SECTORAL AUDIT REPORT
ON
TAX EVASION/AVOIDANCE IN MAJOR INDUSTRIAL SECTORS (SUGAR & CEMENT)

FEDERAL BOARD OF REVENUE
(INLAND REVENUE)
AUDIT YEAR 2022-23

AUDITOR-GENERAL OF PAKISTAN

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, require the Auditor-General of Pakistan to conduct Audit of Expenditure and Receipts of Government of Pakistan. Sectoral Audit of Tax Evasion/Avoidance in major industrial sectors (Sugar & Cement) was carried out accordingly.

The Directorate General Audit, Inland Revenue & Customs (North), Lahore conducted Sectoral Audit of Tax Evasion/avoidance in Major Industrial Sectors (Sugar & Cement), Federal Board of Revenue (FBR) for the Financial Year 2021-22 during the period from July to November, 2022 and February to May, 2023 with a view to reporting significant findings to the relevant stakeholders. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules and regulations in managing the tax collection from these two sectors. The Audit Report indicates specific actions, if taken, will help the management realize their objectives. Audit observations were delivered to the department. It was replied that audit observations have been and replies will be furnished in due course of time. Requests for convening the DAC meeting were made to FBR in May & June, 2023. However, the DAC meeting was not convened till the finalization of the report.

The Sectoral Audit 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 both Houses of Majlis-e-Shoora [Parliament].

Islamabad
Dated: 7th November 2023

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

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ABBREVIATIONS & ACRONYMS

AGP	Auditor General of Pakistan
AO	Audit Observation
CCP	Competition Commission of Pakistan
CEMTEC	Cement and Mining Technology Company
COVID	Corona Virus Disease
CIR	Commissioner Inland Revenue
DAC	Departmental Accounts Committee
DTRE	Duties and taxes remission on exports
FASTER	Fully Automated Sales Tax Refund
FBR	Federal Board of Revenue
FED	Federal Excise Duty
FTO	Federal Tax Ombudsman/ Federal Treasury Officer
GST	General Sales Tax
IFRS	International Framework of Reporting Standards
IRIS	Inland Revenue Information System
IRS	Inland Revenue Service
ITMS	Integrated Tax Management System
KIBOR	Karachi Inter Bank Offered Rate
LTO	Large Taxpayers Office
NTN	National Tax Number
PRAL	Pakistan Revenue Automation Ltd
PSMA	Pakistan Sugar Mills Association
RTO	Regional Tax Office
SBP	State Bank of Pakistan

SOP	Standard Operating Procedures
SRO	Statutory Regulatory Order
STGO	Sales Tax General Order
STR-10	Sales Tax Return form 10
STRN	Sales Tax Registration Number
TDF	Tyre Derived Fuel
TTS	Track and Trace System
UIMs	Unique Identification Markings
WHT	Withholding Tax

EXECUTIVE SUMMARY

Directorate General of Audit, Inland Revenue & Customs (North), Lahore conducted Sectoral Audit of Tax Evasion/Avoidance in major industrial sectors (Sugar & Cement) for the Financial Year 2021-22. The main objectives of the audit were to investigate and report significant taxation issues in Sugar and Cement sectors. The audit was conducted in accordance with INTOSAI auditing standards.

The objective of subject study was to report significant issues in implementation of current tax regimes in the Sugar and Cement sectors. The report also raises questions on the complacency of FBR in non-review of ex-mill price of Sugar. Analysis of Cement sector reveals that Track and Trace System was not implemented in the Cement sector. Moreover, a need for review of input tax adjustment of coal in the Cement sector has been identified in this report. An analysis of financial management revealed that systemic issues pointed out by the Audit have not been addressed and no reorganization/reform of processes/procedures has been initiated by FBR.

