



SPECIAL STUDY REPORT
ON
WITHHOLDING TAX
ON BANKING & FINANCIAL
INSTITUTIONS
FEDERAL BOARD OF REVENUE
(INLAND REVENUE)
AUDIT YEAR 2018-19

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts Audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8, 12 and 17 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Special Study on Withholding Tax on Banking & Financial Institutions was carried out accordingly.

The Directorate General of Audit Inland Revenue & Customs (South), Karachi conducted Special Study on Withholding Tax on Banking & Financial Institutions during March to June, 2019 for the financial years 2015-16 to 2017-18 with the view to report significant finding to the relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspect of the Withholding Tax. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules and regulations in managing the resources. The Special Study Report indicates specific actions that, if taken, will help the management to realize the objectives of the Federal Board of Revenue. Most of the observations included in this Report have been finalized in the light of discussions in DAC meetings.

The Special Study Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Parliament.

Dated:

Muhammad Ajmal Gondal
Auditor-General of Pakistan

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ABBREVIATIONS & ACRONYMS

AGP	Auditor General of Pakistan
AOP	Association of Persons
ATIR	Appellate Tribunal Inland Revenue
B/F	Brought Forward Business losses
C/F	Carry Forward Business Losses
CIR	Commissioner Inland Revenue
CIR(A)	Commissioner Inland Revenue (Appeal)
CPR	Computerized Payment Receipt
CRTO	Corporate Regional Tax office
DAC	Departmental Accounts Committee
DG	Director General
FBR	Federal Board of Revenue
FTO	Federal Treasury Officer/Federal Tax Ombudsman
FTR	Final Tax Regime
FY	Financial Year
IR	Inland Revenue
IRIS	Integrated Revenue Information System
LTU	Large Taxpayers Unit
NTN	National Tax Number
PTR	Presumptive Tax Regime
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PRA	Post Refund Audit
RPO	Refund Payment Order
RTO	Regional Tax Office
WWF	Workers Welfare Fund

EXECUTIVE SUMMARY

Withholding Tax is an act of deduction or collection of tax at source, it is an effective mechanism and important/timely source of revenue. Their contribution is about 72% of total direct tax revenues. Increase from Rs.5(b) in 1991 to above Rs 1,091.5(b) in 2019 speaks of exponential growth and consequential heavy reliance on withholding taxes in Pakistan. The major components of withholding taxes that contributed the total WHT collection are; contracts, imports, salary, telephone, dividends, bank interest, cash withdrawal, electricity and exports. As far as growth is concerned, collection from telephone increased by around 218%, followed by bank interest (120.4%), salary 69.4%, electricity (27.8%), export (11.6%). During the same period collection from the heads of cash withdrawals, imports and dividends recorded a negative growth.

Special Study Report on withholding taxes – Banking and financial institutions, carried out on sample basis. The total population under the special study comprises 1751 cases containing the revenue amounting to Rs. 158,229.406 million. Out of the total population, 150 sample size using random sampling technique were selected for test audit comprising the revenue amounting to Rs. 56,646.127 million. After detail scrutiny of sample record 224 Audit Observations involving amount of Rs. 16,847.620 million were identified and issued to the department. The percentage of audit observations with reference to the revenue involved in sample size comes to 30% of total sample size. Therefore, if the same percentage projects to total population then irregularities come to Rs. 47,468.822 million.

In order to safeguard the Government revenue, it is recommended that the suggestion for implementation to smooth running of the business according to provisions of law, Department to find ways of reducing the quantum of revenue forgone as result of taxpayers availing un–entitled benefit due to the existing system. The system of Internal Controls should be in place for effective monitoring for collection of tax, effective check on assessment, collection and proper allocation of revenue. The department has also required to monitoring regulations and procedures to plug the loopholes in the system.

1. INTRODUCTION

In Pakistan the major source of the Federal revenue is Withholding Taxes over the years. It is an effective mechanism and important/timely source of revenue. Their contribution is about 72% of total direct tax revenues. Increase from Rs.5(b) in 1991 to above Rs 1,091.5(b) in 2019 speaks of exponential growth and consequential heavy reliance on withholding taxes in Pakistan. The major components of withholding taxes that contributed the total WHT collection are; contracts, imports, salary, telephone, dividends, bank interest, cash withdrawal, electricity and exports. As far as growth is concerned, collection from telephone increased by around 218%, followed by bank interest (120.4%), salary 69.4%, electricity (27.8%), export (11.6%). During the same period collection from the heads of cash withdrawals, imports and dividends recorded a negative growth. Withholding Taxes regime in one or the other way is part of tax system ever since imposition of direct taxes by the governments to provides revenue regularly throughout the year for its expenditure and operations and taxpayers to provides an opportunity to discharge their obligations in manageable instalments

2. AUDIT OBJECTIVES

Directorate General Audit Inland Revenue & Customs (South) Karachi has planned to conduct Special Study of Withholding Tax on Banking & Financial Institutions for the tax year 2015-16 to 2017-18 with the objective to check the monitoring of withholding tax statements u/s 149/165 of Income Tax Ordinance, 2001 for measuring tax. The broad objectives of the study are summarized as follows:

- To check proper deducted / deposited withholding tax under the different provisions of Income Tax Ordinance, 2001.
- To check timely deposition of withholding tax into government treasury as per provisions of Income Tax ordinance, 2001 & Income Tax Rules, 2002.
- To check whether withholding agents have not submitted statements of withholding tax
- To check whether penalty has been imposed in case of non-compliance as per Income Tax Ordinance, 2001.
- To check the compliance of withholding agents to the provisions of the Income Tax Law.

