THE FEDERAL TAX OMBUDSMAN
ISLAMABAD

COMPLAINT NO.3529/KHI/ST/2025
Dated: 20.02.2025* R.O Karachi

Mr. Imran, Complainant
Proprietor: M/s. IMRAN IMPEX
CNIC 4230199855817
Office # 401, Al-Rehman Centre
Dandia Bazar
Karachi.

Versus

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

Dealing Officer	:	Mr. Abdul Majid Yousfani, Advisor
Appraising Officer	:	Mr. Muhammad Nazim Saleem, Advisor
Complainant	:	Mr. Imran Ilyas, Complainant,
Authorized Representative	:	
Departmental Representative		Mr. Kashif Khan, ADCIR, Mr. Ahmed Ali, ADIR, RTO-I Karachi Mr. Azam Nafees, ADIR, I&I, Karachi

FINDINGS / RECOMMENDATIONS

The complaint mentioned above was filed in terms of Section 10 (1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance) against alleged compulsory sales tax registration by the Commissioner, subsequent introduction of fake purchases amounting to Rs.7,722,000,000 through Annexure-C in sales tax return for tax periods November 2022 and December 2022, accusing the complainant of an alleged 'Tax Fraud', leading to suspension as well as blacklisting of sales tax registration and subsequently, proceedings u/s.11E of the Sales Tax Act, 1990 were initiated against the complainant vide Show Cause Notice dated January 06, 2025, which is under adjudication.

*Date of registration in FTO Secretariat

2. Briefly, the complainant is an Individual running business under the name and style of “Imran Impex” at Office # 401, Al-Rehman Centre Dandia Bazar, Karachi, which is duly registered for income tax purpose. The complainant allegedly claimed that he never applied to obtain any registration under Sales Tax Act 1990 as he does not carry out any sales taxable business activity in the individual capacity.

3. This incident of large-scale tax fraud came to the light when all of a sudden, the complainant received a letter from Enforcement and Collection RTO, Hyderabad dated December 18, 2023 regarding sales tax fraud on the registration number (STRN) 3277876263600 that reflected him as a Sales Tax Registered Person. The complainant averred that he had no connection with any Sales Tax Registration against his CNIC as he neither applied for it nor does he carry out any business chargeable to tax under the Sales Tax Act 1990 (the Act) nor he made any biometric verification relating to it. Further, he did not receive any notice or order of compulsory registration for sales tax from the respondent department.

4. The complainant informed that the CIR Zone-IV, RTO-I, Karachi issued an order vide No.1035 dated October 25, 2023 blacklisting the above said registration of M/s. Imran Impex with effect from November 10, 2005. He also submitted that his written representation with respect to identity theft was not considered by the department in complete disregard of the established norms of natural justice and fair play. Later, the respondent department, initiated assessment proceedings under section 11E of the Sales Tax Act, 1990 by issuing a notice dated January 06, 2025, in which it was alleged that the complainant had purchased goods from M/s. Poultry International bearing NTN 3952828-6. The complainant denies any business dealings, financial transactions or association with M/s. Poultry International bearing NTN 3952828-6. The complainant also averred that he has not claimed any input tax adjustment amounting to

Rs.1,312,740,000/- for November 2022 and December 2022 based on invoices issued by M/s. Poultry International, being entirely baseless and fabricated. He also alleged that the proceedings are still pending; hence this complaint with the request to protect from the highhandedness of tax authorities for arbitrary, baseless and unfounded proceedings for assessment, suspension and blacklisting of fake sales tax registration and identity theft. The Department, however, did not carry out any inquiry with respect to his submissions of the identity theft as per the complainant's claim.