It is the responsibility of the management to devise a system of robust internal controls and ensure that they are complied in letter and spirit. Transparent tax policies coupled with uniform enforcement increase the compliance of tax laws and decrease trust deficit between citizens and the Government. Pakistan's ranking on Doing Business index has improved over the years. But "Paying taxes indicator" was the worst scoring indicator in Doing Business index for Pakistan in the country profile published in 2020. FBR is the gateway to any effort to reform Governance in Pakistan and getting out of the current economic crisis.

Key Audit Findings

The key findings are as under:

i. Non-transparent valuation of ex-mill price of Sugar. Ex-mill price of Sugar determined by FBR is currently @ Rs 72.2/kg. The valuation is non-transparent and under-valued as compared to market rate.

ii. Ex-mill price of Sugar was reviewed by FBR after a lapse of 5 years. Currently, due to a stay order granted by Lahore High Court FBR's power to determine ex-mill price has been suspended.

iii. Tax evasion is prevalent in Sugar sector due to non-registration of vendors/buyers/distributors who fulfill the criteria for compulsory registration.

iv. Track and Trace System has not been implemented in the Cement Industry.

v. Current Tax regime encourages use of coal in Cement industry as adjustment of input tax of coal is allowed in contrast to spirit of National Climate Change Policy.

vi. This report identifies and reports financial irregularities to the tune of Rs. 13.226 billion. These have been categorized in terms of following major internal control failures:

    a. There is no provision of validation checks in the return filing system of FBR. The Audit detected incomplete returns which were accepted as valid and neither detected by the system nor the concerned Commissioner.
    b. There is no integration of FBR database with provincial revenue authorities. This leads to loopholes in current self-assessment scheme whereby taxpayers evade due tax by declaring arrears of provincial taxes.
    c. There are no systematic checks to disallow non-apportioned and incorrect adjustments of input tax.
    d. FBR has failed to completely capture withholding tax potential despite having complete access to data of vendors as provided by Controller General of Accounts.
    e. Post Audit Refund cells have become dysfunctional after introduction of FASTER thereby increasing incidence of irregular/unlawful refunds.

RECOMMENDATIONS

i. Quarterly review of "value of supply/ex-mill price" should be carried out by FBR to ensure optimum taxation of Sugar sector. Moreover, the powers granted to FBR under Section 2(46) are vague. The same should be rationalized by arriving at the ex-mill price according to the template laid down in detail by Competition Commission of Pakistan as per International Framework of Reporting Standards (IFRS).

ii. The Audit recommends that the department should hire expert legal help to expedite the court proceedings and get the stay order vacated as soon as possible.

iii. Track and Trace System should be implemented in the cement sector without any further delay. Moreover, the department needs to justify non-implementation of Track and Trace System in the Cement sector.

iv. A policy review is needed to resolve the conflict in current tax regime and climate change policy for the cement sector. Imported coal is the primary raw material used in cement sector and its adjustment is admissible as input tax. Therefore, to discourage the use of coal either its admissibility as input tax may be successively disallowed or carbon tax may be imposed on the cement sector.

v. Internal controls need to be strengthened and reformed to ensure compliance of tax regimes as follows:

   a. Improvement in return filing system through provision of validation checks to effectively monitor the self-assessed income is needed. The department should also justify the reasons behind inaction of concerned Commissioner.
   b. Databases of FBR and provincial revenue authorities should be integrated for verification of actual tax liability
   c. The Audit recommends instituting 100% desk audit of the corporate sector in accordance with established policies of FBR to disallow inadmissible adjustments and non-apportionment of input tax.
   d. The Audit recommends instituting mechanisms for implementation of withholding regime at least to the extent of data already available with FBR.
   e. Post-refund Audit Cells with access to CSTRO should be re-constituted to carry out desk audit of refunds after issuance.

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1. INTRODUCTION

Directorate General of Audit Inland Revenue (North), Lahore planned and conducted Sectoral Audit on tax evasion/avoidance in major industrial sectors (sugar & cement) for the Financial Year 2021-22. The objectives of the audit were to examine the assessment and collection of direct and indirect taxes and the impact of their under-valuation under the relevant laws. It was found that the organization failed to implement Track and Trace System (TTS) in the cement sector. The report also raises questions on the seriousness of management in tackling systematic loopholes in the return filing systems which have been repeatedly pointed out by the Audit.