3. SCOPE OF AUDIT AND METHODOLOGY

3.1 Scope of Audit

This office selected six field offices i.e. LTU, LTU-II & CRTO, Karachi RTO Hyderabad, Sukkur & Quetta out of eight formations falling in the jurisdiction of this office. Mainly Audit was confined to examine withholding tax statements submitted by withholding agents under Income Tax Ordinance, 2001.

3.2 Audit Methodology

The methodology of audit was based on a scrutiny of transactions selected on the basis of risk-based random sampling as well as secondary sources of data and interviews to identify:

- i) Loop-holes in internal controls of the department in monitoring of the withholding taxes.
- ii) Deficiencies in development of methodology for monitoring of withholding tax by the auditee organization and provide recommendations for improvements in ongoing and future efforts for effective monitoring of withholding tax.
- iii) Non-deduction of withholding tax according to newly inserted provisions in Income Tax Ordinance, 2001.
- iv) Other unaware withholding tax agents.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Loss of Revenue due to Incorrect Computation of Income/Tax – Rs.2,179.955 million

Section 114 read with Section 221 of the Income Tax Ordinance, 2001 requires that taxpayer shall fully state all the relevant particulars or information as specified in the Form of Return, and any income tax authority may amend any order passed by him to rectify any mistake apparent from record on his own motion, or any mistake brought to his notice by a taxpayer.

During Special Study, it was observed that twenty two (20) taxpayers under the jurisdiction of LTU, LTU-II and CRTO Karachi, claimed depreciation under the head “*unabsorbed tax depreciation*” for previous years, in current year, which was incorrect. Taxpayers also claimed “*Other Admissible Deductions*” without giving any details in this regard. Therefore, the amount was required to be added back in the total income and taxed accordingly. Contrary to above provision of law, the taxation officer did not initiate any legal proceedings to rectify the same instead incorrectly accepted the taxpayers version and allowed tax credit which turns into refundable income tax instead of tax recovery of government dues as per provision of section 221 of Income Tax Ordinance, 2001. This resulted into loss of revenue due to incorrect computation of tax amounting to Rs.2,179.955 million (detail in annexure-A)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Remedial measures should also be taken to avoid recurrence of such irregularities in future

4.2 Irregular Claim/Adjustment of Refund Adjustment - Rs.867.460 million

Under section 170 of Income Tax ordinance 2001, a taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this ordinance may apply to the Commissioner for a refund of the excess amount, and

where the Commissioner is satisfied that tax has been overpaid, the Commissioner shall pass an order (for recovery) after providing the taxpayer an opportunity of being heard.

During Special Study, it was observed that in thirty one (31) cases, under the jurisdiction of LTU, LTU-II and CRTO Karachi, it was observed that the taxpayers had claimed refund under the head "refund adjustment of other years against demand of this year" and adjusted the same against current year tax liability which is not correct and against the law. As per law, taxpayers would not claim this refund unless it is so determined by the department. This resulted in a loss of Rs. 867.460 million. (detail in annexure-B)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.3 Non-realization of super tax– Rs.2,326.750 million

According to Section 4B of Income Tax Ordinance 2001, super tax shall be imposed for rehabilitation of temporarily displaced persons, on the income of individuals, association of persons and companies who are earning income of Rs.500 million or above at the specified rates.

During Special Study, it was observed that in twelve (12) taxpayers under the jurisdiction of LTU, LTU-II and CRTO Karachi, declared total income for Tax Years 2017 & 2018 and claimed tax credit against Profit on Debt and Capital Gain. These incomes are required to be included in total income for levy of Super Tax. Contrary to above provision of law, neither taxpayers paid super tax along with return, nor taxation officer charged/imposed super tax on these incomes, which resulted into non-realization of super tax amounting to Rs.2,326.750 million as under:-

(Rs. in million)

Sr.No	AO	Taxpayer	NTN	Tax Year	Amount	Formation
1	1	Telenor Microfinance Bank Ltd	2486636	2017	202.123	LTU Karachi
2	8	Telenor Microfinance Bank Ltd	2866099	2017	77.627	LTU Karachi
3	14	Albaraka Bank (Pakistan) Ltd	2554922	2017	247.861	LTU Karachi
4	31	Albaraka Bank Pakistan Ltd	2554923	2017	247.86	LTU Karachi
5	79	First Women Bank Ltd	700268	2017	56.963	LTU Karachi
6	96	Js Bank Limited	2663703	2017	619.841	LTU Karachi
7	106	Sambas Bank Limited	1804331	2017	450.981	LTU Karachi
8	114	Sindh Bank Limited	3654009	2017	230.505	LTU Karachi
9	131	U Microfinance Bank Limited	2187505	2017	105.797	LTU Karachi
10	213	JS Global Pvt Ltd	1558280	2018	32.423	LTU-II Karachi
11	215	JS Global Pvt Ltd	1558280	2017	25.604	LTU-II Karachi
12	216	JS Global Pvt Ltd	1558280	2016	29.165	LTU-II Karachi
		Total			2326.75	

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.4 Loss of Revenue due to Non-Deduction of tax on payment of Commission / Brokerage – Rs.159.023 million

According to Section 233 of Income Tax ordinance 2001, where any payment on account of brokerage or commission is made by the Federal Government, a Provincial Government, a Local Government, a company or an association of persons constituted by, or under any law, hereinafter called the

principal to a person hereinafter called the agent, the principal shall deduct advance tax at the prescribed rate of the First Schedule from such payment.