5. The complaint was referred to the Secretary, Revenue Division for comments in pursuance of 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 copies of the alleged sales tax returns of the complainant and a detailed report / para-wise comments on the issue of sales tax registration etc. under the signatures of the CIR, Zone-IV, RTO-I Karachi dated March 12, 2025, which were examined and placed on record. The contents of the said comments are provided below:

"1. On the basis of definite information that the complainant is involved in the taxable supplies an online notice for registration u/s.14 of the Sales Tax Act, 1990 was issued on 01.03.2022 vide barcode No.100000118651809. As per information received from the Federal Board of Revenue vide letter No.1(3)SS(ST-Ops-I)2022/12967-R dated 27.01.2022, the complainant was involved in bulk purchases of sugar in Metric Tons (MT) from M/s. JK Sugar Mills (Private Limited, NTN7494608. The details are as under:

Supplier NTN	Buyer Name	Buyer CNIC	Tax Period	Value of Sales (In Rs.)	St involved (In Rs.)
2869931	Imran	4230199855817	May 2021	4,478.223	761.298

The notice is valid, lawful and with proper jurisdiction. The notice was issued online in IRIS which is treated as properly served on the individual u/s.56(1)(d) of the Sales Tax Act, 1990 and u/s.218(1)(d) of the Income Tax Ordinance, 2001.

In the registration profile, the complainant has provided email address at imran786@ed. com and cell number at 0092-312-7792151. Once any notice or order is issued online in IRIS, the taxpayer instantly receives an email and SMS to that effect. The complainant as a taxpayer's login has full access to IRIS and is regularly filing tax returns, statements and applications and all the online correspondence related to the sales tax registration of the complainant are available and visible to the complainant.

2. After providing a reasonable opportunity of being heard an order u/s.14 of the Sales Tax Act 1990 was issued vide No.3208 dated 09.03.2022. The Commissioner is legally competent to register any person in sales tax when he is satisfied that such person is required to be registered under section 14 of the Sales Tax Act, 1990 read with Rule 6 of the Sales Tax Rules 2006. The order is valid, lawful and with proper jurisdiction.

The contention of the complainant that the registration is without any basis is not tenable in the eyes of laws and facts of the case due to the following reasons;

a. *The complainant was registered in sales tax on the basis of definite information that the complainant was involved in the taxable purchases of sugar from M/s. JK Sugar Mills (Private) Limited, Lahore during the month of May 2021.*

b. *The taxpayer was provided proper opportunity of being heard. The notice and order u/s.14 of the Sales Tax Act 1990 was issued online in IRIS which is treated as properly served on the individual u/s.56(1)(d) of the Sales Tax Act, 1990 and u/s.218(1)(d) of the Income Tax Ordinance, 2001.*

c. *The Commissioner is legally competent to register any person in sales tax when he is satisfied that such person is required to be registered under section 14 of the Sales Tax Act 1990 rad with Rule 6 of the Sales Tax Rules 2006. Rule 6 of the Sales Tax Rules 2006.*

d. *The complainant has not challenged the notice and order issued under section 14 of the Sales Tax Act, 1990 read with Rule 6 of the Sales Tax Rules 2006 before any authority or court of law.*

e. Since registration in Sales Tax in March 2022, the complainant has not applied for de-registration.

f. The complainant was registered in sales tax on 09.03.2022 and the instant complaint has been filed on 20.02.2025 i.e. after the lapse of approximately three years.

3. The complainant joined investigation before investigation officer Enforcement & Collection, Zone-II, RTO Hyderabad initiated under section 160 Cr. Pc. 1898 vide notice 339, dated 18.12.2023.

4. The complainant as a taxpayer has full access to IRIS and is regularly filing tax returns, statements and applications and all the online correspondence related to the sales tax registration of the complainant are available and visible to the complainant. Protection of personal ID and Password is the sole and legal responsibility of the complainant as taxpayer. The complainant has the access to change his personal and business particulars in the profile including email, phone number and Password, if any threat of misuse was noticed by him. However, no de-registration application was filed through IRIS as per law.

5. The fact is not denied that complainant's profile was rectified and updated on the submission of Income Tax form 181 (Form of registration filed for modification) being a part of legal practice as per law.