In Pakistan sugar industry is one of the top five industries in terms of revenue generation. It contributed revenue of Rs. 65,449 million as sales tax during the Financial Year 2021-22 which was 6% of total sales tax collection of FBR with a growth of 13.3% compared to the previous year. The sugar sector has only been paying sales tax in VAT mode which is lower in value than rest of the market.

Cement industry is also major revenue contributing industry of Pakistan and contributed revenue of Rs. 35,925 million as sales tax during the Financial Year 2021-22 which was 3.3% of total sales tax collected by FBR with a decline of 3.6% in total collection as compared with 2020-21. In addition to sales tax on retail price Federal Excise Duty on production of cement is also levied which is 26.7% of total FED collected by FBR. Cement is placed in the First Schedule of Federal Excise Act, 2005 and subjected to lowest FED @ 1.50 Rs per kg.

2. AUDIT OBJECTIVES

The major objectives of audit were to examine;

i. Compliance with applicable laws and rules concerning proper assessment and timely collection of taxes,
ii. Impact of under-valuation as compared to open market prices of sugar to supply sugar to a commoner at an affordable price,
iii. Whether payment of taxes on bi-products, i.e., molasses, baggass, and mud, etc., has been made or not by the sugar industry,

iv. FBR’s responsiveness to market forces in the determination of the value of supply and collection of revenue from the sectors,
v. Evaluation of the internal control environment of FBR and its field formations.

3. AUDIT SCOPE AND METHODOLOGY

Majority of cement and sugar manufacturers fall under the jurisdiction of LTOs, Islamabad, Lahore and Multan, RTOs, Peshawar and Sialkot. To check compliance of law and rules, under valuation of goods, non/short payment of taxes, non/short withholding of taxes and adjustment of input tax/refund, this Directorate planned to conduct sectoral audit on tax evasion/avoidance at three locations (comprising a significant share of cement and sugar mills). i.e. LTOs Lahore, Islamabad and RTO, Peshawar. The audit was conducted during February to May 2023.

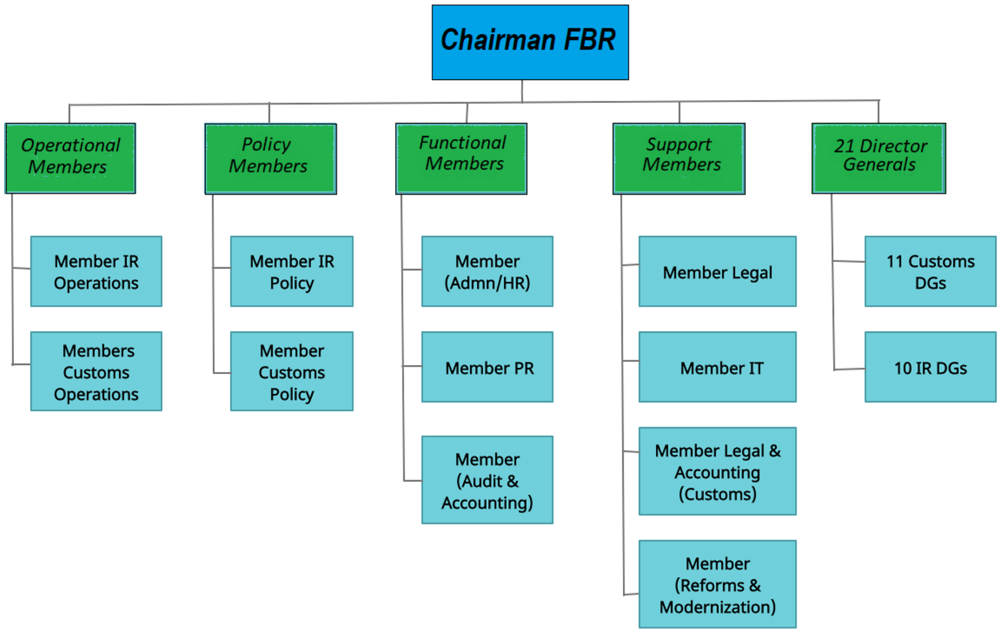
The audit methodology involved data collection, desk auditing, and discussions with management. Based on data collected from FBR field offices, out of fifty-one (51) sugar and eleven (11) cement units, the Audit selected a sample size of thirty-four (34) sugar and ten (10) cement units. Afterwards, an analytical and comparative analysis was performed.

