THE FEDERAL TAX OMBUDSMAN
ISLAMABAD

COMPLAINT NO.2800/KHI/ST/2024

Dated: 08.04.2024* R.O Karachi

Mr. Muhammad Sharif, Proprietor
M/s Gravity Traders, CNIC 42201048266
Office # 1, R-17 Gulshan-e-Jamal
Block-D Main Rashid Minhas Road,
Karachi ....Complainant

Versus

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

Dealing Officer	:	Mr. Badruddin Ahmad Quraishi, Advisor
Appraising Officer	:	Mr. Muhammad Nazim Saleem, Advisor
Authorized Representative	:	The complainant in person
	:	Mr. Shahid Bhutta, Advocate
		Mr. Owais Bhutta
		Syed Ghazanfar Ali Naqvi
Departmental Representative		Mr. Farooq Bashir, Sr. Auditor, RTO-II Khi
		Syed Tahir Hasan, Sr. Manager PRAL

FINDINGS/RECOMMENDATIONS

The complaint mentioned above was filed against the Commissioner Zone-III, RTO-II Karachi in terms of Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) for accusing the complainant of alleged 'Tax Fraud' declaring transaction of Rs. 81.434 billion with the impact of GST amounting to Rs.14.658 billion against 'Null' sales tax returns filed for tax periods September 2023 to January 2024 and consequent illegal blacklisting of STRN of the Complainant by the Commissioner vide order dated 27.03.2024.

2. Briefly, the complainant is an individual, retired Armed Forces personnel, who got himself registered in sales tax on 20.08.2010 under the business name of 'Gravity Traders'. As per the complaint, the Commissioner Zone-III, RTO-II, Karachi vide an exparte order dated 27.03.2024 blacklisted the Sales Tax Registration (STRN) of the

*Date of registration in FTO Secretariat complainant due to filing of Annexure C of sales tax returns for tax periods September 2023 to January 2024 and declaring bogus supplies worth Rs. 81.434 billion having GST of Rs.14.658 billion. The Complainant further alleged that the STRN was blacklisted without proper service of any show cause notice (SCN) or suspension order. The pre-suspension notice, suspension order, and SCN were either received after the due date through UMS or not received at all to date; hence this complaint is for:

i. conducting an inquiry against imposter/fraudster/cyber-criminals misusing ID of the complainant and
ii. a directive to the Commissioner for cancellation of the blacklisting order and all other subsequent proceedings.

3. The complaint was referred to the Secretary, of Revenue Division for comments on Section 10(4) of the FTO Ordinance read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. In response, the DR appeared and submitted an Excel sheet of Annexure C for tax periods September 2023 to January 2024 of the complainant revealing huge fake supplies declared through 'Annexure C' by the complainant and subsequently huge input tax claimed by various buyers against those fake supplies during the said tax periods. However, the FBR and PRAL failed to furnish copies of Annexure C as prescribed under STR-7 [Annex-C-domestic Sales Invoices (DSI0]. Rather the Chief Manager (Ops) PRAL vide letter dated 20.08.2024 & 09.09.2024 admitted the non-availability of Annexure C stating that only the invoices for Nov 2023 were linked with Annexure 'C'.

4. Accordingly, this issue of alleged cybercrime and loss of revenue in billions of Rs. was investigated by examining documents related to forward and backward transactions procured from PRAL, RTO-1 Karachi, RTO-II Karachi, LTO Lahore, CTO Lahore, RTO Lahore, RTO Faisalabad, scrutiny of bank accounts and parties' arguments. It appears that this cybercrime involving huge loss of Govt. revenue has been conducted by a gang of cybercriminals facilitated by the employees (present and/or past) of PRAL & FBR who have direct or indirect access to the whole computerized

system. This gang operated in networks, initially spotted and extracted the sales tax registered dormant persons from the FBR website, and used their password for bogus/ fake transactions to benefit end consumers/ manufacturers. Therefore, it is absolutely necessary to find out the main beneficiary of the supply chain at the end of the tunnel where either a refund was received or adjusted by a manufacturer through scrutiny of the forward and backward transactions i.e. purchases and sales in Annex A and Annex C of their sales tax returns, Accordingly, the facts extracted from the investigation/records and the conclusion arrived are described in paras as follows:

ANALYSIS OF FORWARD TRANSACTIONS

5. ALLEGED SUPPLY OF RS. 81.434 BILLION WITH GST IMPACT OF RS.14.658 BILLION BY THE COMPLAINANT

This fraud was initiated through filing of 'Annexure C' of sales tax returns for tax periods September 2023 to January 2024 allegedly by the complainant declaring supplies of Rs. 81.434 billion having output tax of Rs. 14.658 without payment of tax as per details given below:

SL. NO	TAX PERIOD	SALES VALUE (Rs)	SALES TAX (Rs)
1	Sept 2023	16,504,300	2,970,774
2	Oct 2023	8,645,904,065	1,556,262,732
3	Nov 2023	52,834,086,850	9,510,135,633
4	Dec 2023	5,012,001,900	902,160,342
5	Jan 2024	14,926,003,900	2,686,680,702
	TOTAL	**81,434,501,015**	**14,658,210,183**

6. However, the complainant had filed online 'NULL' returns for tax periods July 2023 to January 2024 within due dates which means no sales and no purchases have been declared in sales tax returns. This fact of filing sales tax returns has also been confirmed by the PRAL vide letter dated 20.06.2024 but to the extent of July to October 2023. The AR of the complainant also filed evidence of filing online barcoded 'NULL' sales tax returns. However, due to the filing of bogus supplies in Annexure 'C, several buyers automatically claimed input tax due to the system of STRIVE in the supply chain as **a paper transaction without physical**

movement of any goods and without any banking transaction in terms of section 73 of the Act resulting in a huge loss of Govt. revenue.

7. Goods/ Products supplied

HS Code 72.04 Ferrous waste and scrap; remelting scrap ingots of iron or steel.

8. Present Status:

As per the physical verification report conducted by Zone-III, RTO-1 Karachi on 10.06.2024; the complainant closed his business one year ago. The complainant had earlier filed an online notice for discontinuation of business u/s 117 of the Income Tax Ordinance 2001 on 21.03.2024. Similarly, the complainant also filed a manual application on 22.03.2024 for deregistration in sale tax alongwith 'Form STR-3' and a letter for discontinuation of business u/s 117 of the Ordinance, and these were submitted at TFD counter on 22.03.2024 after this incident. The complainant denied the allegation of submission of Annexure C declaring bogus supplies and submitted a bank statement of Soneri Bank Limited PK41SONE0011520003994695 reflecting NIL transactions for the period 01.07.2023 to 30.06.2024 as well as copies of monthly sales tax 'NULL' returns for July 2023 to January 2024. **Therefore, the question arises of how and who filed Annexure C for tax periods September 2023 to January 2024 declaring supplies of Rs. 81.434 billion having output tax of Rs. 14.658 when the complainant has evidence of filing barcoded 'NULL' sales tax returns for the same tax periods.**

9. CLAIM OF INPUT TAX IN SALES TAX RETURNS BY BUYERS AGAINST SUPPLIES FROM THE COMPLAINANT

Two prominent buyers claimed huge input tax against supplies through 'Annexure C' from the complainant for November 2023 & December 2023.