6. The Commissioner is legally competent to register any person in sales tax when he is satisfied that such person is required to be registered under section 14 of the Sales Tax Act 1990 read with Rule 6 of the Sales Tax Rules 2006. The said order involves compulsory registration in sales tax dated 09.03.2022 u/s.14(3) as such requires no biometric, on the basis of information received from the Board alongwith data of transaction that the taxpayer was found involved in taxable supplies. However, a taxpayer has full access to IRIS and is regularly filing tax returns, statements and applications and all the online correspondence related to the sales tax registration of the complainant are available and visible to the complainant. Protection of personal ID and Password is the sole and legal responsibility of the complainant as taxpayer. The complainant has the access to change his personal and business particulars in the profile including email, phone *number and Password, if there is any threat of misuse or otherwise. Whereas, the respondent has no access to the log in history of the complainant. Moreover, no de-registration application was filed through IRIS.*

7. That in supply chain M/s. Poultry International, Karachi (NTN:3952828-6), who filed complaint before the FTO vide Complaint No.FTO-0670/KHI/ST/2025, filed sales tax return for the month of November 2022 declaring all purchases of Rs.7.7 billion from Mr. Muhammad Nasim, Prop: M/s. Sultan Medial Store who was also complainant before the FTO in Complaint No.7550/KHI/ST/2024 dated 09.09.2024. Similarly, M/s. Poultry International, Karachi declared all sales of 7.7(B) to the instant FTO complainant (M/s. Imran Impex). Hence, it transpired that all above three taxpayers in supply chain have categorically disowned any such business transaction and filing of any sales tax return. FTO Complaint No.7550/KHI/ST/2024, dated 09.09.2024 filed by M/s. Sultan Medial Store, Karachi has been concluded by the Honourable FTO vide Findings / Recommendations dated 23.01.2025 while remaining two complaints M/s. Poultry International, Karachi and M/s. Imran Impex, Karachi are under investigation before the Honorable FTO.

8. The investigation of tax fraud defined under section 2(37) of Sales Tax Act,1990 was initiated against the complainant as per information received from the Federal Board of Revenue vide letter No.1(3)SS(ST-Ops-1) 2022/12967-R dated 27.01.2022, that the complainant was involved in bulk purchases of sugar in Metric Tons from M/s. JK Sugar Mills (Private) Limited. In the Annexure C of the monthly sales tax return for the month of May 2021 M/s. JK Sugar Mills (Private) Limited, Lahore has declared supplies of cane sugar to the complainant.

9. The registration of Mr. Imran, CNIC: 4230199855817, NTN: 2540799-6 was blacklisted on 25.10.2023. Subsequently, proceedings u/s.11E of the Sales Tax Act, 1990 were initiated against the complainant by virtue of show-cause notice dated 18.12.2024 followed by hearing notices dated 08.01.2025 and 15.01.2025 and the same are under the process of adjudication."

6. During the course of investigation multiple Notices were issued to M/s. Pakistan Revenue Automation Limited (PRAL), an IT company wholly owned by the Federal Board of Revenue (FBR). The initial response dated

April 30, 2025, received by this office, was found to be misleading in view of the incorrect NTN of the complainant. Later, PRAL responded vide letter No. PRAL/GM(OPS)/3216520(I) dated May 05, 2025 which reads as under:

> *"Subject: COMPLAINT FILED BY MR. IMRAN (PROP.) IMRAN IMPEX HOLDING NTN 25407996- REGARDING MISUSE OF USER ID AND PASSWORD*
>
> *I am directed to refer to your letter No. FTO-3529/KHI/ST/2025 dated April 21, 2025 regarding the subject.*
>
> *According to the system record the taxpayer, M/s. Imran Impex (NTN 2540799-6) registered for Sales Tax on March 12, 2022 through a notice u/s 14 (Notice to file Form of Registration-Sales Tax) was issued on March 01, 2022 issued by the officer, Mr. Ahmed Ali (Registration No. 42201477223609).The form of Sales Tax Registration (14(3) was submitted online on March 12, 2022.*
>
> *Initially the cell number 00923423201013 and email address bilalwalshaikh64@yahoo.com of the taxpayer were made blanked due to duplication. Later on the cell number was updated to 00923345405365 and the email to uu267@gmail.com on December 12, 2022, by the user ID 4230199855617 through IP address 119.159.249.61: 26985.*
>
> *Subsequently, the cell number was changed from 00923345405365 to 00923127792151 and email address from uu267966@gmail.com to imran786@ed.com on December 12, 2022 through IP address 119.159.249.61,*
>
> *Further details regarding changes in taxpayer's particulars, along with corresponding IP addresses comprehensive records of Sales Tax return submissions from March 2022 and onward, along with IPT addresses and the information pertaining to Annex-A and Annex-C and related Sales Tax returns are given in the enclosed Excel file.*
>
> *It is to further to mention that the system controls implemented by PRAL are fully secured where any changes to taxpayers credentials can only be made using the email address and mobile number which*

are already registered in FBR systems. The 'Forget Password' feature is also accessible through the registered email and mobile number. Furthermore to change or update the cell number and / or mobile numbers, the taxpayers are required to visit the tax offices to further strengthen the security."