4. AUDIT FINDINGS

This report includes audit observations on organization and management issues, systemic issues of financial management and overall assessment of taxation in sugar & cement sectors. Audit findings are as under.

4.1 Organization and Management

The Federal Board of Revenue (FBR) in Pakistan is responsible for collection and administration of various taxes, including income tax, sales tax, federal excise and customs duty. By the enactment of FBR ACT, in July 2007, the Central Board of Revenue became Federal Board of Revenue. FBR works according to following organogram.



Domestic Taxes (Inland Revenue), comprising Income Tax, Sales Tax and Federal Excise Duty, constitute about 90% of the revenue collected by FBR. The Inland Revenue Wing of the FBR was created, combining the three domestic taxes to improve the tax to GDP ratio.

One of the significant challenges faced by the FBR, was to track and trace the movement of goods within the country to ensure that all taxes due were paid correctly. To address this challenge, the FBR developed a Track and Trace System (TTS) that was to enable it to track, monitor the production and sales in sugar, tobacco, fertilizer and cement. The system was to be integrated with the FBR's existing IT infrastructure/data center, to ensure seamless data exchange and efficient processing of tax-related information.

Both the sectors selected by this directorate for Audit use indigenous raw materials .i.e. sugarcane and clinker. However, cement industry is highly dependent on imported coal for energy. These sectors remained unorganized due to under-reporting of production and short payment of taxes.

4.1.1. Non-transparent valuation of ex-mill price of Sugar

As per Section 2(46)(e) “Value of Supply” in case where there is sufficient reason to believe that the value of a supply has not been correctly declared in the invoice, the value determined by the “Valuation Committee”. Moreover, as per Section 2(46)(g) in case of a taxable supply, with reference to retail tax, the price of taxable goods excluding the amount of retail tax, which a supplier will charge at the time of making taxable supply by him, or such other price as the Board may, by a notification in the official Gazette, specify.

It was observed by the Audit that the Board fixes ex-mill price of sugar through Statutory Regulation Orders (SROs). This price serves as a basis for FBR to levy GST on declared sales of sugar by the sector. The current value of sugar was fixed vide SRO 1027(I)/2021 at Rs 72.22 per kg. Meanwhile, sugar prices in retail went up from Rs 90 per kg to Rs 130 per kg[1]. Commodity price of sugar was Rs 199 during the month of July 2023 as reported by Pakistan Bureau of Statistics (PBS). In addition to this, Sugar Inquiry Commission reported that the sugar industry overstates its ex-mill price. This overstatement is done by including GST in the cost of production, inflating the cost of production, and off the book purchases and sales. The report also states that for every Rupee of overstated cost “the sugar mills of Pakistan earn approximately Rs. 5.2 million x 1000 (total production of 5.2 million tons) which equals Rs. 5.2 billion – all at the expense of the consumers”. Audit is of the opinion that notified “ex-mill price” is set in a non-transparent manner i.e. the procedure for arriving at the cost have neither been laid down in rules nor made public. Moreover, the said value of supply/ex-mill price doesn’t coincide with the open market rate. This undervaluation of value of supply (ex-mill price) causes losses of potential revenue each year.