i. Mr. MUHAMMAD ASHFAQ, CNIC 4240114087673
Business Name: **Yasir Confectionery**

ii. Mr. SULTAN ALI, CNIC 4230108742253
Business Name: **New Metro Footwear Co**

10. Mr. MUHAMMAD ASHFAQ, CNIC 4240114087673, business name: Yasir Confectionery, Jurisdiction: Zone-III, RTO-1 Karachi

Address: Plot # 188, Street # 1, Sector 3&2, Banaras Bazar, Near Allah Wali Masjid, Orangi Town, Karachi. This buyer submitted sales tax returns for tax periods November & December 2023 on 03.01.2024 & 22.01.2024 claiming bogus input tax of Rs.100,356,953 against supplies from the complainant worth Rs. 2,291,875,647 as per details below:

TAX PERIOD	SUBMISSION DATE	INPUT TAX	OUTPUT TAX
July 2023	18.08.2023	0	0
August 2023	30.11.2023	0	0
Sept 2023	04.12.2023	0	0
Oct 2023	04.12.2023	0	0
Nov 2023	03.01.2024	1,736,196,282	56,100,713
Dec 2023	22.01.2024	555,679,365	44,256,240
TOTAL		2,291,875,647	100,356,953

11. As can be observed from the above table, the buyer had been filing a NULL return earlier and suddenly claimed a bogus input tax of Rs. 2,291,875,647 **without physical movement of goods and payments through banking transactions as per section 73** of the Sales Tax Act 1990. The MCB bank statement of Mr. Muhammad Ashfaq IBAN PK75MUCB0004901010021091 for the period 01.08.2023 to 30.01.2024 reflects the NIL transaction. The AR (who is incidentally, the same person representing the complainant) vide letter dated 19.07.2021 submitted notice to the CIR, Zone-III, RTO-1 Karachi u/s 117 of Income Tax Ordinance 2001 for discontinuation of business due to ill health & COVID w.e.f. 01.07.2021. Thereafter, the taxpayer also applied for de-registration of sales tax u/s 21(1) of the Sales Tax Act 1990 on 19.11.2022 along with Form STR-3. The taxpayer also filed online application for deregistration through IRIS on 22.11.2022. The CIR was required to deregister the taxpayer within 90 days of receipt of an application for deregistration under Rule 11(1) of Sales Tax Rules 2006. However, the Deptt failed to respond on notice for discontinuation of business in income tax and deregistration of STRN. Had the CIR responded within the stipulated time and

deregistered STRN in terms of Rule 11(1), this massive tax fraud would have been avoided.

12. Present Status of Muhammad Ashfaq (Yasir Confectionery):

The physical verification was conducted on 05.03.2024 &10.06.2024 by Zone-III, RT0-1, Karachi. The business located at Orangi Town, Karachi was closed more than three years ago. However, the existence of the business was not traceable at the declared address of Korangi Karachi.

13. As per Annexure A of Yasir Confectionery, goods HS Code 72.04 (Ferrous waste and scrap; remelting scrap ingots of iron or steel) were purchased from the Complainant (Muhammad Sharif of Gravity Traders CNIC 4220104826643) during the tax period of November 2023 only. Whereas, during the tax period December 2023 and January 2024, these same goods (HS Code 72.04) were purchased from Mst Firdous Anwar, CNIC 4200096715498, SU-141, Askari -IV, Main Rashid Minhas Road Gulistan-e-Johar, Karachi East Gulshan Town with business names "M/s Safa International Marketing" and "Safa Mills". This taxpayer Mst Firdous Anwar is 79 years old non-resident living abroad with her family, assessed in RTO-II, Karachi. At present, the sales tax status is appearing as blacklisted.

14. Therefore, this buyer **Mr. Muhammad Ashfaq** of M/s Yasir Confectionery CNIC 4240114087673 despite filing an online application for deregistration through IRIS on 22.11.2022 had allegedly claimed input tax against the supply of Ferrous waste and scrap/ remelting scrap ingots of iron or steel HS Code 72.04 supplied by the complainant in November 2023 and from Mst Firdous Anwar, CNIC 4200096715498 during December 2023 & January 2024.

15. Goods supplied onwards (Forward Transactions) and **ultimate Beneficiary** :

SUMMARY OF TRANSACTIONS AS PER ANNEXURES A & C

Sl. no	Tax Period	Goods / Products	Purchased from : (input tax claimed), as per Annexure A	Supplied to: (Output tax), as per Annexure C
1	Nov 2023	HS Code 72.04 Ferrous waste and scrap/ remelting scrap ingots of iron or steel	The Complainant Muhammad Sharif of Gravity Traders (Rs.3,832,585,186 + Further Tax Rs.1,891,591,008)	i. Rs. 47,730,713 M/s Chenab Steel Rerolling Mills, principal activity: "241000- Manufacturing of basic iron and steel", Reg no. 4287181-6, Address: Near Mehmood Booti, Interchange Ring Road, Lakhodyre, Lahore Wahgah Town and assessed in LTO Lahore and status appearing as "Active" both in income tax & sales tax. ii. Rs. 8,370,000 Mr. Khalid Islam CNIC 3520298332153 business name: Khalid and Company, Regd as manufacturer of basic iron & steel and assessed in CTO Lahore status appearing as 'Active' both in income tax & sales tax.
2	Dec 2023	HS Code 72.04 Ferrous waste and scrap/ remelting scrap ingots of iron or steel	Mst Firdous Anwar, CNIC 4200096715498, SU-141, Askari -IV, Main Rashid Minhas Road Gulistan-e-Johar, Karachi with business names " M/s Safa InternationalMarketing" and "Safa Mills" (Manufacturing of other textiles etc.) assessed in RTO-II, Karachi. At present, STRN is blacklisted. Rs 2,877,722,611	i. Rs. 34,212,240 M/s Chenab Steel Rerolling Mills, Reg no. 4287181-6, Address: Near Mehmood Booti, Interchange Ring Road, Lakhodyre, Lahore Wahgah Town and assessed in LTO Lahore and status appearing as "Active" both in income tax & sales tax. ii. Rs. 10,044,000 Khalid Islam, CNIC 3520298332153 business name Khalid and company details as above..
3	Jan 2024		Mst Firdous Anwar, CNIC 4200096715498, Details as above Rs.4,124,880,017	Rs. 65,157,943 M/s Chenab Steel Rerolling Mills, principal activity: "241000- Manufacturing of basic iron and steel", Reg no. 4287181-6

