

**THE FEDERAL TAX OMBUDSMAN  
ISLAMABAD**

**COMPLAINT NO.3579/LHR/ST/2022**

Dated:12.08.2022\* RO Lahore

**Mr. Muhammad Riaz Bhatti,**

Ziaabad Colony, Opp Kohinoor Oil Mills,  
Kala Shah Kaku, Tehsil Ferozewala,  
District Sheikhpura.

... Complainant

**Versus**

**The Secretary,**

Revenue Division,  
Islamabad.

... Respondent

Dealing Officer	: Dr. Sarfraz Ahmad Warraich, Advisor
Appraising Officer	: Dr. Arslan Subuctageen, Advisor
Authorized Representative	: Complainant in person
Departmental Representatives	: Mr. Naveed Akhtar, CIR, RTO Lahore
	Mr. Behzad Anwar, Director, I&I-IR, Lahore
	Dr. Tariq Ghani, Director, I&I-IR, Karachi
	Mr. Azam Nafees, AD I&I-IR, Karachi
	Mr. Arif Mahmood, Addl-CIR, RTO-II, Karachi
	(All DRs attended hearing through Zoom)

**FINDINGS/RECOMMENDATIONS**

2. This Complaint was filed against Deputy Commissioner-IR, Zone-I, RTO Lahore, in terms of Section 10(1) of the Federal Tax Ombudsman Ordinance, 2000 (FTO Ordinance), for issuance of Show Cause Notice dated 14.05.2022 against Complainant.

2. Precisely, facts of case, as narrated in Complaint, are that Complainant, an employee of Motorway Police, approached Mr. Shoaib, Tax Consultant, having CNIC No.34101-2518088-7, resident of Street No.9, Mohallah Gulshan Abad, Hafizabad Road, Gujranwala, in the year 2017, for registering his status as tax filer. Tax Consultant advised that, for the said purpose, RTO Lahore needed to be visited so as to comply official requirements for tax registration. Consequently, as stated by Complainant, after receipt of Rs.10,000/- as professional fee, Mr. Shoaib, deceitfully/fraudulently, got registered STRN No.3277876133638 in the

\*Date of registration in FTO Sectt.

name of A.R Traders on Complainant's CNIC. Later, Mr. Shoaib, Tax Consultant, by using Complainant's user ID and password, changed name of business and address, alongwith telephone number, without Complainant's consent, in collusion with Departmental officials. To the said effect, an application was filed before ADJ, Ferozewala for registration of case u/s 406/420 in Police Station Ferozewala, District Sheikhupura. Further, as stated by Complainant, he neither conducted any business nor issued any tax invoice to the said effect to any person. Complainant received letter dated 18.12.2019 from Additional Director, Directorate of I&I-IR, Karachi for provision of information/documents in term of Section 37 of the Sales Tax Act, 1990, which was replied by Complainant. Complainant submitted application dated 17.01.2020 to CIR, Zone-1, RTO, Lahore for cancellation of STRN and initiation of inquiry against fraudsters for misuse of his STRN. Though, on repeated visits to RTO Lahore, his STRN was suspended but neither any inquiry was conducted nor any action was taken against fraudsters by Department. Another letter dated 27.02.2020 was received from Malik Ghulam Abbas, ACIR, Zone-1, RTO-III, Karachi wherein it was revealed that one M/s A.B International, through an affidavit on judicial stamp paper, approached RTO-III Karachi, stating therein that their STRN had been misused by some fraudulent persons and record reflected that, in such fraudulent activity, M/s NHP Enterprises (earlier registered as A.R Traders), registered in the name of Muhammad Riaz Bhatti, CNIC 35401-3144479-7, address Kala Shah Kaku, Muridke, was involved. Though, copy of affidavit was not provided to Complainant but same was replied by him. Lastly, a show cause notice dated 14.05.2022 was received in July from Mr. Muhammad Sufiyan Adeel, DCIR, Sheikhupura which was also replied. Complainant prayed that Department be directed to vacate show cause noticed dated 14.05.2022 and initiate an inquiry against the culprits to investigate the truth. Complainant further prayed that Department,



having all his information regarding I.P address, login ID, location, telephone number, email address etc., be directed to initiate proceedings against the persons who were involved in this fraudulent activity and took inadmissible input tax adjustment against fake/flying invoices. Complainant also undertook to cooperate with Department in any investigation conducted by Department, in any manner.