7. During the investigation proceedings conducted by this office, the Directorate General of Intelligence and Investigation (Inland Revenue) Karachi, was provided the information made available by M/s. PRAL in addition to the complaint. Later, DG I&I vide letter C.No. Dir/I&I-IR/KHI/FTO 3529/2025/729 dated May 05, 2025 submitted as under:

"Subject: COMPLAINT NO. 3529/KHI/ST/2025 FILED BY IMRAN PROP. OF M/S. IMRAN IMPEX-COMMENTS ON BEHALF OF DIRECTORATE OF I&I KARACHI.

Kindly refer to your good office notice dated 28-4-2025 in the subject complaint.

2. Respectfully, upon reviewing the contents of the complaint, it is evident that the complainant's primary grievance concerns the compulsory sales tax registration linked to his CNIC by the field office, RTO-I Karachi, and the subsequent assessment proceedings initiated through the show cause notice dated 06-01-2025 by the concerned officer of the said office. The relief sought in the complaint is specifically related to these matters.

3. In the meantime, in connection with an identical matter under FTO complaint No. 0670/KHI/ST/2025, filed by Mr. Muhammad Javed Aslam, proprietor M/s. Poultry International (the alleged supplier of the present complaint), this Directorate submitted its comments during the hearing held on March 26, 2025 before your good self (copy enclosed). Notably, this matter was previously and thoroughly investigated by this Hon'able forum in the case of M/s. Sultan Medical Store, Karachi under FTO complaint No. 7550/KHI/ST/2024, wherein both individuals namely Mr. Muhammad Javed Aslma of M/s. Poultry International and Mr. Imran of M/s. Imran Impex along with their respective businesses, were identified as part of the supply chain of M/s. Sultan Medical Store in complaint No. 7550/KHI/ST/2024.

4. During the inquiry conducted by the concerned officer of this Directorate and based on the scrutiny of data provided PRAL, it was revealed that the same mobile number (0334-5405365) and email ID ('uu267966@gmail.com), previously linked to former PRAL employee and accused Yasir Latif, who was implicated in borth aforementioned cases, were unlawfully added to the complainant's registration profile to gain unauthorized access to the complainant's password. Further analysis of system logs confirmed that the same mobile number and email ID were also associated with the registration profile of Mr. Muhammad Javed Aslam, proprietory of M/s. Poultry International (CNIC: 42501-1609787-3). According to PRAL's data, the buyer M/s. Imran Impex, deceitfully claimed input tax credit totaling Rs. 1.312 billion, at the second stage of the supply chain of Sultan Medical Store, from M/s. Poultry International. This issue was also comprehensively addressed in the FTO's Final Findings and Recommendations Complaint No. 7550/KHI/ST/2024 (Sultan Medical Store Case).

5. Prior to the above, the accused Yasir Latif was arrested by I&I-IR Karachi on July 20, 2023, in connection with FIR No. 01/2023 (State v Ghulam Umer of Z.A. Impex Karachi). He is currently absconding from court proceedings after having been granted bail. Furthermore, an additional IP address (119.159.249.61) associated with the ISP PTCL and dated December 12, 2022, was identified in the registration modification log and sales tax return log of Imran of M/s. Imran Impex. The same IP address also appeared in the records of the earlier complainants i.e. Mr. Muhammad Naseem of Sultan Medical Store and his buyer: Muhammad Javed Aslam of M/s. Poultry International. This strongly suggests that the same group of fraudsters, linked to accused Yasir Latif, was involved in perpetrating the current tax fraud.