16. **M/s Chenab Steel Rerolling Mills, Manufacturer of basic iron and steel Reg no. 4287181-6 , assessed in LTO Lahore is the ultimate beneficiary against consumption of input tax** Rs. 47,730,713 in November 2023, Rs.34,212,240 in December 2023 and Rs. 65,157,943 in January 2024. As per Annexure C of Muhammad Ashfaq (Yasir Confectionery) and Mst Firdous Anwar, CNIC 4200096715498, these goods were supplied as fake transactions to M/s Chenab Steel Rerolling Mills, Address: Near Mehmood Booti, Interchange Ring Road, Lakhodyre, Lahore Wahgah Town. Annexure A of Chenab Steel Rerolling Mills confirms that supplies introduced through Annexure C by cybercriminal from Muhammad Ashfaq and Mst Firdous Anwar were consumed /adjusted by M/s Chenab Steel Rerolling Mills on account of input tax of Rs. 47,730,713 in November 2023, Rs.34,212,240 in December 2023 and Rs. 65,157,943 in January 2024. As per sales tax returns submitted by Chenab Steel Rerolling Mills, the company after adjusting these bogus inputs paid Rs. 7,814,272 in November 2023, Rs.8,002,233 in December 2023, and Rs. 8,090,280 respectively. Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of input tax of Rs. 47,730,713 in November 2023, Rs.34,212,240 in December 2023, and Rs. 65,157,943 in January 2024 against bogus/ fake transactions is M/s Chenab Steel Rerolling Mills Reg no. 4287181-6. Unfortunately, this company has been left scot-free by the Deptt, and the income tax and sales tax status of M/s Chenab Steel Rolling Mills are still operative as per 'Taxpayer Profile Inquiry' on 10.09.2024.

17. **Mr. Khalid Islam , CNIC 3520298332153, House No. 95A, Naiyazi Street, Pir Ghazi Road, business name Khalid and company , Momin pura Road, Daroghawala Near Ishad Steel R/R mill regd. as manufacturer of basic iron & steel and assessed in CTO Lahore , the ultimate beneficiary** of input tax of Rs. 8,370,000 in November 2023 and Rs. Rs. 10,044,000 in December 2023. Examination of Annexure C of

Muhammad Ashfaq of Yasir Confectionery and Annexure A of Mr. Khalid Aslam for tax periods November & Dec 2023 confirms that supplies introduced through Annexure C by cybercriminal from Muhammad Ashfaq were consumed /adjusted by Mr. Khalid Aslam on account of input tax of Rs. 43,864,584 in December 2023 and Rs. 45,945,810 in January 2024. As per sales tax returns submitted by Mr. Khalid Aslam, he after adjusting these bogus inputs paid Rs. 566,599 in November 2023 and Rs.653,399 in December 2023 respectively. Thus, it is confirmed beyond any shadow of a doubt that the ultimate beneficiary to the extent of input tax of Rs. Rs. 8,370,000 in November 2023 and Rs. 10,044,000 in December 2023 against bogus/ fake transactions is Mr. Khalid Islam, CNIC 3520298332153, Strangely, the status of Mr. Khalid Aslam appears as 'Active' both in income tax & sales tax despite involved in this tax fraud.

18. The second buyer claiming huge input tax against supplies through 'Annexure C' from the complainant Gravity Traders for November 2023 & December 2023 is :

Mr. SULTAN ALI, CNIC 4230108742253

Business Name: **New Metro Footwear Co,**

Jurisdiction: Zone-III, RTO-1 Karachi

Address: 291-292/C, Metro House Tariq Road, P.E.C.H.S, Karachi

This buyer allegedly submitted sales tax returns for tax periods November 2023, December 2023 & January 2024 on 01.01.2024, 26.01.2024, and 02.03.2024 claiming bogus input tax of Rs. 1,502,317,478 as per details below:

TAX PERIOD	SUBMISSION DATE	INPUT TAX	OUTPUT TAX
July 2023	30.11.2023	0	0
August 2023	05.12.2023	0	0
Sept 2023	05.12.2023	0	0
Oct 2023	05.12.2023	0	0
Nov 2023	01.01.2024	1,244,863,816	47,682,508
Dec 2023	26.01.2024	183,620,614	76,259,624
Jan 2024	02.03.2024	73,833,048	403,508,072
TOTAL		1,502,317,478	527,450,204

19. Similarly, it can be observed from the above table, that the buyer had been filing a NULL return earlier and suddenly claimed input tax of Rs. 1,428,484,430. The bank statement Allied Bank Tariq Road branch Account no. 0010000351300010 was obtained for the period 01.07.2023 to 30.06.2024 and it was observed that no transaction was conducted during the said period meaning thereby that these were **bogus paper transactions without physical movement of goods and payment**.

20. Present Status:

Mr. Sultan Ali, Prop of M/s New Metro Footwear Co. **expired on 09.02.2017 as per the death certificate issued by NADRA.** The Commissioner Zone-III, RTO-1 Karachi vide order dated 06.05.2024 blacklisted the STRN on adjustment of fake input of Rs.238.335 million in connivance with suppliers M/s. Firdous Anwar (Safa International Marketing) STRN 1200520933391 and Mr. Muhammad Sharif, the complainant (M/s gravity Trader)STRN 1700131747819 during tax periods of Nov 2023, Dec 2023 & January 2024.

21. An FIR 01 of 2024 was lodged on 26.03.2024 against M/s New Metro Footwear Co. and Mr. Owais Bhutta, CNIC 42301-5493957-9 (son of the AR) has been nominated as the main accused / beneficiary along with 12 co-accused & beneficiary for claiming fake input of Rs.235.223 million from Mrs. Firdous Anwar CNIC 42000-9671549-8 and Rs. 3,112,159,541 from the complainant. It has been alleged in FIR that Mr. Owais Bhutta is a beneficiary of this fake transaction as he possessed the password and PIN code of M/s New Metro Footwear Co and had been filing sales tax returns since 09.04.2023. Further, it was alleged that Mr. Owais Bhutta declared supplies through M/s New Metro Footwear Co worth Rs. 410.184 million to 6 dummy buyers.

22. Goods/ Products purchased as per Annexure A

i. HS Code 27.10 Petroleum oils and oils obtained from bituminous minerals, other than crude; waste oils

ii. HS Code 48.05 Other uncoated paper and paperboard, in rolls or sheets,
iii. HS Code 52.08 Woven fabrics of cotton