During Special Study, it was observed that in thirty (30) cases under the jurisdiction of Large Taxpayer Unit, & Large Tax payer Unit-II, Karachi, it was observed that the taxpayers paid Brokerage and Commission, and claimed the same as expenses under the head Management, Administrative, Selling & Financial Expenses. But no such tax deduction was made nor deposited in to treasury by the taxpayers. No action was taken by department to retrieve the loss. This resulted into loss of revenue amounting to Rs.159.023 million (detail in annexure-C)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.5 Loss of Revenue due to non-deduction of tax on payment of rent – Rs.1,301.223 million

Section 155 of the Income Tax Ordinance, 2001 provides that every prescribed person making a payment in full or part (including a payment by way of advance) to any person on account of rent of immovable property (including rent of furniture and fixtures, and amounts for services relating to such property) shall deduct tax from the gross amount of rent paid at the prescribed rate of the First Schedule.

During Special Study, it was observed that in twenty nine (29) cases under the jurisdiction of LTU & LTU-II, Karachi, it was observed that taxpayers paid rent and claimed an expense under Management, Administrative, Selling & Financial Expenses, but deduction under section 155 from the recipients was not available in the records. The taxation officer neither initiate any legal proceedings to rectify the same nor create a demand u/s 161/162 of Income Tax Ordinance, 2001. This resulted in a loss of revenue to exchequer amounting to Rs. 1,301.223 Million (detail in annexure-D)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.6 Loss of revenue due to non-deduction of tax on payment of profit on debt – Rs.5,604.070 Million

As per Section 151 (1)(d) of the Income Tax Ordinance 2001, where a banking company, a financial institution, or a finance society pays any profit on any bond, certificate, debenture, security or instrument of any kind other than a loan agreement between a borrower and a banking company or a development finance institution to any person other than financial institution, the payer of the profit shall deduct tax at prescribed rate from the gross amount of the yield at the time the profit is paid to the recipient.

During Special Study, it was observed that in forty four (44) cases under the jurisdiction of LTU, LTU-II, Karachi, RTO Hyderabad, Sukkur & Quetta it has been observed that the taxpayer paid Profit on Debt (Financial Charges / Markup / Interest) on running finance and claimed the same as expenses under the head Management, Administrative, Selling & Financial Expenses @ 10%. But no tax deduction was made nor deposited in to treasury by the taxpayers. The taxation officer neither initiate any legal proceedings to rectify the same nor create a demand u/s 161/162 of Income Tax Ordinance, 2001. Thus Government sustained a loss amounting to Rs. 5,604.070 million. (detail in annexure-E)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.

- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.7 loss of revenue due to Incorrect Adjustment of Carry Forward Business Losses – 1,215.707 Million

Section 57 of the Income Tax Ordinance, 2001 provides that if a taxpayer sustained a loss in business for a Tax Year, the loss would be carried forward to the six following Tax Years and would be adjusted only against profit and gains of such business.

During Special Study, it was observed that in ten (10) cases under the jurisdiction of Large Taxpayer Unit, Karachi, the taxpayers claimed Unabsorbed Tax Depreciation for previous years in current year which was incorrect. Taxpayers also claimed as other inadmissible deductions without giving any details in this regard. Therefore, the amount of inadmissible expenses claimed by taxpayer is required to be added back in the total income and taxed accordingly. The taxation officer did not initiate any legal proceedings to rectify the same instead incorrectly accepted the taxpayer version and allowed tax credit. This resulted in potential tax effect of Rs.1,215.707 million for Tax Years 2016 and 2017. (detail in annexure-F)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.8 Loss of revenue due to Incorrect Claim of Tax Credit - Rs.76.258 million

According to Section 100C of the Income Tax Ordinance, 2001, read with Rule, 213(2)(e) the income of Non-profit organizations, trusts or welfare institutions, as mentioned in sub-Section (2) shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, subject to the conditions, namely:- (a) return has been filed; (b) tax required to be deducted or collected has been deducted or collected and paid; and (c) withholding tax statements for the

immediately preceding Tax Year have been filed and a trust or welfare institution or non-profit organization approved by Chief Commissioner for the purposes.

During special study it was observed that M/s SAFCO Support Foundation (NTN 3997317) was not entitled to claim 100% tax credit u/s 100C of the Ordinance because the taxpayer violating Rule 213(2) (e) of Income Tax Rules, 2002 by giving salaries and wages more than fifty percent of its receipts. It was established that the taxpayer was not entitled to avail the benefit of Section 2(36) and tax credit available under the above provisions of law. As such income was required to be assessed under normal law. The record produced to Audit showed that the Department had not initiated any remedial action for retrieval of Government revenue thus far. This resulted into loss of revenue amounting to Rs. 76.258 million.