The Audit recommends quarterly review of “value of supply/ex-mill price” to ensure optimum taxation of sugar sector. Moreover, the powers granted to FBR under Section 2(46) need further codification in rules and procedures. The same should be rationalized by arriving at the ex-mill price according to the template laid down in detail by CCP as per International Framework of Reporting Standards (IFRS).

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[1] https://www.brecorder.com/news/40236168

4.1.2. Non-revision and subsequent suspension of FBR's powers to determine ex-mill price of Sugar

As per Section 2(46)(e) "Value of Supply" in case where there is sufficient reason to believe that the value of a supply has not been correctly declared in the invoice, the value determined by the "Valuation Committee". Moreover, as per Section 2(46)(g) in case of a taxable supply, with reference to retail tax, the price of taxable goods excluding the amount of retail tax, which a supplier will charge at the time of making taxable supply by him, or such other price as the Board may, by a notification in the official Gazette, specify.

Sugar barons of Pakistan have been reportedly involved in malpractices of hoarding, black-marketing, delaying payments to farmers, and manipulation of sugar prices. Due to this Competition Commission of Pakistan (CCP) imposed penalties @ 5% on the annual turnover of 2019 on the Pakistan Sugar Mills Association (PSMA) and its members for acting as a cartel and manipulating market prices[2]. Currently, the Lahore High Court on the petition of Pakistan Sugar Mills Association (PSMA) has suspended determination of ex-mill price by FBR. The Audit observed that the last ex-mill price was reviewed after a lapse of five (05) years (the previous SRO was issued in 2016 which fixed the price at Rs 60/kg). FBR's current dispensation of ex-mill price determination is inactive as evident from only one (01) review of ex-mill price in five (5) years. FBR's mandate to determine ex-mill price of sugar has been rendered ineffective because of the stay order. Furthermore, sugar sector has a reported history of market manipulation and is now using litigation to handicap Government authorities. This depicts inaction by the FBR management in exercising and safeguarding its mandated authority and watching the interests of Federal Government and general public.

The Audit recommends that the department should hire expert legal help to expedite the court proceedings and get the stay order vacated as soon as possible.

[2] Sugar Inquiry Commission Report, 2020

4.1.3. Tax evasion in sugar sector due to non-compliance of compulsory registration

As per section 14 of Sales Tax Act 1990, "every person engaged in making taxable supplies in Pakistan, including zero-rated supplies, falling in any of the following categories is required to be registered under this Act, namely:- (a) a manufacturer who is not running a cottage industry; (b) a retailer who is liable to pay sales tax under the Act, excluding such retailer required to pay sales tax through his electricity bill; (c) an importer; (d) an exporter who intends to obtain sales tax refund against his zero-rated supplies; (e) a wholesaler, dealer or distributor."

The Audit has repeatedly pointed out the issue of non-registration of taxpayers who are liable for compulsory registration in a number of sectors including sugar and cement. Similarly, Federal Tax Ombudsman (FTO) unearthed a scam of selling sugar to unregistered buyers in 2022[3]. FBR filed an appeal to the President against the orders of FTO. However, President of Pakistan disposed of the matter with the observation that FBR was not vigilant in collecting information related to unregistered buyers and was content with whatever was being submitted in the monthly sales tax returns of sugar mills. He regretted that the data of unregistered buyers was not being examined for the purpose of broadening the tax net. The Audit is of the view that FBR's field formations hold jurisdiction over sugar mills and can secure complete particulars of all buyers by proper and timely analysis of withholding statements. Despite the above FBR failed to register all the dealers and distributors of sugar sector.

Audit recommends compulsory registration of all the distributors/dealers who meet the prescribed criteria as soon as possible to broaden the tax net. Moreover, details of newly registered dealers/distributors of sugar sector, on the basis of data of sugar mills be provided to Audit along with recovery made from them as a result of directions of the President of Pakistan and recommendations of FTO.