6. In light of the foregoing, it can be conclusively stated that the accused Yasir Latif as a facilitator and abettor under section 33(1) of the Sales Tax Act, 1990 in the offence of tax fraud involving the fraudulent compulsory sales tax registration of the complainant M/s. Imran Impex, March 2022, as well that of his supplier; Muhammad Javed Aslam of Poultry International, Karachi and generating fake input tax in supply chain. However, the identities of other accomplices involved in the scam remain undetermined due to *technical limitations associated with the IP data, which spans over a year. Notably, M/s. PTCL did not furnish the requested IP details citing that, in accordance with regulatory obligations set by the Pakistan Telecommunication Authority (PTA), it does not retain such records beyond one year"*

POINTS FOR DETERMINATION:

8. The case involves the following points for consideration and evaluation to make recommendation for resolution of the complaint:

a. Compulsory Registration of the Complainant:

i. The respondent department, on the basis of definite information that was neither specified nor mentioned in the "Notice", instituted the compulsory registration against the instant complainant. The respondent department also claimed that the said "Notice" was served online through the IRIS system. However, the service of the said "Notice" is denied by the complainant in his complaint and during the proceedings conducted by this office. The respondent department insisted that the said "Notice" has been deemed to have been served on the complainant instantaneously on issuance from IRIS on March 01, 2022. Further, the department could not produce any evidence of service thereof through UMS, TCS courier or otherwise.

ii. Notice dated March 01, 2022 issued by the respondent department for compulsory registration as presented to this office during the investigation, provided for compliance by March 03, 2022 i.e. within 03 days of the issuance thereof and no additional time or hearings were provided to the complainant to submit his rebuttal to the undisclosed charges levelled against him;

iii. At this belated stage i.e. after passage of more than 3 years, the respondent department disclosed the said definite information to this office against which the registration proceedings were initiated related to the purchase of sugar declared in the Annexure-C of M/s. JK Sugar Mills (Private) Limited for the month of June 2021, which has also been denied by the complainant.

iv. It is highlighted that the "Notice" for registration did not contain the nature and details of the information. The said information was not disclosed to the complainant at any stage of the compulsory registration or assessment proceedings, on the strength of which the respondent department initiated the compulsory registration proceedings.

v. It has also been established from the record that the respondent department on the basis of an extremely short notice (without service on the complainant), without conducting any additional inquiry, verification or efforts to acquire any additional information, compulsorily registered the complainant on March 09, 2022.

vi. Thus, the complainant was registered without providing reasonable opportunity of being heard, which is against the established legal norms i.e. ***audit alterem partem*** (nobody should be condemned unheard), Section 24A of the General Clauses Act, 1897 and instruction of the Federal Board of Revenue on the subject.

vii. The complainant on the other hand could not establish that he was not liable to registration as he did not roduce any evidence of registration with Sind Revenue Board and payment of Sales Tax on commission services or he claimed during the proceedings that he is in the business of providing services on commission rather than purchase and sales of sugar.

b. Changes in the Profile of the Complainant:

i. This point has already been examined by the Directorate General of Intelligence and Investigation (IR) Karachi (DGIR-I&I) in the case of M/s. Sultan Medical Store decided by the FTO Complaint No.7550/ST/KHI/2024 vide Order dated 23.01.2025. During the said proceedings, the DGIR-I&I submitted a report wherein it was found that the changes in the profile of Sultan Medical Store, Muhammad Javed Aslam and Imran Impex were made by ex-PRAL employee and accused, namely Yasir Latif, already implicated in FIR No. 01/2023 dated 19.05.2023 and is being prosecuted by the DGIR-I&I.

ii. During the proceedings of the instant complaint, DGIR-I&I reaffirmed the above finding vide letter C.No.Dir/I&I-IR/KHI/FTO 3529/2025/729 dated May 05, 2025, explaining that the mobile number (03345405365) and e-mail ID (uu267966@gmail.com), which belonged to the said accused person, were added to the complainant's profile to illegally obtain the complainant's password as done in the case of M/s. Sultan Medical Store and Mr. Muhammad Javed Aslam.

iii. It is highlighted that this fact has conveniently been ignored by the respondent department in its written submissions before this forum and as of this day no investigation has been carried out by the department to identify the cyber criminals involved in this crime despite lapse of considerable time and recommendations of this office in the complaint of M/s. Sultan Medical Store vide Nos.7550/KHI/ST/2024 and 0670/KHI/ST/2025.