Sr.No	Taxpayer	NTN	Tax Year	Amount	Formation
1	SAFCO SUPPORT FOUNDATION	3997317	2017	25.555	RTO Hyderrabad
2			2017	29.048	
3			2016	21.655	
	Total			76.258	

[AO # 63,64& 66]

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

**4.9 Loss of revenue due to non tax on commission earned on Share – 2001
Rs.157.490 million**

Section 233A of the Income Tax Ordinance, 2001 provides that a stock exchange registered in Pakistan, shall collect advance tax, at the prescribed rates specified in Division IIA of Part IV of First Schedule from its Members on purchase of shares in lieu of tax on the commission earned by such Members; and at the prescribed rates in Division IIA of Part IV of First Schedule from its Members, on sale of shares in lieu of tax on the commission earned by such Members.

During Special Study, it was observed that in eight (08) taxpayers under the jurisdiction of two (02) field formations of FBR, adjusted amount against Value of Shares traded through a member of a Stock exchange, which was required to be treated as final tax as held by honorable Sindh High Court, Karachi vide I.T.R.A.No. 209 of 2012, The taxation officer neither initiate any legal proceedings to rectify the same nor create a demand u/s 161/162 of Income Tax Ordinance, 2001. This resulted in a loss of revenue to exchequer amounting to Rs.157.490 million.

Sr. No	AO#	Taxpayer	NTN	Tax Year	Amount	Formation
1	89	Topline Securities Ltd	1875168	2016	13.756	LTU-II Karachi
2	92	Topline Securities Ltd	1875168	2015	29.149	LTU-II Karachi
3	101	Topline Securities Ltd	1875168	2015	42.578	LTU-II Karachi
4	165	Aba Ali Habib Securities (Pvt) Ltd	3356440	2016	59.088	CRTO Karachi
5	197	Al-Haqani Securities And Investmentcorporation (Private) Limited	2293296	2017	1.849	CRTO Karachi
6	198	B & B Securities (Private) Limited	2149826	2017	2.122	CRTO Karachi
7	199	Investment Managers Securities (Pvt) Ltd	2856342	2017	6.826	CRTO Karachi
8	203	B & B Securities (Private) Limited	2149826	2017	2.122	CRTO Karachi
		Total			157.490	

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

4.10 Loss of revenue due to non tax on Collective Investment Scheme - Rs.2,959.684 million

According to Clause 99 of Second Schedule of the Income Tax Ordinance, 2001, any income derived by a Collective Investment Scheme or a REIT Scheme, if not less than ninety per cent of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit or certificate holders or shareholders as the case may be, provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account.

During Special Study, it was observed that in forty nine (49) taxpayers, under the jurisdiction of CRTO, Karachi, did not pay any tax by availing tax exemption under above mentioned clause. No details were available in the records to ascertain the factual position of the distribution of 90 % income to certificate and shareholders. Therefore, the taxpayers were not entitled for the said exemption and required to be taxed accordingly. The taxation officer did not initiate any legal proceedings to rectify the same and create a demand. This resulted a loss of revenue amounting to Rs.2,959.684 million (detail in annexure-G)

Management Response

The observations were pointed out to the department in January, 2019 to June, 2019. Department replied in January, 2020 that the cases were under process.

DAC Decision

DAC in its meetings held from 3rd to 7th February, 2020 directed the department to expedite the proceedings of under process cases and submit updated status to Audit and FBR by 24.02.2020. No further progress was reported till finalization of the report.

Audit Recommendations

- Non-recovery of Government dues may be justified.
- Loss of government revenue be made good under intimation to Audit.
- Internal controls needed to be strengthened to avoid recurrence of such irregularities in future

5. CONCLUSION

Withholding Tax Regime is a global phenomenon and in Pakistan the major source of the Federal revenue collected on national level. The collection as well as dependence on Withholding Taxes is on the rise over the years. Withholding is an act of deduction or collection of tax at source, which has generally been in the nature of an advance tax payment. It is an effective mechanism and important/timely source of revenue. Their contribution is about 72% of total direct tax revenues. Increase from Rs.5(b) in 1991 to above Rs 1,091.5(b) in 2019 speaks of exponential growth and consequential heavy reliance on withholding taxes in Pakistan. In a number of cases, it was noticed that taxpayers were not deducting withholding tax, as well as timely deposited the deducted withholding tax in to Government treasuries.

5.1 Key Audit Findings

This Special Study Report includes ten paras on loss of revenue on account of withholding income tax, amounting to Rs.16,847.620 million in respect of Banking & Financial Institutions for the Tax Years 2016 to 2018, audited from March to June, 2019. The key findings are; Incorrect Computation of Income/Tax. Non-Deduction of tax on payment of Commission / Brokerage income, Rental income, Profit on Debt/Interest income, Dividend income and Shares including bonus (Capital gain).

5.2 Recommendations

The department has to frame adequate regulations and procedure to plug the loopholes in the system of universal self-assessment and secure effective check on assessment, collection and proper allocation of revenue. The department to find ways of reducing the quantum of revenue forgone as result of taxpayers availing un-entitled benefit due to the existing system. Efforts may be made to recover the losses due to incorrect computation. The system of Internal Controls should be in place for effective monitoring for collection of tax, assessment. Monitoring of outstanding recoveries/dues of arrear.

ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of Field Offices of Federal Board of Revenue for assistance and cooperation extended to the auditors during this assignment.