23. SUMMARY OF TRANSACTIONS AS PER ANNEXURES A & C

Sl. no	Tax Period	Goods / Products	Purchased from : (input tax claimed), as per Annexure A	Supplied to: (Output tax), as per Annexure C
1	Nov 2023	HS Code 48.05 Other uncoated paper and paperboard, in rolls or sheets ii. HS Code 52.08 Woven fabrics of cotton	The Complainant Muhammad Sharif of Gravity Traders (Rs.1,556,079,770 + Further Tax Rs. 945,795,504) (Rs.1,556,079,771 + Further Tax Rs. 345,795,505)	i. Rs. 31,033,022 (HS 27.10) Muhammad Kashifur Rehman CNIC 332025346724 Address House # 463, Ward #3, Mohalla Chah Fareed Wala with business name "OIL & OIL" Office # 79, Post Office Street, Colony Floor Mills Road, Factory Area, Principal Activity: 960900-Other service activities Assessed in RTO Faisalabad, STRN blacklisted. ii.Rs.16,649,486 (HS 27.10) Mr. Mudassar Rehman, CNIC 3320241650333 Office no. F-76, Post Office Street, Factory Area, Colony Floor Mill Road, Faisalabad with business name M.N. Traders and activity 466100-Wholesale and retail trade. This taxpayer is assessed in RTO Faisalabad, STRN blacklisted
2	Dec 2023	HS 1511 Palm oil Input tax claimed : Rs.773,738,988 HS 2710 Petroleum Products Rs. 10,715,711,370	Mst Firdous Anwar, CNIC 200096715498, SU-141, Askari -IV, Main Rashid Minhas Road Gulistan-e-Johar, Karachi with business names " M/s Safa International Marketing" and "Safa Mills" with activity of Manufacturing of other textiles etc. This Taxpayer is assessed in RTO-II, Karachi, and was registered in sales tax w.e.f 20.07.1998. At	i. Rs.43,864,584 (HS 27.10) Shahzad Mazhar Chaudhry CNIC 3520285636091 Flat # 1, Ground Floor, Block # 4 Alhamra Residency, 4 Km Raiwind Road, Near Ali Raza Abad Stop, Lahore with Business names :Prime Lubricants, Petrolinx Trading Co and Alzain Enterprises. This taxpayer is assessed in RTO Lahore. Presently, the status of Income Tax and Sales Tax are Active ii. Rs.10,512,000 (HS 27.10) Muhammad ZiaUr Rehman CNIC 3310097914909 Shop # P-9/D Lal Mill Chowk, Factory Area with Business name Zia & Company. Activity 469000-Wholesale and retail trade. This taxpayer is assessed in RTO

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			present, STRN is blacklisted. Rs.11,489,450,388 +Further Tax 1,000,000	Faisalabad and presently the status of income tax & sales tax are Active. iii.Rs.19,542,922 (HS 27.10) Muhammad Raza Munir CNIC 3310089543399; 543 b People Colony # 1 fsd with business name Raza and Company P 10 D Colony Floor Mills, Lal Mill Road, Activity D 941100-Other service activities. This taxpayer is assessed in RTO Faisalabad and the income tax & sales tax status are active. iv.Rs.2,340,118 (HS 27.10) Akbari Chemical Industries (Pvt) Ltd, Reg 424775153, Circular Road, Akbari Gate, Akbari Mandi, Lahore Data Gunj Bukhsh Town with business address 18-Km, Multan Road, Lahore. 10-Km, Faisalabad Road, Khariawala, Sheikhupura Activity202900- Manufacturing of other chemical products. This taxpayer is assessed in LTO Lahore and the status of income tax and sales tax are active.
3	Jan 2024	HS 2710 Petroleu m Products Rs.223,7 33,370,6 12	Mst Firdous Anwar, CNIC 200096715498, SU-141, Askari -IV, Main Rashid Minhas Road Gulistan-e-Johar, Karachi with business names " M/s Safa International At present, STRN is blacklisted. Rs.223,733,370,61 2	i. Rs.45,945,810 (HS 27.10) Shahzad Mazhar Chaudhry CNIC 3520285636091 (Details as above) ii. Rs.10,786,898 (HS 27.10) Muhammad ZiaUr Rehman CNIC 3310097914909 (Details as above) iii.Rs.13,097,140 (HS 27.10) Muhammad Raza Munir CNIC 3310089543399; (Details as above) iv.Rs.4,003,200 (HS 15.11) Akbari Chemical Industries (Pvt) Ltd, Reg 424775153, (Details as above)

24. **Mr. Mudassar Rehman CNIC 3320241650333 with Business name M.N. Traders the ultimate beneficiary** of input tax of Rs. Rs.8,324,743 in November 2023.

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of Mr. Mudassar Rehman for the tax period Nov 2023 confirms that supplies introduced through Annexure C by cybercriminal from Sultan Ali were consumed /adjusted by Mr. Mudassar Rehman on account of input tax of Rs. 8,324,743 in Nov 2023. As per the sales tax return submitted by Mr. Mudassar Rehman, he adjusted these bogus inputs against the output tax of Rs.9,101,388 and carried forward the difference of Rs. 686,849 for the next month. Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of input tax of Rs. 8,324,743 in Nov 2023 against bogus/ fake transactions is Mr. Mudassar Rehman CNIC 3320241650333 Office no. F-76, Post Office Street, Factory Area, Colony Floor Mill Road, Faisalabad with business name M.N. Traders. This taxpayer is assessed in RTO Faisalabad, STRN blacklisted.

25. **Mr. Muhammad Kashif ur Rehman CNIC 3320253467247 with Business name "OIL & OIL" the ultimate beneficiary** of input tax of Rs. 31,033,022 in November 2023.

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of Mr. Muhammad Kashif ur Rehman for tax period Nov 2023 confirms that supplies introduced through Annexure C by cybercriminal from Sultan Ali were consumed /adjusted by Mr. Kashif Ur Rehman on account of input tax of Rs. 31,033,022 in Nov 2023. As per the sales tax return submitted by Mr. Muhammad Kashif Ur Rehman, he adjusted these bogus inputs and paid Rs.37,959. Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of input tax of Rs. 31,033,022 in Nov 2023 against bogus/ fake transactions is Mr. Kashif Ur Rehman CNIC 332025346724 Address House # 463, Ward #3, Mohalla Chah Fareed Wala with the business name "OIL & OIL" Office # 79, Post Office Street, Colony Floor Mills Road, Factory Area, Assessed in RTO Faisalabad, STRN blacklisted

26. **Mr. Muhammad Raza Munir CNIC 3310089543399 with Business name Raza and Company the ultimate beneficiary of input tax of Rs.19,542,922 in December 2023 and Rs.13,097,140 in January 2024**.

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of Mr. Muhammad Raza Munir for the tax periods Dec 2023 & Jan 2024 confirms that supplies introduced through Annexure C by cybercriminal from Sultan Ali were consumed /adjusted by Mr. Muhammad Raza Munir on account of input tax of Rs. 19,542,922 in Dec 2023 and Rs. 13,097,140 in Jan 2024. As per the sales tax returns submitted by Mr. Muhammad Raza Munir, he adjusted these bogus inputs in December 2023 against the output tax of Rs.11,715,893 and carried forward the difference of Rs.336,555 for the next month. Similarly he adjusted these bogus inputs in January 2024 against the output tax of Rs.11,316,771 and carried forward the difference of Rs.315,710 for the next month Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of input tax of Rs. 19,542,922 in Dec 2023 and Rs. 13,097,140 in Jan 2024 against bogus/ fake transactions is.

Muhammad Raza Munir CNIC 3310089543399; 543 b People Colony # 1 fsd with business name Raza and Company P 10 D Colony Floor Mills, Lal Mill Road.. Unfortunately, this person Mr. Muhammad Raza Munir has been left scot-free by RTO Faisalabad Presently the status of sales tax as of 08.09.2024 reflects as Operative.