c. Submission of Sale Tax Return:

i. The investigations carried out by the DGIR-I&I Karachi, based on the log in data provided by M/s. PRAL, revealed that the buyer (instant complainant) deceitfully claimed input tax amounting to a total of Rs.1.312 billion at the second level of the supply chain from M/s. Poultry International, Karachi (Mr. Muhammad Javed Aslam). Additionally, another IP address (119.159.249.61), associated with the ISP PTCL and dated December 12, 2022, appeared in the registration process and modification log for all three complainants, namely Mr. Muhammad Naseem of Sultan Medical Store and Mr. Muhammad Javed Aslam and Mr. Imran Proprietor M/s. Imran Impex. On the basis of the analysis of the data provided by M/s. PRAL, DGIR-I&I vide written submissions dated May 05, 2025 furnished in response to this office notice, affirmed that the same group of fraudsters, linked to the accused Yasir Latif, was involved in perpetrating the current tax fraud.

ii. It is noted with concern that the Commissioner IR Zone–IV, Regional Tax Office-I Karachi did not provide any update with respect to the filing of sales tax return and commissioning of the offence by the cyber criminals.

iii. The investigation was delayed on account of the evasive attitude of the respondent department, the Directorate General of IT and DT (Inland Revenue) FBR and M/s. PRAL. M/s. PRAL did not facilitate the investigation on account of issuance of SOP by the IRS-OPS wing of FBR vide letter F.No.6(2)S(IR-Operations)/2025/28702-R.

iv. During investigations conducted by this office, M/s. PRAL evaded the fact that Mr. Yasir Latif ex-PRAL employee was involved in this case. M/s. PRAL initially vide letter No. PRAL/CM(OPS)/3216520(I) dated April 30, 2025 provided incorrect information deflecting the proceedings to the tax officer

(Mr. Hayat Omer Malik Registration No. 4210193378757) user ID u625116 instead identifying the role of Mr. Yasir Latif;

v. Later, M/s. PRAL vide letter No. PRAL/GM(OPS)/3216520(II) dated May 05, 2025, provided the correct information but evaded the fact that the email and phone number used in the identity theft belonged to the accused Yasir Latif (ex-PRAL employee);

vi. It is highlighted that an ex-PRAL employee, namely Yasir Latif who is wanted in multiple FIRs and absconding as reported by the DG-IR (I&I) Karachi, was involved in this case of identity theft and issuance of fake and flying invoices, and filing of the sales tax returns of the complainant.

d. Assessment Proceedings Against the Complainant:

i. The respondent department, rather than investigating the identity theft and sales tax fraud, swiftly proceeded against the instant complainant for recovery of sales tax without considering the pleadings of the complainant with respect to the fraudulent acquisition of the user ID and Password by the cybercriminals, filing of the Sales Tax Returns by them on account of weak controls in the FBR's system and excessive privileges and information available with the PRAL employees.

ii. During the maladministration investigations conducted by this office, the department filed a rejoinder in defence of the unfounded charges against the complainant evading the important questions of fact with a view to place the burden of tax evasion on the instant complainant.

iii. This office also procured the Income Tax Returns for TY 2021-2024 from the complainant and did not find any declaration of a business of purchase and sale of scrap, which augments the claim of the complainant with respect to the instant sales tax fraud. As such no audit or assessment proceeding have so far been instituted by the respondent department in respect of the purchases and sales of sugar against the complainant for assessment under the Income Tax Ordinance;

iv. It is highlighted that the respondent department has so far failed to carry out proper investigation for identification and prosecution of the cybercriminals as already ordered by this office in the case of M/s. Sultan Medical Store.

e. System Glitches and Weaknesses:

i. The respondent department vide written response dated March 12, 2025, affirmed that sales tax returns (STRs) for the month of November 2022 to December 2022, declaring purchases of PKR 7.7 billion from M/s. Imran Impex, were filed in the system. During the period July 2022 to March 2023, sales involving an amount of Rs. 410.159 million were declared to have been made to M/s. Rayan International NTN 9238102, interestingly, all without payment of a single penny to the public exchequer. This reflects the weakness of the IRIS system with respect to the implementation of business rules and system controls on several counts including but not limited to the check of the business capital, irregular return filing pattern, valuation and classification of the goods etc.