3. Complainant, vide letter dated 23.08.2022, submitted additional points, requesting therein for (i) forensic audit of those IP addresses and computer systems, used for logging Complainant's tax ID and password; (ii) investigate/verify (a) physical locations of accused fraudsters through geofencing of mobile phones during the period 2018-2019; (b) CDR of accused consultant; and (c) bank account details used for payments, incurred on purchases in terms of Section 73 of the Sales Tax Act, 1990.

4. The Complaint was referred to Secretary, Revenue Division, for comments, in terms of Section 10(4) of the FTO Ordinance, read with Section 9(1) of the Federal Ombudsmen Institutional Reforms Act, 2013. In response, CCIR, vide letter dated 01.09.2022, submitted parawise comments, stating therein that written statement was received from Complainant, proprietor of M/s A.R Traders, Opp Kohinoor Oil Mills, G.T Road, Muridke District Sheikhpura, STRN 3277876133638 stating therein that he started his business in the name of M/s A.R Traders, as an individual w.e.f 21.03.2017 under the category of distributor but due to financial constraints and family affairs, he could not continue his business and no purchases and sales had been made during the period since registration till date. It was stated that during the period since registration till date, some fraudsters misused his pin code and password and changed his particulars including name, address, e-mail, telephone number, category and changed his name from M/s A.R Traders, Opp Kohinoor Oil Mills, GT Road, Muridke District Sheikhpura to M/s. N.H.P

Enterprises (earlier registered name M/s A.R Traders), Plot No.FL-17, Flat No. B-314, Gulistan-e-Johar, Block-14, Karachi East Gulshan Town and, statedly, huge volumes of purchases and sales had been declared against his STRN by issuance of fake/flying invoices. Accordingly, Complainant requested for de-registration of STRN of M/s A.R Traders which was rejected due to his involvement in business of fake/flying invoices. However, keeping in view sensitivity of the case, STRN of registered person was suspended w.e.f. 07.02.2020. To the said effect, Directorate of Internal Audit-IR, Hyderabad sent a report that subject RP had made supplies to M/s International Metal Industries Private Limited which was a fake/non existing unit. It was also requested by Directorate General for initiation of inquiry/recovery proceedings against subject RP. Scrutiny of Complainant's record was initiated which revealed that M/s N.H.P. Enterprises (earlier registered as M/s A.R Traders) was one of the members of several networks of bogus registered persons which were engaged in buying and issuing fake/flying invoices in order to enable beneficiaries to evade sales tax, resulting in revenue loss of billions of rupees. Accordingly, show cause notice C.No.1205 dated 14.05.2022 was issued to registered person for assessment and recovery of evaded amount of sales tax. RP had been part of a network of RPs involved in massive tax fraud. Complainant himself had categorically alleged his consultant of all wrong doings. Allegations of harassment were unjustified, irrational, illogical and unsubstantiated by evidence. Department prayed for rejection of Complaint.


