THE FEDERAL TAX OMBUDSMAN
ISLAMABAD

COMPLAINT NO.01648/ISB/IT/2026
Dated: 14.01.2026* RO, Abbottabad

Syed Muhammad Naeem Shah, ...Complainant
Noor Surgical Hospital Main G.T Road,
Tehsil & District Haripur.

Versus

The Secretary, ...Respondent
Revenue Division,
Islamabad.

Dealing Officer	:	Mr. Muhammad Masood Ahmad, Advisor
Appraising Officer		Mr. Muhammad Tanveer Akhtar
Authorized Representative	:	None
Departmental Representative	:	Mr. Mashooq Hussain AC-IR, RTO Abbottabad

Federal Tax Ombudsman Secretariat HQs FTO Islamabad

FINDINGS/RECOMMENDATIONS

The complaint has been filed under Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) alleging unlawful invocation of Section 175C of the Income Tax Ordinance, 2001, and forcible recovery of Rs. 1,500,000/- from the complainant without due process and lawful authority.

2. Facts of the case are that the complainant is a registered individual vide Reg. No. 03302-0352221-5. The complainant, engaged in the business of providing medical services under the name and style of 'Noor Surgical Hospital' has contended that officials of the Department visited the business premises and produced a notice issued and signed by the Chief Commissioner invoking Section 175C of the Income Tax Ordinance, 2001. It is alleged that an amount of Rs. 1,500,000/- was deposited by the taxpayer vide CPR on 26.12.2025 and that the said amount was forcibly recovered without due process and legal justification.

3. The complaint was referred for comments to the Secretary, Revenue Division, in terms of Section 10(4) of the FTO Ordinance, read

*Date of registration with FTO Secretariat with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013 (FOIR Act). In response thereto, the Additional Commissioner IR (HQs), RTO Abbottabad vide letter No. FTO-624/4262 dated 18.02.2026 submitted comments/reports which are placed on record.

4. The Respondent department has contended that the tax officials were deputed at the premises on 23.12.2025 under lawful authority pursuant to Section 175C of the Income Tax Ordinance, 2001. It has further been elaborated that the taxpayer, of his own accord, made payment of Rs. 1,500,000/- with the intention to avoid monitoring and data collection proceedings. The Department vehemently maintained that the said payment was voluntary and not connected with any coercive action.

5. Hearings were fixed for 25.02.2026, 19.05.2026 and 20.05.2026 vide notices issued under Section 9(2) of the FOIR Act, 2013. The representative of the complainant, Mr. Shabir Ahmad Awan Advocate, attended the hearing along with the complainant and supported the contents of the complaint. The DR, Mr. Mashooq Hussain AC(IR), and Mr. Umer Khalid DC(IR), represented the department. They presented copy of the cheque amounting to Rs. 1,500,000/- to establish the fact that the payment of tax was made voluntarily by the taxpayer along with the notice issued for conducting monitoring of the business premises. It was further pointed out that the complainant had filed a revised Income Tax Return for Tax Year 2025 to claim refund amounting to Rs. 789,688/- on 07.05.2026. No other documentary evidence was made available by the department. It was further contended that the officers responsible for carrying out monitoring under Section 175C were no longer serving in Abbottabad Region, having been transferred to other stations. While maintaining his stance regarding the incidence of harassment and maladministration on part of the department, the complainant vehemently denied any act of illegal gratification having been demanded by officials of

RTO Abbottabad. During the course of hearing, the complainant and his counsel expressed their inclination to withdraw the complaint, as they were ostensibly apprehensive of retaliatory action by the department.

FINDINGS: -

6. Heard the parties and perused the available record.

7. Precisely, proceedings under Section 175C of the Income Tax Ordinance, 2001 were initiated against the hospital. During the course of proceedings, the owner/management of the hospital deposited an amount of Rs. 1,500,000/- into the Government treasury, where after the departmental authorities admittedly withdrew and failed to pursue the proceedings initiated under the aforesaid provision. The complainant has contended that the action of the departmental officers was coercive, lacked lawful basis, and amounted to extraction of money without due process of law. It is a matter of record that once the amount was deposited, the department discontinued proceedings without passing any speaking order determining tax liability. The Respondent department, in its comments, has submitted that the amount was voluntarily deposited by the taxpayer during inquiry proceedings and that no maladministration was involved. How this figure of Rs. 1.5 Million was reached & calculated, departmental record is completely silent on that.