Annexure-A
Para 4.1

**Loss Of Revenue Due To Incorrect Computation Of Income/Tax –
Rs.2,179.955 million**

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	18	Pakistan Kuwait Investment Co (Pvt) Ltd	1529596	2017	19.211	LTU Karachi
2	36	Albaraka Bank Pakistan Limited	2554922	2014	187.696	LTU Karachi
3	42(i)	Tameer Microfinance Bank Limited	2486636	2015	34.96	LTU Karachi
4	69(i)	Dubai Islamic Bank Pakistan Limited	2395184	2017	187.416	LTU Karachi
5	78	First Women Bank Limited	700268	2017	85.65	LTU Karachi
6	88	Habib Metropolitan Bank Limited	711167	2016	350.852	LTU Karachi
7	95	Js Bank Limited	2663703	2017	222.638	LTU Karachi
8	105	Sambas Bank Limited	1804331	2017	418.939	LTU Karachi
9	109	Sambas Bank Limited	1804331	2016	258.598	LTU Karachi
10	111	Sambas Bank Limited	1804331	2015	151.512	LTU Karachi
11	116(i)	Sindh Bank Limited	3654008	2016	11.96	LTU Karachi
12	117(i)	Sindh Bank Limited	3654008	2016	38.117	LTU Karachi
13	119	Sindh Bank Limited	3654008	2015	9.246	LTU Karachi
14	126(i)	U Microfinance Bank Limited	2187505	2017	32.215	LTU Karachi
15	128(ii)	U Microfinance Bank Limited	2187505	2016	12.18	LTU Karachi
16	132(i)	U Microfinance Bank Limited	2187505	2018	105.841	LTU Karachi
17	140(ii)	B & B Securities (Pvt) Ltd	2149826	2017	3.200	CRTO Karachi
18	143(ii)	Capital Asset Leasing Corporation Limited	801331	2017	15.769	CRTO Karachi
19	145(ii)	Concordia Securities (Pvt) Ltd	814581	2017	3.509	CRTO Karachi
20	202	Multiline Securities (Private) Limited	1341564	2017	30.446	CRTO Karachi
		Total			2179.955	

Annexure-B

Para 4.2

Irregular Claim/Adjustment of Refund Adjustment - Rs.867.460 million

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	2	M/S. Summit Bank Limited	2663705	2017	1.078	LTU Karachi
2	6	Pak Brunei Investment Company Limited	2866099	2017	1.613	LTU Karachi
3	13	Albaraka Bank (Pakistan) Limited	2554922	2017	8.385	LTU Karachi
4	19	Pak Brunei Investment Company Limited	1529596	2017	63.064	LTU Karachi
5	46	Pak Brunei Investment Company Limited	2866099	2016	133.721	LTU Karachi
6	51	Bank Of Tokyo-Mitsubishi	700250	2015	9.329	LTU Karachi
7	55	Bank Islami Pakistan Limited	2238845	2016	1.687	LTU Karachi
8	57	Bank Of Toyo-Mitsubishi	700250	2016	4.714	LTU Karachi
9	58	Bank Islami Pakistan Limited	2238845	2016	1.687	LTU Karachi
10	69(ii)	Dubai Islamic Bank Pakistan Limited	2395184	2017	202.614	LTU Karachi
11	71	Dubai Islamic Bank Pakistan Limited	2395184	2016	7.439	LTU Karachi
12	74	Dubai Islamic Bank Pakistan Limited	2395184	2015	2.673	LTU Karachi
13	77	First Women Bank Limited	700268	2017	9.992	LTU Karachi

14	82	First Women Bank Limited	700268	2016	13.289	LTU Karachi
15	91	Habib Metropolitan Bank Limited	711167	2015	54.648	LTU Karachi
16	94	Js Bank Limited	2663703	2017	25.493	LTU Karachi
17	98	Js Bank Limited	2663703	2016	64.113	LTU Karachi
18	100	Js Bank Limited	2663703	2015	30.587	LTU Karachi
19	102	Js Investment Limited	709335	2017	14.331	LTU Karachi
20	104	Sambas Bank Limited	1804331	2017	62.097	LTU Karachi
21	108	Sambas Bank Limited	1804331	2016	53.727	LTU Karachi
22	110	Sambas Bank Limited	1804331	2016	42.106	LTU Karachi
23	116(ii)	Sindh Bank Limited	3654008	2016	2.327	LTU Karachi
24	117	Sindh Bank Limited	3654008	2017	0.014	LTU Karachi
25	121	Shaheen Insurance Company Limited	701166	2017	0.307	LTU Karachi
26	126(ii)	U Microfinance Bank Limited	2187505	2017	0.004	LTU Karachi
27	128(iii)	U Microfinance Bank Limited	2187505	2016	1.263	LTU Karachi
28	132(ii)	U Microfinance Bank Limited	2187505	2018	39.601	LTU Karachi
29	140(iii)	B & B Securities (Pvt) Ltd	2149826	2017	2.008	CRTO Karachi
30	143(iii)	Capital Asset Leasing Corporation Limited	801331	2017	3.289	CRTO Karachi
31	145(iii)	Concordia Securities (Pvt) Ltd	814581	2017	10.26	CRTO Karachi
		Total			867.46	

Annexure-C

Para 4.4

**Non-Deduction of tax on payment of Commission / Brokerage Income U/S
233 of Income Tax Ordinance - 2001 – Rs.159.023 million**

