upto 2.4(M). A total number of 500 students are enrolled in the college and mere addition of per student fee would bring out total yearly receipts from this one revenue stream without any doubt.

ii) The college also runs school of nursing affairs of whom are not statistically clear but which certainly is another revenue stream.

iii) Private Medical Colleges are part of a well-organized and streamlined sector wherein the regulator PMDC/PMC exercises strong controls over **authorized number of seats, annual enrolment, fee structures and admission criterion**. Verifiable fee structures, available on college website, can be cross checked from banks as well because all fee receipts compulsorily route through Banking channels. Thus, in **Five Year Medical programme**, for each tax year the department can easily & accurately quantify the annual fee received from students enrolled from 1st year to 5th year. <u>If the annual fee charged from each student, as displayed at college website is multiplied with the number of students from 1st year to 5th year, during each TY the resulting turnover can be worked out without any hassle</u>. Similar calculations for other programmes offered by the college can be easily made so as to ascertain the actual quantum of receipts.

iv. No information is available on record about foreign students, Foreign Currency A/Cs harboring the receipts under this head.

v. No independent information was obtained regarding teaching faculty and Doctors, providing professional services.

vi. Detail of employees/professional has not been given to share with concerned section of Broadening of Tax Base (BTB).

The above omissions & commission constitute maladministration in terms of section 2(3)(ii) of FTO Ordinance, 2000.

RECOMMENDATIONS:

8. FBR to:

(i) The concerned Commissioner-IR, RTO, Hyderabad to conduct a complete case review so as to address the loopholes/risk areas identified above, as per law and after affording proper hearing;

(ii) To requisition and analyze segregated lists of employees of Medical and Nursing Colleges, so as to verify;

a. Whether all the faculty members, are being regularly subjected to withholding taxes at source;

b. All employees receiving taxable salaries are borne on Tax Roll and in cases of default details be shared with the concerned RTO for BTB purposes.

c. How the share from practice at college teaching hospital is being paid to specialists and what is the mechanism for tax deduction at source.

d. ensure the College is fulfilling its tax withholding obligations accurately.

(iii) report compliance within 90 days.

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

Dated: 25-03-2024
Akif

Approved for reporting

26/3/24
Nisho Anwar
Deputy Director
Federal Tax Ombudsman Secretariat
Islamabad