8. Section 175C of the Income Tax Ordinance, 2001 primarily empowers the Inland Revenue authorities to conduct inquiry, obtain information, and enforce production of records for purposes of determining due tax liability. The provision is investigative in nature and does not independently authorize coercive recovery or collection of tax without determination of liability under the relevant charging and assessment provisions of law. It is an established principle of fiscal jurisprudence that tax can only be levied, assessed, and recovered strictly

in accordance with law. Any recovery during inquiry proceedings must remain traceable to a lawful statutory framework and supported by due process. The record reveals that after initiation of proceedings, the taxpayer deposited Rs. 1,500,000/-, where after the department discontinued monitoring and thus failed to pursue the proceedings to their logical conclusion. This conduct on part of the Respondent department is legally indefensible. The superior courts of Pakistan have repeatedly deprecated extra-legal recoveries and coercive collection practices unsupported by statutory determination. Needless to emphasize, the act of extracting "voluntary deposits" during inquiry proceedings creates a serious presumption of unequal bargaining position between taxpayer and revenue authorities.

9. It is pertinent to observe that the complainant has filed revised return for Tax Year 2025 claiming refund amounting to Rs. 789,688/-. The sequence of events assumes significance because the revised return emerged after initiation of proceedings before this Forum.

10. At the cost of reiteration, the Respondent department has failed to place on record any speaking order determining nature of default, legal basis of liability, and final disposition of proceedings. This omission strikes at the heart of lawful administration. Failure to issue such an order after obtaining monetary deposit from taxpayer constitutes gross administrative impropriety and squarely falls within maladministration. Such conduct creates legitimate apprehension that statutory powers were exercised not for lawful adjudication but for obtaining revenue deposit beyond the confines of legal framework.

11. Against this backdrop, it is concluded as under:

i. Section 175C does not confer unfettered authority for negotiated settlements outside the statutory framework;

ii. The Income Tax Ordinance, 2001 envisages that action under Section 175C may be subjected to such conditions, limitations, or safeguards as may be considered necessary. However, the notice issued in the instant case is silent regarding duration, scope, or operational limits of the monitoring exercise, thereby creating an impression of indefinite continuation without clearly defined parameters;

iii. Any deposit obtained without subsequent legal determination may amount to unauthorized collection;

iv. Failure to pass a speaking order violates principles of due process and fair administration;

v. The Respondent officers acted in a manner inconsistent with transparency, due process, and fair administrative practice;

vi. The above conduct squarely (arbitrary, unjust, oppressive, and inefficient exercise of authority) falls within the ambit of maladministration, in terms of section 2(3)(i)(b) &(ii) of Federal Tax Ombudsman Ordinance, 2000.

12. The departmental plea that the deposit was "voluntary" is devoid of substance and cannot automatically cure substantive or procedural illegality, especially where the surrounding circumstances indicate incidence of coercive proceedings by revenue authorities possessing dominant statutory powers.

RECOMMENDATIONS:

13. In view of the foregoing, the complaint is accepted. The actions of the Respondent department, in obtaining deposit during proceedings under Section 175C and thereafter failing to conclude proceedings through lawful adjudicatory process, are held to constitute maladministration within the meaning of the Establishment of the Office of Federal Tax Ombudsman Ordinance, 2000. Accordingly, it is recommended that the Federal Board of Revenue should:

i. Conduct a fact-finding inquiry regarding the circumstances under which the amount of Rs. 1,500,000/- was obtained from the complainant;

ii. Fix responsibility, where warranted, against officers found to have acted beyond lawful authority;

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iii. Issue appropriate directions to the Chief Commissioner concerned to ensure that no adverse coercive or punitive action is initiated against the complainant except strictly in accordance with law and due process;

iv. Issue appropriate administrative guidelines regulating acceptance of so-called "voluntary deposits" during inquiry or monitoring proceedings and ensuring that any such deposit remains subject to transparent lawful determination under the relevant statutory framework.

Federal Tax Ombudsman Secretariat HQs
FTO
Islamabad

14. Compliance report shall be furnished within 45 days.

(M. Zafar ul Haq Hijazi)
Federal Tax Ombudsman

Dated: 29 MAY 2026
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Approved for reporting.