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	5	M/S. Summit Bank Limited	2663705	2017	7.296	LTU Karachi
2	10	Pak Brunei Investment Co Ltd	2866099	2017	2.388	LTU Karachi
3	16	Bank Islami Pakistan Limited	2238845	2017	3.391	LTU Karachi
4	22	M/S. Bank Of Tokyo- Mitsubishi	700250	2017	0.285	LTU Karachi
5	25	Burj Bank Limited	2634080	2017	5.299	LTU Karachi
6	34	Albaraka Bank Pakistan Limited	2554922	2015	1.665	LTU Karachi
7	35	Albaraka Bank Pakistan Limited	2554922	2014	1.381	LTU Karachi
8	37	Summit Bank Limited	2663705	2016	2.947	LTU Karachi
9	45	Pak Brunei Investment Co Ltd	2866099	2016	2.896	LTU Karachi
10	48	Pak Brunei Investment Co Ltd	2866099	2016	1.512	LTU Karachi
11	49	Bank Of Tokyo-Mitsubishi	700250	2015	0.154	LTU Karachi
12	53	Bank Of Tokyo-Mitsubishi	700250	2016	0.193	LTU Karachi
13	56	Bank Islami Pakistan Limited	2238845	2016	2.771	LTU Karachi
14	59	Citi Bank N.A.	700253	2015	0.955	LTU Karachi

15	68	Dubai Islamic Bank Pakistan Limited	2395184	2017	23.889	LTU Karachi
16	70	Dubai Islamic Bank Pakistan Limited	2395184	2017	17.748	LTU Karachi
17	73	Dubai Islamic Bank Pakistan Limited	2395184	2016	14.539	LTU Karachi
18	76	First Women Bank Limited	700268	2017	0.273	LTU Karachi
19	81	First Women Bank Limited	700268	2016	0.359	LTU Karachi
20	85	Habib Metropolitan Bank Limited	711167	2017	16.306	LTU Karachi
21	87	Habib Metropolitan Bank Limited	711167	2016	13.211	LTU Karachi
22	90	Habib Metropolitan Bank Limited	711167	2016	12.304	LTU Karachi
23	93	Js Bank Limited	2663703	2018	6.129	LTU Karachi
24	97	Js Bank Limited	2663703	2017	2.207	LTU Karachi
25	99	Js Bank Limited	2663703	2017	3.629	LTU Karachi
26	113	Sindh Bank Limited	3654008	2017	1.277	LTU Karachi
27	115	Sindh Bank Limited	3654008	2017	1.611	LTU Karachi
28	118	Sindh Bank Limited	3654008	2017	1.313	LTU Karachi
29	200	Multiline Securities (Private) Limited	1341564	2017	3.8	CRTO Karachi
30	217	HBL Currency exchange	2517094	2017	7.295	LTU-II Karachi
		Total			159.023	

Annexure-D
Para 4.5

**Loss of Revenue due to non-deduction of tax on payment of rent under
section 155 of ITO-2001 – Rs.1,301.223 million**

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	3	M/S. SUMMIT BANK LIMITED	2663705	2017	185.085	LTU Karachi
2	7	Telenor Microfinance Bank Limited	2486636	2017	25.328	LTU Karachi
3	17	Bank Islami Pakistan Limited	2238845	2017	174.028	LTU Karachi
4	20	Allianz Efu Health Insurance Limited	1163080	2017	0.690	LTU Karachi
5	23	M/S. BANK OF TOKYO- MITSUBISHI	700250	2017	174.028	LTU Karachi
6	32	Albaraka Bank Pakistan Limited	2554922	2017	1.257	LTU Karachi
7	33	Albaraka Bank Pakistan Limited	2554922	2016	0.0872	LTU Karachi
8	38	Summit Bank Limited	2663705	2016	163.437	LTU Karachi
9	39	Tameer Microfinance Bank Limited	2486636	2016	20.726	LTU Karachi
10	40	Tameer Microfinance Bank Limited	2486636	2015	15.564	LTU Karachi
11	44	Pak Brunei Investment Company Ltd	2866099	2016	3.972	LTU Karachi
12	47	Pak Brunei Investment Company Ltd	2866099	2015	3.972	LTU Karachi
13	50	Bank Of Tokyo-Mitsubishi	700250	2015	4.499	LTU Karachi
14	54	Bank Of Tokyo-Mitsubishi	700250	2016	4.7907	LTU Karachi
15	61	Citi Bank N.A.	700253	2017	32.559	LTU Karachi

16	62	Citi Bank N.A.	700254	2016	38.022	LTU Karachi
17	65	Citi Bank N.A.	700253	2015	41.476	LTU Karachi
18	72	Dubai Islamic Bank Pakistan Limited	2395184	2016	144.480	LTU Karachi
19	84	Habib Metropolitan Bank Limited	711167	2015	125.2868	LTU Karachi
20	86	Habib Metropolitan Bank Limited	711167	2017	103.5932	LTU Karachi
21	120	Shaheen Insurance Company Limited	701166	2015	2.014	LTU Karachi
22	122	Shaheen Insurance Company Limited	701166	2017	1.83495	LTU Karachi
23	124	Js Bank Ltd	2663703	2016	8.189	LTU Karachi
24	129	U Microfinance Bank Limited	2187505	2016	21.145	LTU Karachi
25	135	U Microfinance Bank Limited	2187507	2015	0.036	CRTO Karachi
26	141	B & B Securities (Private) Limited	2149826	2017	0.023	CRTO Karachi
27	144	Capital Asset Leasing Corporation Ltd	801331	2017	0.006	CRTO Karachi
28	146	Investment Managers Securit (Pvt) Ltd	2856342	2017	0.195	CRTO Karachi
29	218	HBL Currency exchange	2517094	2017	4.9	LTU-II Karachi
		Total			1301.223	