5. Case was fixed for hearing on 08.09.2022. Both Complainant and Addl-CIR, RTO Lahore (DR) appeared for hearing. Perusal of Complaint, parawise comments and discussion with Complainant/DR precipitated into a very grim outcome of facts of the case/handling thereof by Department. It transpired that Complainant, who was an employee of



Motorway Police, currently performing his duty at Beat No.11, Muridke Section, National Highway, got himself registered as NTN holder w.e.f. 11.05.2015 and with Sales Tax registered w.e.f. 21.03.2017. As stated by him, his Sales Tax Registration took effect through a consultant namely Mr. Muhammad Shoaib, who conducted his consultancy services at Gujranwala City. According to Complainant, though he got sales tax registration, he was never able to conduct any taxable activity nor he filed any tax returns. He stated that consultant Muhammad Shoaib undertook that he would file his regular monthly sales tax returns on payment of consultancy fee of Rs.10,000/- per year and that his user name and password regarding sales tax registration was with said consultant. On receipt of intimation from Department (Directorate of 1&1-IR Karachi's letter dated 18.12.2019) regarding some unlawful taxable activity through his Sales Tax Registration Number, he consulted his consultant who informed him that he could not file sales tax returns on Complainant's behalf during the period 01/2018 to 01/2020 not for a single month as no taxable activity by Complainant took place during the period. However it is evident that he even did not file nil sales tax return during the period required to be filed under law. Consultant intimated Complainant that most probably his user ID/Password had been stolen and misused by certain fraudulent elements to issue fake/flying invoices which needed to be changed. Complainant stated that consequently he approached RTO Lahore for deregistration vide letter dated 17.01.2020 but despite many visits to RTO office he did not receive any response from Department and finally he received show cause notice dated 14.05.2022 issued by DCIR, Sheikhpura Zone-1, RTO Lahore. DR presented tax profile of Complainant's registration status which reflected that Complainant's STRN status was suspended w.e.f. 07.02.2020.

6. During hearing, it also transpired, as reflected from tax profile of

Complainant, that address of Complainant stood transferred to RTO-II Karachi, with address NHP Enterprises, Plot No.FL17, Flat No.8314, Gulistan-e Johar Block 14, Karachi East, Gulshan Town, probably before January 2018 as, according to DR, all purchase and supply activity reflected in show cause notice was based on returns, filed from the address, falling in jurisdiction of RTO-II Karachi. Therefore, following questions arose:

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- (i) upon detection, what did investigation, conducted by Directorate of 1&1-IR, Karachi, reveal;
  - (ii) were recipients units investigated who claimed input tax adjustment on the basis of fake/flying invoices;
  - (iii) what is the status of compliance of Section 73 of the Sales Tax Act, 1990 by these recipients units;
  - (iv) was concerned RTO Karachi, in whose jurisdiction Complainant's amended registration address existed, associated in investigation regarding fraudulent activity and necessary investigation conducted regarding current address of the unit at Karachi and what was the outcome;
  - (v) why case was transferred to RTO Lahore when jurisdiction of Complainant's unit rested with concerned RTO Karachi and Directorate of 1&1-IR Karachi where meaningful investigation could be conducted;
  - (vi) did investigation agency considered/conducted forensic audit of IP addresses and computer system used for logging tax ID and password;
  - (vii) were physical locations of accused persons, during the period 2018 to 2020, probed by using IT tools? In this regard CDR of consultant Mr. Muhammad Shoaib is very critical alongwith forensic audit of IP address and computer system used for logging tax ID and password;
  - (viii) notwithstanding as stated above, case stood transferred to RTO Lahore for further action;
  - (ix) was RTO Lahore in full picture with regard to above observations and satisfied with outcome of investigation, conducted by agency/concerned RTO keeping in view above observations;
  - (x) if RTO Lahore is in full picture, why outcome of investigations, on above lines, is not reflected in show cause notice dated



14.05.2022, issued by DCIR, Zone-1, Sheikupura, RTO Lahore; and

- (xi) without being sensitive to above observations, would it be appropriate to issue a show cause notice which is oblivious of true facts of the case and true culprits involved which may, as well, include recipient registered persons, alongwith members of the Mafia, facilitating/managing issuance of fake/flying invoices, used for claiming illegal input adjustment.