27. **Mr. Shahzad Mazhar Chaudhry CNIC 3520285636091 with Business names Prime Lubricants, Petrolinx Trading Co and Alzain Enterprises , the ultimate beneficiary** of input tax of Rs. Rs.43,864,584 in December 2023 and Rs. Rs.45,945,810 in January 2024:

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of Mr. Shahzad Mazhar Chaudhry for tax periods Dec 2023 & Jan 2024 confirms that supplies introduced through Annexure C by cybercriminal from Sultan Ali were consumed /adjusted by Mr. Shahzad Mazhar Chaudhry on account of input tax of Rs. 43,864,584 in December 2023 and Rs. 45,945,810 in January 2024. As per sales tax returns submitted by Mr. Shahzad Mazhar Chaudhry, he after adjusting these bogus inputs paid Rs. 2,055,719 in December 2023 and Rs.1,138,813 in

January 2024; paid Rs. 320,790 in December 2023 and Rs.298,480 in January 2024 respectively. Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of input tax of Rs. 43,864,584 in December 2023 and Rs. 45,945,810 in January 2024 against bogus/ fake transactions is Mr. Shahzad Mazhar Chaudhry CNIC 3520285636091 with Business names Prime Lubricants, Petrolinx Trading Co and Alzain Enterprises, Flat # 1, Ground Floor, Block # 4 Alhamra Residency, 4 Km Raiwind Road, Near Ali Raza Abad Stop, Lahore (Assessed in RTO Lahore). Unfortunately, this person Mr. Shahzad Mazhar Chaudhry has been left scot-free by RTO Lahore as the status of sales tax as of 08.09.2024 reflects as Operative.

28. **M/s Akbari Chemicals Industry (Pvt) Ltd, NTN 4247751, (LTO Lahore), a manufacturer of chemical products the ultimate beneficiary** of input tax of Rs. 2,340,118 in December 2023 and Rs.4,003,200 in January 2024:

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of M/s Akbari Chemicals Industry (Pvt) Ltd confirms that supplies introduced through Annexure C by cyber criminal from Sultan Ali were consumed /adjusted by M/s Akbari Chemicals Industry (Pvt) Ltd on account of input tax of Rs.2,340,118 in December 2023 and Rs. 4,003,200 in January 2024. As per sales tax returns submitted by M/s Akbari Chemicals Industry (Pvt) Ltd, this company paid Rs. 2,055,719 in December 2023 and Rs.1,138,813 in January 2024 after adjusting bogus input tax from Sultan Ali. Thus, it is confirmed beyond any shadow of doubt that the ultimate beneficiary to the extent of Rs.2,340,118 in December 2023 and Rs. 4,003,200 in January 2024 against bogus/ fake transactions is M/s Akbari Chemicals Industry (Pvt) Ltd, NTN 4247751 registered as a Manufacturer of other chemical products. Unfortunately, this Registered person has been left scot-free by LTO Lahore as the status of sales tax as of 08.09.2024 reflects as Operative

29. **Mr. Muhammad Zia-ur-Rehman CNIC 3310097914909 with Business name Zia and Company the ultimate beneficiary of input tax of Rs. 10,512,000 in December 2023 and Rs. 10,786,898 in January 2024.**

Examination of Annexure C of Sultan Ali of New Metro Footwear Co and Annexure A of Mr. Zia Ur Rehman for the tax periods Dec 2023 & Jan 2024 confirms that supplies introduced through Annexure C by cybercriminal from Sultan Ali were consumed /adjusted by Mr. Zia Ur Rehman on account of input tax of Rs. 10,512,000 in Dec 2023 and Rs. 10,786,898 in Jan 2024. As per the sales tax returns submitted by Mr. Zia Ur Rehman, he adjusted these bogus inputs in December 2023 against the output tax of Rs.8,097,145 and carried forward the difference of Rs.1,915,024 for the next month. Similarly, he adjusted these bogus inputs in January 2024 against the output tax of Rs.13,591,570 and carried forward the difference of Rs.1,896,111 for the next month Thus, it is confirmed beyond any shadow of a doubt that the ultimate beneficiary to the extent of input tax of Rs. 10,512,000 in Dec 2023 and Rs. 10,786,898 in Jan 2024 against bogus/ fake transactions is Mr. Muhammad ZiaUr Rehman CNIC 3310097914909 with Business name Zia and company. Unfortunately, this person Mr. Muhammad ZiaUr Rehman has been left scot-free by RTO Faisalabad as the status of sales tax as of 08.09.2024 reflects as Operative.

30. CONCLUDED SUMMARY / ANALYSIS (Para 5-29)

All the beneficiaries mentioned above knowingly and deliberately purchased fake invoices, without any actual physical movement / transaction of goods and without payment as prescribed under section 73 of the Act, to evade sales tax. The beneficiaries were fully aware of the purchase of fake/flying invoices, without the physical transfer of any goods, with the intent to evade payment of tax. The present loose and liberal enforcement regime has emboldened these unscrupulous registered persons to indulge, without the fear of being caught, in the lucrative business of the use of fake/flying invoices. The edifice of sales tax law is erected on the glorious principle of self-assessment where complete trust is reposed in the taxpayers for submitting true & faithful declarations. To deter misutilization of such trust, the law also has an in-built penal & prosecution mechanism. Therefore, the Deptt after having established the case of tax fraud against all the ultimate beneficiaries in using fake/flying invoices, shall not stop short of registering an FIR against the perpetrators of such tax fraud under the relevant legal provisions but should vigorously pursue their cases during the prosecution stage.

31. <u>Contention of the AR Mr. Shahid Bhutta and Mr. Owais Bhutta (son of the AR/ the person nominated as a beneficiary in FIR dated 26.03.2024)</u> Both have denied all allegations and **requested for forensic examination of the hard disk of their laptop/computer** to ascertain the truth and identify the cyber criminals/fraudsters including the insiders of the Deptt/PRAL. The AR has also raised certain important queries which are discussed below:

i. Mr. Sultan Ali, Prop of M/s New Metro Footwear Co. expired on 09.02.2017 as per the death certificate issued by NADRA. As per the copy of the barcoded order dated 08.09.2023 "<u>181(Order to grant/refuse modification to registration on Application</u>)" submitted by the AR, Sales Tax registration was shown as de-registered. Further, the 'Taxpayer Profile Inquiry' dated 09.09.2023 downloaded from IRIS and submitted by the AR reflects only registration no, reference no. regd. for sales tax w.e.f 04.09.2006 and Tax Office RTO-1. **<u>All other rows are blank.</u>**

ii. On the contrary, as per the 'Taxpayer Profile Inquiry' dated 22.04.2024 downloaded from IRIS and submitted by the AR, the income tax status has been shown as Active, sales tax status suspended w.e.f 08.03.2024, and two new businesses were added as 'Metro Oil Services' and 'Re-Tech' by cyber criminals.

<u>Therefore, who did these changes in the web portal and how?</u>

iii) The bogus input tax was claimed in the sales tax return for November & December 2023 filed on 01.01.2024 & 26.01.2024 whereas Sales Tax registration was shown as de-registered as per the "Order to grant/refuse modification to registration" on the application dated 08.09.2023 based on the death of Mr. Sultan Ali on 02.09.2017. Thus it is very pertinent to point out **<u>how sales returns for November & December 2023 could be filed on 01.01.2024 & 26.01.2024 on IRIS claiming bogus input tax when the taxpayer was reflected as 'Deregistered for Sales Tax' in barcoded order u/s 181 dated 08.09.2023?</u>**

32. FIR 01 of 2024 dated 26.03.2024 has nominated Mr. Owais Bhutta, CNIC 42301-5493957-9 (son of the AR) as the main accused /beneficiary

because he possessed the password and PIN code of M/s New Metro Footwear Co. Possessing of the password and PIN code is not the conclusive evidence until substantiated by other verifiable documentary evidences. Denying the allegation of the beneficiary, the AR submitted that once he had handed over the computer system for repairs. Some mischiefs might have extracted the password from the system during the repairing stage. The AR offered to hand over the whole computer/ laptop to the department for forensic examination to determine the truth and identify the true culprit/cybercriminals for further appropriate legal action.

