

TAX FRAUD

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SCHEME OF PRESENTATION

- What is Tax Fraud?
- Definition of Tax Fraud
- Consequences of Tax Fraud
- Significant Steps taken
- Agencies responsible for taking Action
- Reward for Whistle Blowers
- Checking Tax Avoidance by MNCs

WHAT IS TAX FRAUD

- Tax Fraud means any transaction carried out by a taxpayer with the prime intention to evade taxes
- There is significant difference between tax avoidance and tax evasion
- Whereas, tax avoidance is legal; however tax evasion is illegal and treated as Tax Fraud
- While tax evasion requires the use of illegal methods to avoid paying proper taxes, tax avoidance uses legal means to lower the tax obligations of a taxpayer

DEFINITION OF TAX FRAUD

“*tax fraud*” includes someone knowingly, dishonestly or fraudulently and without any lawful excuse:

- is owner of any money or valuable article,
- has incurred any expenditure,
- suppressed any sales,
- making of taxable supplies without getting registration,
- falsifying or causing falsification the sales tax invoices.
- In this respect legal provision have been given in Income Tax, Sales Tax and FED laws to curb all acts of tax evasion.

CONSEQUENCES OF TAX FRAUD

- Concealed income, asset or expenditure treated income by adding back the amount in taxpayer's income
- Imposition of penalty at the rate of 100% of tax sought to be evaded
- Initiation of prosecution before a special judge for imprisonment upto two years or with fine of Rs.500,000/- or both.
- In Sales Tax / FED the penalties are more harsher upto 500% of amount evaded or frauded.
- The reason for harsher penalties is that the said tax is collected but not deposited or evaded with collusion like issuance of fake invoices.

SIGNIFICANT STEPS TAKEN

➤ Following steps, measures, changes have been made in respect of tax fraud in the last 5 years:

- 1) Pakistan signed OECDs **Convention on Mutual Administrative Assistance in Tax Matters**
- 2) Section 111 of the Income Tax Ordinance, 2001 amended, to ensure that if any agri income is claimed, payment of agriculture income tax is made to provincial government.
- 3) Anti Money Laundering Act, 2010 has been amended to bring tax fraud under Income Tax, Sales Tax and Federal Excise Duty as an offence under this Act.
- 4) Financial Monitoring Unit (FMU) **has** been activated for money landing reporting.

SIGNIFICANT STEPS TAKEN

- 5) Benami Transactions (Prohibition) Act, 2017 promulgated by Parliament, whereby holding benami properties i.e. properties held in others' name made a criminal offence.
- 6) Penalties for concealment of income have been increased.
- 7) Limitation for enforcing return of income u/s 114(4) of the Income Tax Ordinance, 2001 has been increased from 5 to 10 years in case of persons who fail to file their return.

AGENCY RESPONSIBLE FOR TAKING ACTION

- Primarily Federal Board of Revenue including its field formations is responsible for taking action in case of Tax Fraud
- FBR formations including Regional Tax Offices (RTOs) and Large Taxpayers Units (LTUs) carry out audit, assessment and recovery under the relevant statutes.
- Criminal investigation matters pertaining to Tax Fraud are carried out by Directorate General of Intelligence and Investigation (I&I) under FBR
- The I&I carry out investigation and passes on the information to relevant field formations i.e. RTOs and LTUs

REWARD FOR WHISTLE BLOWERS

➤ Section 227B of the Income Tax Ordinance, 2001 authorizes the FBR to sanction reward to whistleblowers in cases of concealment or evasion of income tax, fraud, corruption or misconduct providing credible information leading to such detection of tax.

CHECKING TAX AVOIDANCE BY MNCs

- In order to address the bad effects of transfer pricing, Pakistan has established “Transfer Pricing Unit (TPU)”
- Significant amendments have been made in our tax laws, whereby TP related documentation requirements including Country-by-Country (CBC) reporting have been made mandatory for MNCs
- Pakistan has become an “Associate for BEPS Program”, whereby we have given our commitment to the OECD for gradual introduction of BEPS changes in our tax treaties
- Pakistan was assigned “Largely Compliant” ranking by the OECD’s Global Forum and subsequently Pakistan has become a signatory of “Multilateral Convention on Mutual Administrative Assistance in Tax Matters”
- Pakistan has introduced web-based “Exchange of Information (EOI)” system for the purpose of easy and early exchange of information. Recently we have also launched Pilot Project for “Automatic Exchange of Information (AEOI)”.

STATISTICS

	FY 2014	FY 2015	FY 2016
Criminal Investigation Initiated	238	274	201
Prosecution Recommendations	120	127	111
Indictment	108	80	47
Conviction	47	21	15
Sentenced (imprisonment)	32	23	8

THANK YOU