7. During hearing, Chief Commissioner-IR, RTO Lahore was desired to personally look into the matter, consult CCIR, RTO-II, Karachi, Directorate of 1&1-IR, Karachi and Hyderabad to fully satisfy himself about investigation outcome of the case, for identification of real culprits and, accordingly, submit a comprehensive report on next date of hearing whereby concerned Commissioner-IR, RTO Lahore would appear alongwith report with complete input from all concerned to proceed further in the matter. Accordingly, next date of hearing was fixed on 21.09.2022 at 10.00 a.m. Meanwhile, CCIR, RTO Lahore was suggested to advise adjudication authority to await comprehensive input in the matter for disposal of show cause notice on its merits.

8. On 21.09.2022, both Complainant/DR appeared. DR (RTO Lahore) submitted further parawise comments on questions raised by this Forum during previous hearing. Keeping in view across the country implications of the case, it was decided to issue hearing notices to Director I&I-IR, Karachi, Director I&I-IR, Lahore, CIR, Zone-1, RTO-II, Karachi and CIR, Zone-1, RTO Lahore to discuss way forward in the light of hearings conducted.

9. On next date of hearing i.e. 07.10.2022, Complainant/all concerned officers attended hearing. Rejoinders alongwith parawise comments, submitted by RTO Lahore, were discussed with hearing participants in the light of written input by Directorate of 1&1-IR, Karachi dated 06.10.2022 and RTO-II, Karachi dated 06.10.2022, alongwith all available record.

10. Arguments of Complainant as well feedback of all field formations are considered and examined.

**Findings:**

11. It is evident that there is huge disconnect between Regional Directorates I&I-IR, Karachi & Lahore and concerned RTOs Karachi & Lahore while issuing a show cause notice to Complainant without appreciating wholistic picture of the case. Investigation, conducted in the matter, is half cooked and real culprits, who actually claimed inadmissible/fraudulent input tax adjustment, are yet to be determined. Keeping in view RTO Lahore's serious capacity issues/lack of human resource, as expressed by RTO Lahore's DR during hearing, to effectively conduct investigation/coordination across the country, it is critical that Directorate General of I&I-IR, Islamabad extends its due assistance/cooperation to RTO Lahore to investigate this case of big tax fraud to which Director, I&I-IR, Karachi and Lahore are in agreement with. Further, forensic audit in the matter is of paramount importance, therefore, Member-IT, FBR and PRAL need to contribute their due role so as to assist in meaningful outcome of investigation. Needless to say that recurrent systemic misuse of input tax adjustment by fraudsters is due to inefficient Central Registration Office (CRO)/Local Registration Offices (LROs) which needs serious detailed evaluation for corrective measures as all fake/fraudulent sales tax persons are registered/get registered due to weaker regulatory controls by CRO/LROs which may well include incapacity, negligence, omissions and commissions. In above context, role of Complainant regarding civil/criminal liability needs to be carefully determined while keeping in view Section 73 of the Sales Tax Act, 1990 so as to decide fate of the case, through show cause notice dated 14.05.2022, on its true merits.



**Recommendations:**

12. FBR to: -

- (i) direct Directorate General of I&I-IR, Islamabad to, expeditiously, extend full cooperation/coordination to CCIR, RTO Lahore in determining civil/criminal liability against fraudsters, involved in claiming fraudulent/inadmissible input tax adjustment;
- (ii) direct Member-IT, FBR/PRAL to conduct forensic audit in the matter so as to assist in meaningful outcome of investigations;
- (iii) investigate role of Central Registration Office (CRO)/Local Registration Offices (LROs) in allowing change of name and address of registered person, purportedly without knowledge of Complainant;
- (iv) direct concerned formations to, expeditiously, provide outcome of investigations on above lines to CCIR, RTO Lahore so as to assist adjudication authority to determine true merits of the case; and
- (v) report compliance within 45 days.

**(Dr. Asif Mahmood Jah)**

(Hilal-i-Imtiaz)(Sitara-i-Imtiaz)

Federal Tax Ombudsman

Dated: 8:11: 2022

K.A.

*Approved for reporting*