33. During investigations, a new fact came to the surface and it was observed that there were changes in the particulars of the complainant in the FBR website / IRIS Portal. The particulars of the complainant Mr. Muhammad Sharif (Gravity Trader) had been changed on 23.04.2024 at 1800 Hrs. The mobile number of the complainant was changed from 0300-2268610 to 0300-2268621 and the email address was also changed from gravittraders@gmail.com to gravytraders@gmail.com by using IP address 182.190221.167.

CHANGE IN PARTICULARS

Name	Column Name	Data Before	Data After	Modified On
MUHAMMAD SHARIF	CELL_NO	00923002268610	00923002268621	4/23/2024 6:08:16 PM
MUHAMMAD SHARIF	EMAIL	gravitytraders@gmail.com	gravytraders@gmail.com	4/23/2024 6:09:07 PM

User IP	Ports	Latitude	Longitude	ISP
182.190.221.167	12487	24.86	67.01	Soft X
182.190.221.167	12519	24.86	67.01	Soft X

Location
Karachi
Karachi

The person was located by the name of Syed Ghazanfar Ali Naqvi, CNIC 42201-1146604-5 House No.B-57, Block -6, Ghulshan-e-Iqbal, Karachi. Accordingly, Syed Ghazanfar Ali Naqvi was summoned who appeared and denied the allegations, filing an affidavit/statement dated 04.07.2024 declaring that he did not know about the issue. He is at present serving as BS-17 Govt. Employee being Deputy Director at TMC Gulberg Town Central in Karachi and doing his job for the last 33 years.

34. As can be observed that the cyber criminals operating in a network facilitated by the employees (present and/or past) of PRAL & FBR after introducing fake supplies through Annexure C of the complainant changed the particulars of the complainant in the web portal by changing the mobile number from 0300-2268610 to 0300-2268621 and the email address from gravittraders@gmail.com to gravytraders@gmail.com by using IP address 182.190221.167 so that the complainant could not have any excess to web portal for any revision.

BACKWARD TRANSACTIONS

35. Detailed investigation of backward transactions of the complainant Mr. Muhammad Sharif of M/s Gravity Traders reveals that purchases on account of the complainant have been shown from Mst Firdous Anwar, CNIC 4200096715498 (business name Safa International/ Safa Mall) during the tax periods November 2023 amounting to Rs.279.514 billion. The Annexure C of Mst Firdous Anwar, CNIC 4200096715498 of Safa International is as follows:

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ANNEXURE-C OF MST FIRDOUS ANWAR, CNIC 4200096715498, M/S SAFA INTERNATIONAL (0674786-8)

Sr.	Buyer Regn	Buyer Business Name	HS Code	Tax Period	Sales Value	Sales Tax	Further Tax
1	42201-04826643	Gravity Traders	3924	2023-11	118,991,136,561	21,418,404,581	0
2	42201-04826643	Gravity Traders	2710f	2023-11	11,300,067,884	2,034,012,219	0
3	42201-04826643	Gravity Traders	2710f	2023-11	41,130,067,884	7,403,412,219	7,403,412,219
4	42201-04826643	Gravity Traders	2710f	2023-11	75,050,000,003	13,509,000,001	9,000,001
5	42201-04826643	Gravity Traders	7204c	2023-11	19,050,000,003	3,429,000,001	3,429,000,001
6	42201-04826643	Gravity Traders	2710f	2023-11	13,993,670,401	2,518,860,672	2,518,860,672

7	42301-08742253	New Metro Footwear Co.	1511	2023-12	155,604,567	28,008,822	1,000,000
8	42301-08742253	New Metro Footwear Co.	2710f	2023-12	29,936,704,011	5,388,606,722	0
9	42301-08742253	New Metro Footwear Co.	2710f	2023-12	29,897,604,012	5,381,568,722	0
10	42301-08742253	New Metro Footwear Co.	1511	2023-12	1,993,670,401	358,860,672	0
11	42301-08742253	New Metro Footwear Co.	2710f	2023-12	1,846,696,946	332,405,450	0
12	34202-08510671	W A Enterprises	2710f	2023-12	20,006,008	3,601,081	0
13	42201-87977909	World Gate Trading	4805	2023-12	25,150,000	4,527,000	0
14	42401-14087673	Yasir Confectionery	7204c	2023-12	12,993,670,401	2,338,860,672	0
15	42401-14087673	Yasir Confectionery	7204c	2023-12	2,993,677,441	538,861,939	538,861,939
16	42301-08742253	New Metro Footwear Co.	2710f	2024-01	7,927,213,906	1,426,898,503	0
17	42301-08742253	New Metro Footwear Co.	2710f	2024-01	1,230,108,742,253	221,419,573,606	221,419,573,606
18	42301-08742253	New Metro Footwear Co.	2710f	2024-01	4,927,213,906	886,898,503	0
19	42201-87977909	World Gate Trading	4805	2024-01	16,452,786	2,961,501.00	0
20	42401-14087673	Yasir Confectionery	7204c	2024-01	1,136,000,096	204,480,017	20,448,001
21	42401-14087673	Yasir Confectionery	7204c	2024-01	21,780,000,001	3,920,400,000	0
					1,625,273,349,471	**292,549,202,903**	**235,340,156,439**

36. The transactions of the above-mentioned buyers have already been discussed in earlier paras. However, further examination of the data of Mrs. Firdous Anwar, CNIC 4200096715498 of Safa International/ Safa Mall reveals that she had also been filing "Null" sales tax returns for more than four years without any business transactions. Mrs. Firdous Anwar is 79 years old and living abroad with her children. The cyber-criminals with the active support of insiders used her account in the same way as the complainant and filed annexure "C" declaring supplies of Rs. 1.625 trillion with the impact of sales tax of Rs.292.549 billion and further tax of Rs. 235.340 billion.