Annexure-E

Para 4.6

**Loss Of Revenue Due To Non-Deduction Of Tax On Payment Of Profit on
Debt u/s 151 – Rs.5,604.070 Million**

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	4	M/S. SUMMIT BANK LIMITED	2663705	2017	785.359	LTU Karachi
2	9	Pak Brunei Investment Company Limited	2866099	2017	108.366	LTU Karachi
3	11	Telenor Microfinance Bank Limited	2486636	2017	111.349	LTU Karachi
4	12	Albaraka Bank (Pakistan) Limited	2554922	2017	279.491	LTU Karachi
5	15	Bank Islami Pakistan Limited	2238845	2017	579.125	LTU Karachi
6	21	M/S. Bank Of Tokyo-Mitsubishi	700250	2017	35.12	LTU Karachi
7	24	Burj Bank Limited	2634080	2017	76.966	LTU Karachi
8	30	Albaraka Bank Pakistan Limited	2554922	2017	279.491	LTU Karachi
9	41	Tameer Microfinance Bank Limited	2486636	2015	76.618	LTU Karachi
10	42(ii)	Tameer Microfinance Bank Limited	2486636	2015	1.079	LTU Karachi
11	43	Pak Brunei Investment Company Ltd	2866099	2016	127.861	LTU Karachi
12	52	Bank Of Tokyo-Mitsubishi	700250	2015	33.587	LTU Karachi
13	60	Citi Bank N.A.	700253	2017	289.424	LTU Karachi
14	67	Dubai Islamic Bank Pakistan Limited	2395184	2016	427.36	LTU Karachi
15	75	First Women Bank Limited	700268	2015	52.249	LTU Karachi
16	80	First Women Bank Limited	700268	2017	81.854	LTU Karachi
17	83	First Women Bank Limited	700268	2016	111.7808	LTU Karachi
18	103	Sambas Bank Limited	1804331	2017	357.645	LTU Karachi
19	107	Sambas Bank Limited	1804331	2017	332.556	LTU Karachi
20	112	Sindh Bank Limited	3654008	2015	537.117	LTU Karachi
21	123	Shaheen Insurance Company Limited	701166	2016	0.043	LTU Karachi
22	125	U Microfinance Bank Limited	2187505	2017	42.831	LTU Karachi
23	127	U Microfinance Bank Limited	2187505	2017	5.389	LTU Karachi
24	130	U Microfinance Bank Limited	2187505	2018	115.229	LTU Karachi
25	133	U Microfinance Bank Limited	2187505	2018	1.653	LTU Karachi
26	136	Aba Ali Habib Securities (Private) Limited	3356440	2017	1.597	CRTO Karachi

27	137	Aba Ali Habib Securities (Private) Limited	3356441	2017	1.887	CRTO Karachi
28	139	Al-Haqani Securities And Investment corp (Private) Limited	2293296	2017	0.480	CRTO Karachi
29	142	Capital Asset Leasing Corporation Limited	801331	2017	0.852	CRTO Karachi
30	201	Multiline Securities (Private) Limited	1341564	2017	0.023	CRTO Karachi
31	204	SR Global Pvt Ltd	3655977	2017	126.002	CRTO Quetta
32	205	National saving of Pakistan	9011206	2017	290.672	CRTO Quetta
33	206	Atlas Islamic Incomey Fund	3175545	2018	62.519	LTU-II Karachi
34	207	National saving of Pakistan	9011206	2018	17.944	RTO Sukkur
35	208	Altas Income Fund	1830359	2018	7.295	LTU-II Karachi
36	209	National saving of Pakistan	9011208	2018	16.115	RTO Sukkur
37	210	National saving of Pakistan	9011209	2018	16.601	RTO Hyderabad
38	211	National saving of Pakistan	9011210	2018	32.019	RTO Hyderabad
39	212	National saving of Pakistan	9011211	2018	21.431	RTO Hyderabad
40	214	First Women Bank Limited	700268	2017	52.249	LTU-II Karachi
41	219	Nit Income Fund	3537158	2017	25.662	LTU-II Karachi
42	220	Pakistan Income Fund	1347505	2017	9.492	LTU-II Karachi
43	221	Pakistan Income Fund	1347505	2018	9.168	LTU-II Karachi
44	222	Altas Income Fund	1830359	2018	62.519	LTU-II Karachi
		Total			5,604.07	

Annexure-F
Para 4.7

loss of revenue due to Incorrect Adjustment of Carry Forward Business
Losses – 1,215.707 Million

Sr.No	AO #	Taxpayer	NTN	Tax Year	Amount	Formation
1	26	Burj Bank Limited	2634080	2017	416.372	LTU Karachi
2	27	Burj Bank Limited	2634080	2016	461.449	LTU Karachi
3	29	Burj Bank Limited	2634080	2015	4.41	LTU Karachi
4	28	Burj Bank Limited	2634080	2015	107.025	LTU Karachi
5	128(i)	U Microfinance Bank Limited	2187505	2016	84.541	LTU Karachi
6	134	U Microfinance Bank Limited	2187506	2015	17.874	LTU Karachi
7	138	Al-Haqani Securities And Investment corp (Private) Limited	2293296	2017	6.845	CRTO Karachi
8	140 (i)	B & B Securities (Private) Limited	2149826	2017	51.131	CRTO Karachi
9	143(i)	Capital Asset Leasing Corporation Ltd	801331	2017	10.17	CRTO Karachi
10	145(i)	Concordia Securities (Private) Limited	814581	2017	55.89	CRTO Karachi
		Total			1215.707	

