FTO UNVEILS MASSIVE TAX FRAUD

The Honourable Federal Tax Ombudsman (FTO) Mr. Zafar Hijazi on uncovered a major sales tax fraud involving fake invoices worth hundreds of millions of rupees, exposing loopholes in company registration and the FBR's digital tax system and ordering sweeping reforms.

The investigation, prompted by unauthorised access to a taxpayer's IRIS account, found that fake supplies had been inserted into sales tax returns through VPN connections and routed through multiple beneficiaries to claim fraudulent input tax adjustments.

A newly incorporated private limited company emerged as a major beneficiary. It obtained corporate and sales tax registration on consecutive days but uploaded the same registration profile document in place of essential supporting papers, including a paid utility bill and proof of ownership or tenancy of business premises. The automated system accepted the documents without adequate verification.

The FTO noted that Rule 5 of the Sales Tax Rules, 2006, leaves gaps in verification requirements for certain corporate entities. The investigation also found that changes in the company's directorship appeared in FBR records through Form 181 while the corresponding Form 29 amendment was still pending approval by the Securities and Exchange Commission of Pakistan (SECP).

The same company had surfaced as a beneficiary in another fake-invoice case involving a different taxpayer during the same tax period.