37. <u>EXAMINATION OF IP ADDRESS</u>

Admittedly, the AR of the complainant had been filing NULL sales tax returns from July 2023 to January 2024. The AR submitted copies of barcoded NULL sales tax returns of these tax periods. The complete analysis of the IP address between sales tax "Null" returns submitted by the AR of the complainant and the IP address captured while submitting fake annexure C declaring bogus supplies for November 2023 as provided by the PRAL vide letter dated 20.08.2024 has been carried out; the details of which are as follows:

SALES TAX RETURN FILING HISTORY BY THE COMPLAINANT

Business Name	Tax Period	Submission Date	User IP	Ports	Latitude	Logitude
GRAVITY TRADERS	202307	8/18/2023 9:40:00 AM	111.88.38.193	46001	24.86	67.01
GRAVITY TRADERS	202308	9/13/2023 9:10:04 PM	111.88.34.203	30038	24.86	67.01
GRAVITY TRADERS	202309	10/9/2023 10:01:15 PM	111.88.38.118	34018	24.86	67.01
GRAVITY TRADERS	202310	11/13/2023 10:23:14 AM	111.88.44.163	42015	24.86	67.01

Ports	Latitude	Longitude	ISP	Location	Logout Time
46001	24.86	67.01	WorldCall Telecom Ltd	Karachi	8/18/2023 9:40:09 AM
30038	24.86	67.01	WorldCall Telecom Ltd	Karachi	9/13/2023 9:11:42 PM
34018	24.86	67.01	WorldCall Telecom Ltd	Karachi	10/9/2023 10:01:45 PM
42015	24.86	67.01	WorldCall Telecom Ltd	Karachi	11/13/2023 10:24:34 AM

38. Port numbers identify a particular application or service on a system. An IP address identifies a machine in an IP network and determines the destination of a data packet, while port numbers identify particular applications or services on a system. The IP identifies the computer and the port identifies the software on that computer that will handle the communication. The PRAL vide letter dated 20.08.2024 was able to furnish the IP address of submission of Annexure C of the complainant for the tax period November 2023 only. As per the PRAL letter, Annexure C for Nov 2023 was submitted on 23.01.2024 at 08:42:24 PM from IP address 111.88.41.13 with source port 60046, Latitude 24.86, Longitude 67.01 and the ISP is World Call Telecom Ltd. As can be observed the IP addresses of those filing “Null” sales tax returns by the AR of the complainant are different from the IP address of filing Annexure C by the cyber criminals.

39. The Octogenarian AR who has been working as a tax consultant with his son is well reputed to be a man with integrity. He has been practicing since 1980 and still lives with his family including his son at a 100 sq yds house in swarmed lodging colony called Manzoor Colony, Karachi. His standard / style of living since 1980 and still commuting on public transport / rickshaws also reflects his innocence. According to his statement, he and his son have been using his computer from his residential address of Manzoor Colony to file Null sales tax returns for all his clients including the complainant, M/s Yasir Confectionery, M/s Marvi Books, M/s New Metro Footwear and M/s World Gate Trading. For his convenience, he had preserved the name, CNIC no, passwords, and Pin codes of all of his clients on the desktop in a summarized list. He had once handed over his computer to a mechanic for some repair work who might have misused it unscrupulously.

ROLE OF PRAL & ELECTRONIC FILING OF RETURN

40. In terms of Rule 18(5) of Sales Tax Rules 2006, if the supplier of the registered person fails to file his return by the 10th day of the next month, the registered person's said inadmissible input tax credit shall be adjusted or recovered. Accordingly, a sales tax liability will be created automatically by the web portal in the next return at row 7a of the sales tax return of the registered person. Thus, an automatic check was incorporated in the web portal through this Rule to recover the introduction of input tax through Annexure "C" only without filing the sales tax return. For convenience, the said rule and procedure thereof is reproduced below:

> *"18(5) (i) In case,-- supplier of the registered person has not filed his monthly sales tax and federal excise return till the filing of his own return, he shall be communicated regarding his supplier who has not so far declared supplies made to him in sales tax and federal excise return. He shall, however, be allowed provisional adjustment of input tax against said invoices but if the supplier fails to file his return by the 10lh day of the next, month, registered person's said inadmissible input tax credit shall be adjusted or recovered in terms of clause (I) of sub-section (1) of section 8 read with proviso to clause (i) of sub-section (2) of section 7 of the Sales Tax Act, 1990 and sub-section (2A) of section 6 of the Federal Excise Act, 2005. He shall, therefore, be advised by the automated*

system of the Board to contact the supplier and persuade him to declare said supplies made to him and file return so that the registered person could get input tax credit relating to said supplies. In case registered person's supplier declares said supplies and files monthly sales tax and federal excise return for the same tax period, he shall be informed that the objection raised by the automated system of the Board on the invoices of the said supplier stands settled;"

Provisional Input Tax Adjustment

Annexure Submission	Return Submission	Adjustment against Purchase Invoice / Debit & Credit Notes / Withholdin
Yes	No	Web Portal will automatically communicate the buyer / supplier regardin non-submission of return. However, Web Portal will provisionally allov such adjustment. In respect of such provisional adjustment, web portal will automaticall adjust / create a liability in next return at Serial No. 7a, if supplier has nc filed its return by 10th of the following second tax period. Subsequent to the filing of the return by the supplier, Web Portal wi automatically allow sales tax adjustment at Serial 7b which wa automatically recovered / adjusted earlier
Yes	No	Admissible

41. In the instant case, the complainant Muhammad Sharif of Gravity Traders filed 'NULL' sales tax returns for tax periods July 2023 to January 2024 within due dates. The copies of barcoded sales tax returns are available on record. When the complainant had filed 'NULL' sales tax returns, the question arose as to how these two prominent buyers from the complainant Mr. Muhammad Ashfaq, CNIC 4240114087673 of Yasir Confectionery, and Mr. Sultan Ali CNIC 4230108742253 of New Metro Footwear Co claimed input tax and subsequently passed on to their customers in supply chain by-passing / overruling the "Check" imposed in web portal system in terms of Rule 18(5) of Sales Tax Rules 2006. Similarly, Mrs. Firdous Anwar, CNIC 4200096715498 (business name Safa International/ Safa Mall) filed her 'NULL' sales tax returns for December 2023 and January 2024 but Mr. Muhammad Ashfaq, CNIC 4240114087673 of Yasir Confectionery claimed input tax of Rs 2.877 billion in December 2023 and Rs.4.124 billion in January 2024 against supply from Mrs. Firdous Anwar. In addition, Mr. Sultan Ali CNIC 4230108742253 of New Metro Footwear Co claimed input tax of Rs.11.489 billion in December 2023 and Rs. 223.733 billion from Mrs. Firdous Anwar. Why the web portal did not reflect all inputs claimed by Mr. Muhammad Ashfaq, CNIC 4240114087673 of Yasir Confectionery, and Mr. Sultan Ali CNIC 4230108742253 of New

Metro Footwear as inadmissible input at row 7a of the sales tax returns in terms of Rule 18(5) of Sales Tax Rules 2006? This manipulation confirms with conviction that some insider of PRAL/FBR with complete access to the web portal **disabled/deactivated** this "Check" and facilitated the absorption of the inadmissible bogus input in the supply chain.