ii. It is highlighted that the IRIS system did not possess the necessary <u>business rules and controls</u> with respect to the claim of the **input tax adjustment against 390 invoices of a registered person carrying out the business of poultry**, namely M/s. Poultry International, all possessing the same HS code 7204 (Ferrous waste and scrap; remelting scrap ingots of iron or steel) meant for remeltable scrap with same quantity and value. The system could not even raise an alert with respect to the nature of the business activity of the supplier who is engaged in the activity of poultry. The nature of these purchases do not correspond to the alleged business activity of the instant complainant i.e. purchase and sale of sugar. As a result, the fraudsters could pass on the input tax adjustment to the next tiers of the supply chain on account of lax system controls.

iii. It is highlighted that the ex-PRAL employee and accused Yasir Latif made changes in the profile of the complainant on account excessive access to the system and availability of information, especially with respect to the inactive users in the system, whereby he could insert / get inserted his own mobile number and email address in the IRIS system to acquire and misuse the user ID and password of the instant complainant and alleged supplier thereof. Allegedly, the IRIS system did not inhibit this internal user to carry out identity theft of the complainant either alone or in connivance of other users of the said system. As a result, multiple changes were made in the profile of the complainant without any verification, biometric or otherwise (e.g. cross-matching of the CNIC and mobile number, use of same mobile number and e-mail for multiple users etc.).

iv. Thus, the glitches in the Federal Board of Revenue's IRIS system and weak controls of M/s. Pakistan Revenue Automation Limited provided an opportunity to the criminals and fraudsters to make changes in the profile of the compulsorily registered persons, acquire the user ID and password of the complainant, file multiple sale tax return and pass on the adjustments to the next tiers for financial benefits in the form of offset against the output tax and reduction of the tax liabilities in the supply chain. This requires a befitting action from FBR and its BPR team working under the control of Member (IR-OPS)

FINDINGS:

9. All parties were heard and record perused. After the investigation carried out by this office and examination of the details available on record, it has transpired that;

(i) The instant case is similar to complaint No.7550/KHI/ST/2024 decided by this office on January 23, 2025; and complaint No.0670/KHI/ST/2025 decided by this office on April 23, 2025.

(ii) The respondent department had initiated Sales Tax registration on the basis of an undisclosed definite information vide notice dated March 01, 2022. However, during proceedings of the instant complaint (after lapse of 03 years), the respondent department brought up the issue of purchase of sugar by the complainant from M/s. JK Sugar Mills (Private) Limited as declared by them in their Sales Tax Returns, which was denied by the complainant. However, the complainant failed to establish his claim that he was not liable to registration under Sales Tax Act, 1990

(iii) The instant complainant was compulsorily registered in sales tax on March 09, 2022 without any intimation to the complainant or service of order passed by the officer at the declared address of the complainant. The then Assistant / Deputy Commissioner Zone-IV, RTO-I Karachi issued an **online notice** for compulsory registration on March 01, 2022 with the allegation of involvement in an undisclosed taxable activity on the basis of undisclosed definite information. The ACIR/DCIR issued only **one notice** through IRIS allowing only **three days** to the complainant to respond in violation of the Board's circular. On non-compliance, the complainant was compulsorily registered in sales tax vide order dated March 09, 2022 by the Commissioner. No survey report or third-party information related to the alleged taxable activity was carried out by the respondent department or any other source was found placed on record. Thus, the complainant was compulsorily registered by the respondent department contrary to law and procedure, principle of natural justice, and the trite maxim of *audi alterm partem*.

(iv) After registration, the department did not carry out any assessment for the tax period May 2021, on the basis of the definite information claimed in the Notice under section 14 of the Act or initiate any penal proceedings against the complainant for non-filing of the tax returns. Similarly, no Income Tax assessment proceedings were initiated for the corresponding tax year against the definite information with respect to the purchase of sugar from M/s. JK Sugar Mills (Private) Limited. As a result, the criminals could safely carry out their plan of identity theft and sale of fake and flying invoices at the expense of the instant complainant and the public exchequer;

(v) STRN of the complainant was blacklisted vide order No.1035 dated October 25, 2023 retrospectively w.e.f. November 10, 2005 on the basis of huge bogus sales to M/s. Rayan International involving PKR 610.159 million.