Annexure-G
Para 4.10

**Loss of revenue due to Non-Invoking of Clause 99 of Second Schedule of
ITO-2001 Rs.2,959.684 million**

Sr. No	AO#	Taxpayer	NTN	Tax Year	Amount	Formation
1	147	Faysal Money Market Fund	3657958	2017	10.347	CRTO Karachi
2	148	Faysal Money Market Fund	3657958	2017	32.782	CRTO Karachi
3	149	Faysal Money Market Fund	3657958	2017	13.702	CRTO Karachi
4	150	Hbl Money Market Fund	3657958	2016	84.808	CRTO Karachi
5	151	Hbl Money Market Fund	3657958	2018	57.057	CRTO Karachi
6	152	Hbl Money Market Fund	3657958	2017	37.865	CRTO Karachi
7	153	Ubl Money Market Fund	3647555	2016	16.971	CRTO Karachi
8	154	Ubl Money Market Fund	3647555	2018	9.586	CRTO Karachi
9	155	Ubl Money Market Fund	3647555	2017	11.454	CRTO Karachi
10	156	Askari Assets Allocation Fund	2798419	2017	6.916	CRTO Karachi
11	157	Hbl Stock Fund	2975960	2017	335.458	CRTO Karachi
12	158	Askari Equity Fund	3967087	2017	5.876	CRTO Karachi
13	159	Bma Empress Cash Funds	3534352	2017	1.025	CRTO Karachi
14	160	Bma Empress Cash Funds	3534352	2016	0.325	CRTO Karachi
15	161	Faysal Assets Allocation Fund	2798419	2017	6.916	CRTO Karachi
16	162	Faysal Income & Growth Fund	2532662	2017	15.275	CRTO Karachi
17	163	Faysal Income & Growth Fund	2532662	2018	11.476	CRTO Karachi

18	164	Faysal Income & Growth Fund	2532662	2017	20.744	CRTO Karachi
19	166	Hbl Income Fund	2840798	2017	55.172	CRTO Karachi
20	167	Hbl Income Fund	2840798	2018	62.329	CRTO Karachi
21	168	Hbl Income Fund	2840798	2017	120.247	CRTO Karachi
22	169	Mcb Dynamic Cash Fund	2808210	2016	73.689	CRTO Karachi
23	170	Mcb Dynamic Cash Fund	2808210	2018	89.6	CRTO Karachi
24	171	Mcb Islmic Income Fund	3754710	2017	41.144	CRTO Karachi
25	172	Mcb Islmic Income Fund	3754710	2018	15.867	CRTO Karachi
26	173	Meezan Cash Fund	3349213	2018	94.163	CRTO Karachi
27	174	Meezan Cash Fund	3349213	2018	32.568	CRTO Karachi
28	175	Meezan Cash Fund	3349213	2015	61.609	CRTO Karachi
29	176	Meezan Islamic Income Fund	2828334	2017	137.617	CRTO Karachi
30	177	Meezan Islamic Income Fund	2828334	2018	99.468	CRTO Karachi
31	178	Meezan Islamic Income Fund	2828334	2017	102.806	CRTO Karachi
32	179	Nafa Asset Allocation Fund	3619343	2017	24.253	CRTO Karachi
33	180	Nafa Islamic Aggressive Income Fund	3049059	2018	13.89	CRTO Karachi
34	181	Nafa Islam Income Fund	3049059	2017	64.268	CRTO Karachi
35	182	Nafa Islamic Money Market Fund	7953062	2018	7.399	CRTO Karachi
36	183	Capital Asset Leasing Corporation Limited	801331	2018	175.051	CRTO Karachi

37	184	Nit- Equity Market Oppourtunity Fund	3383755	2017	161.41	CRTO Karachi
38	185	Nit- Equity Market Oppourtunity Fund	3383755	2017	210.457	CRTO Karachi
39	186	Picic Investment Fund Compromising Lot Bicp Mutual Funds	2130640	2016	262.881	CRTO Karachi
40	187	Picic Investment Fund Compromising Lot Bicp Mutual Funds	2130640	2017	18.915	CRTO Karachi
41	188	Ubl Money Market Fund	3647555	2017	9.586	CRTO Karachi
42	189	Ubl Money Market Fund	3647555	2017	11.454	CRTO Karachi
43	190	Atlas Islamic Incomeey Fund	3175545	2016	11.763	CRTO Karachi
44	191	Nafa Income Fund	3080057	2017	14.054	CRTO Karachi
45	192	Atlas Income Fund (Trust)	1830359	2018	138.242	CRTO Karachi
46	193	Pakistan Income Fund	1347505	2018	20.955	CRTO Karachi
47	194	Ubl Growth Income Fund	2456685	2017	44.114	CRTO Karachi
48	195	Ubl Growth Income Fund	2456685	2018	41.762	CRTO Karachi
49	196	Nit Income Fund	3537158	2017	64.368	CRTO Karachi
		Total			2,959.684	