42. Accordingly, from the details of beneficiaries and modus operandi of deactivating the checks/balances, it is confirmed without any iota of doubt that the complainant as well as the AR and his son nominated in the FIR are innocent. A gang of cyber criminals with active role from PRAL and FBR officials are responsible for the huge loss of Govt. revenue

43. As already discussed above, it is not possible for so many firms/businesses to keep on operating openly and defiantly by issuing false sales tax invoices which are used by a wide range of beneficiaries to cause huge loss of revenue, without the knowledge, active assistance and connivance of some officials of the PRAL & FBR. The following questions/issues are required to be probed by the Member IT and Directorate of I & I which raises questions about the credibility of the FBR web portal especially on sales tax, security of the User ID/ Password, and sanctity of Taxpayers data:

i. Mr. Sultan Ali, Prop of M/s New Metro Footwear Co. CNIC 4230108742253 expired on 09.02.2017 as per the death certificate issued by NADRA. Sales Tax registration was shown **as de-registered** as per the copy of the barcoded order (100000159160279) dated 08.09.2023 "181(Order to grant/refuse modification to registration on Application)". Once the STRN was deregistered, who filed sales tax returns for tax periods November 2023, December 2023 & January 2024 on 01.01.2024, 26.01.2024, and 02.03.2024 claiming bogus input tax of Rs. 1.502 billion and how?

ii. Who filed Annexure C for tax periods September 2023 to January 2024 declaring supplies of Rs. 81.434 billion having output tax of Rs. 14.658 billion when the complainant has material evidence of filing barcoded 'NULL' sales tax returns for the same tax periods and how?

iii. Who removed Annexure C for tax periods September 2023 to January 2024 of the complainant M/s Gravity Traders from the web portal after these were absorbed in the supply chain and how?

iv. Who removed the "NULL" sales tax returns for tax periods November 2023 to January 2024 of the complainant M/s Gravity Traders from the web portal to facilitate the bogus transactions and how?

v. Why the barcoded sales tax 'NULL' returns of the complainant M/s Gravity Traders for October 2023 and December 2023 contain same barcode # 100000169640107 ? Similarly sales tax returns of the complainant M/s Gravity Traders for September 2023 and January 2023 contain same barcode # 100000163530630.

vi. Who **disabled/deactivated** the "Check" incorporated in the web portal in terms of Rule 18(5) of Sales Tax Rules 2006 and facilitated the absorption of the inadmissible bogus input in the supply chain without reflecting liability as inadmissible input at row 7a of the sales tax returns where input tax was introduced through Annexure "C" only without filing the sales tax return and how?

vii. Who filed the sales tax return of buyer Mr. Muhammad Ashfaq of M/s Yasir Confectionery CNIC 4240114087673 allegedly claiming input tax against the supply of Ferrous waste HS Code 72.04 amounting to Rs. 5.724 billion in Nov 2023 supplied by the complainant and from Mst Firdous Anwar, CNIC 4200096715498, Rs 2.878 billion during December 2023 & Rs.4.125 billion in January 2024 when Mr. Muhammad Ashfaq had already filed manual as well as online application for deregistration through IRIS on 22.11.2022 and how?

viii. Who changed the particulars of the complainant in the web portal by changing the mobile number from 0300-2268610 to 0300-2268621 and the email address from gravittraders@gmail.com to gravytraders@gmail.com by using IP address 182.190221.167?

44. Based on this detailed analysis, it can be concluded that the whole system security and protection of the Complainant's User ID/ Password and sanctity of the taxpayers' confidential data from misuse is highly questionable? Any time anybody can cripple the whole system and introduce fake transactions for his own interest incurring loss of revenue not in billion but in trillions of rupee. It appears that the whole FBR web portal has been vandalized and all checks and balances for security and sanctity of data have been bulldozed / mutilated for which the involvement of some insiders i.e; PRAL employees who had direct access to the FBR main server cannot be ruled out. This criminal act has been performed through spoofing. Spoofing is the act of disguising a communication from an unknown source as being from a known, trusted source and is a type of scam in which a criminal disguises an email address, display name, phone number, text message, or website URL for his criminal activity. Thus the Member -IT,

FBR should seriously inquire on the issues pointed out at para 33 for sanctity of data and take steps for necessary correction.

45. It is observed that the blacklisting order dated 27.03.2024 was based on the filing of Annexure C for tax periods from September 2023 to January 2024 declaring the huge bogus supplies/sales depriving Govt. revenue of Rs. 14.658 billion. On the contrary, neither the concerned Commissioner nor PRAL was able to furnish copies of these Annexure Cs as prescribed under STR-7 [annex-C-domestic Sales Invoices (DSI)] except an excel sheet against these fake transactions. Further from the detailed investigation as can be observed that the ultimate beneficiaries of these fake transactions are Registered Persons from Lahore and Faisalabad. The complainant filed NULL sales tax returns from July 2023 to January 2024 but these returns from November 2023 to January 2024 had been removed from the web portal by cyber criminals and fake transactions were introduced. In addition, despite filing of NULL returns inadmissible input at row 7a of the sales tax returns in terms of Rule 18(5) of Sales Tax Rules 2006 was not activated intentionally for facilitating bogus transactions. Therefore, the offence framed against the complainant was not committed by the complainant; hence the blacklisting order is required to be revoked.

FINDINGS:

46. Failure to provide the security and protection of the Complainant's User ID/ Password and sanctity of the taxpayers' confidential data from misuse /hacking leading to a tax fraud case worth Rs. 14.658 billion on behalf of the complainant causing administrative excesses tantamount to maladministration under section 2(3)(i)(a)(b)(c) & (ii) of FTO Ordinance.

RECOMMENDATIONS:

47. FBR to direct:

i) the Chief Commissioner-IR, LTO Lahore to ensure the initiation of legal proceedings for conviction on merit in accordance with the law against the crime of tax fraud committed by

a. M/s Chenab Steel Rerolling Mills, Reg no. 4287181-6

b. M/s Akbari Chemical Industries (Pvt) Ltd, Reg 4247751

as discussed in para 16,28 & 30;

ii) the Chief Commissioner-IR, CTO Lahore to ensure initiation of legal proceedings for conviction on merit in accordance with the law against the crime of tax fraud committed by Mr. Khalid Islam CNIC 3520298332153 business name: Khalid and Company as discussed in para 17 & 30;

iii) the Chief Commissioner-IR, RTO Lahore to ensure initiation of legal proceedings for conviction on merit in accordance with the law against the crime of tax fraud committed by Shahzad Mazhar Chaudhry CNIC 3520285636091 as discussed in para 27 &30;

iv) the Chief Commissioner-IR, RTO Faisalabad to ensure initiation of legal proceedings for conviction on merit in accordance with the law against the crime of tax fraud committed by

a. Mr. Muhammad Kashifur Rehman CNIC 332025346724

b. Mr. Mudassar Rehman CNIC 3320241650333

c. Muhammad ZiaUr Rehman CNIC 3310097914909

d. Muhammad Raza Munir CNIC 3310089543399

as discussed in paras 24,25,26,29 & 30;

v) the Directorate General I & I-IR to initiate a Fact Finding Inquiry in order to identity the cyber criminals including those present within PRAL and FBR;

vi) the Member IT, FBR to inquire into the issues pointed out at para 43 & 44 for necessary correction to ensure sanctity of data;

vii) the Commissioner Zone-III, RTO-II Karachi to consider revoking blacklisting order dated 27.03.2024 as the offence was not confirmed in the light of discussions held in para 45; and

viii) all concerned Chief Commissioners and Member IT FBR to furnish report to FBR (Member-IR Ops) within 60 days;

ix) FBR to furnish a comprehensive report to this forum within 90 days.

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

Dated: 3: 10: 2024

Approved for reporting