(vi) Detailed investigation carried out in the case of M/s. Sultan Medical Store by this office has already identified the ultimate beneficiaries of these fake transactions being the Registered Persons from Islamabad, Lahore, Multan, and Hyderabad.

(vii) Exploiting the lax controls and IRIS system weaknesses, an employee of M/s. PRAL (accused Yasir Latif), in exercise of the excessive privileges, acquired the User ID and Password through changes in the profile of the complainant (Mobile number and e-mail address).;

(viii) In the second phase, the sales tax returns were filed identically in the case of M/s. Sultan Medical Store, M/s. Poultry International and M/s. Imran Impex using the stolen identities.

(ix) In the third phase, the cyber criminals introduced fake purchases of Rs.7,722,000,000/- through revised Annexure-C in the sales tax return of M/s. Sultan Medical Store for the tax period of November 2022 and passed the input tax to the profile of M/s. Poultry International and onward to the instant complainant.

(x) It has earlier been deduced by this office in the case of M/s. Sultan Medical Store that despite not filing of revised sales tax return for November 2022, inadmissible input at row 7a of the sales tax returns in terms of Rule 18(5) of Sales Tax Rules 2006 was not activated by the system in respect of the bogus transactions. It is established that the login IP addresses for filing of sales tax returns and introduction of Annexure-C involving fake purchases of Rs.7,722,000,000/, pertain to PUNJAB whereas the complainant's residential address as per CNIC and business address pertain to Karachi. Therefore, the offense framed against the complainant was not committed by the complainant and the complainant is innocent whose identity had been acquired and used by the cyber criminals to carry out offence against the public exchequer; hence the blacklisting order dated 25.10 2023, is required to be revoked.

(xi) As already held by this office in the Complaint No. 7550/KHI/ST/2024, all the beneficiaries identified 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 well aware of the purchase of fake/flying invoices, without the physical transfer of any goods, with the intent to evade payment of tax. The existing loose and liberal enforcement regime, lax controls and system weaknesses have provided these unscrupulous registered persons to indulge, in the lucrative activity of the use of fake / flying invoices without the fear of being caught. The edifice of sales tax law is established on the glorious principle of self-assessment where complete trust is reposed in the registered person for submitting true and correct declarations. To deter criminal misuse of this trust, the law also provides for penal and prosecution provisions. Therefore, the respondent department after, having established the case of tax fraud against the ultimate beneficiaries with respect to use of fake/flying invoices, shall not stop short of registering FIR against the perpetrators of such tax fraud under the relevant legal provisions. The department is also required to vigorously pursue these cases during the prosecution stage as already recommended in the orders of this office relating to the Complaint No. 7550/KHI/ST/2024.

10. In view of the above, the matter with respect to the identity theft of the complainant and insertion of fake purchases and sales and consequent adjustment by the registered persons at the next level of the supply chain is still pending with the Department causing administrative excesses tantamount to maladministration under section 2(3)(i)(a)(b)(c) & (ii) of FTO Ordinance.

RECOMMENDATIONS:

11. FBR to direct:

    i. the Chief Commissioner, RTO-I, Karachi to consider complainants application for restoration of STRN under section 21(5) of the Sales Tax Act, 1990;

    ii. the complainant is advised to file an application before the Chief Commissioner, RTO-I, Karachi in terms of section 21(5) of the Sales Tax Act, 1990;

    iii. the Chief Commissioners-IR, RTO-I Karachi, RTO Lahore, RTO Islamabad, RTO Multan, and RTO Hyderabad to complete the investigation to identify the Cyber criminals, institute legal proceedings and recover the amounts from those who claimed the input adjustments against Annex-H of the complainant as per law;

    iv. the Commissioner Zone-I, RTO-I Karachi to decide the assessment proceedings of the complainant taking into account the fact of the identity theft including the outcome of the investigation carried out by the Directorate of I&I-IR Karachi, providing reasonable opportunity of being heard, relieve the complainant of the stress and discomfort caused on the said account;

    v. 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: 18-6-2025

Approved for reporting