[3] PR. No. 64B/2022 dated 25.04.2022

4.1.4. Non-implementation of Track and Trace system in cement industry

According to Sales Tax General Order (STGO), No 19 of 2022, issued vide C. No. 2(4) T&Ts/Cement/2021-14542-R Islamabad dated 27 June 2022 notified that no cement bag shall be allowed to be removed from a production site, factory premises/manufacturing plant, or import station without affixation of tax stamp/Unique Identification Markings (UIMs) with effect from 1st October 2022.

During the audit of Commissioner IR, Zone-III, LTO, Lahore for the year 2021-22, it was revealed that the Track and Trace System (TTS) which was supposed to be implemented for electronic monitoring of production and sale of cement bags w.e.f. 1st October 2022 under SRO 250 (I) 2019 dated 26th February 2019 had not been implemented yet in the cement sector. It is pertinent to mention here that after the implementation of the TTS in the sugar sector, there was a substantial increase in the first year of revenue collection by 34% in direct taxes and 18% in indirect taxes. Reportedly, the cement industry is dragging the implementation over the ownership of cost of TTS. The cement sector has been reported for collusive activities by the Competition Commission of Pakistan (CCP) in the past and penalized with Rs 6.3 billion on account of forming a cartel and involvement in prohibited agreements[4]. Non-implementation of TTS raises questions on the performance of the department and seriousness of upper management in monitoring and affecting the timelines.

Audit recommends that TTS should be implemented in the cement sector without any further delay. Moreover, the department needs to justify non-implementation of TTS in the cement sector.

(DP N0 21792-ST)

[4] https://tribune.com.pk/story/2276106/competition-commission-of-pakistan-busts-cement-sector-cartel

4.1.5. Taxation in cement sector – At the cross-roads of climate change and development

There are two types of taxes levied on cement sector. Firstly, GST is levied @ 17% under Schedule 3 of Sales Tax Ordinance, 2001. Secondly, FED is levied under First schedule of FED Act 2005 @ Rs 1.5/kg. According to International Energy Agency the cement sector is the third-largest industrial energy consumer and the second-largest industrial CO_2 emitter globally. Moreover, one of the policy measures as enunciated in the National Climate Change Policy, 2022 is to consider introducing carbon tax on the use of environmentally detrimental energy generation from fossil fuels, in addition to a ban on the pursuit of coal fired power plants.

Pakistan ranks among top five exporters of cement and is the 14th largest cement producer in the world. As per research conducted by Cement and Mining Technology Company (CEMTEC) Pakistan is amongst the three cement hotspots in the world where demand is expected to grow rapidly[5]. The highest cost associated with cement production is of energy. Most of the cement sector has shifted to coal fired plants for their energy requirements after supply of natural gas became unsustainable. Currently, the cement sector uses imported coal and Tyre derived fuel (TDF) for its energy needs. In addition to this, current law provides for adjustment of the coal used in cement sector as input tax against output tax. On the other hand, National Climate Change Policy enunciates ban on coal fired power plants and imposition of carbon tax. According to World Bank intensification of climate change and environmental degradation is projected to further aggravate Pakistan's economic fragility; and could ultimately reduce annual GDP by 18 to 20% per year by 2050[6]. The cement sector has been lobbying for reduced GST rates and exemption from FED citing higher rates as compared to neighboring developing countries. However, in India incidence of GST is higher than Pakistan at 31.36%[7]. Moreover, tax evasion especially of

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[5] http://www.pbit.gop.pk/cement_allied#:~:text=Production%20capacity%20of%20cement%20manufacturers,to%20grow%20at%20its%20fastest.

[6] https://tribune.com.pk/story/2386827/pakistans-gdp-can-fall-18-to-20-by-2050-due-to-climate-change-risks

[7] https://www.5paisa.com/stock-market-guide/tax/tax-on-cement

FED is widely reported in the cement sector[8]. High environmental costs coupled with tax evasion in cement sector call for tougher regulations and enforcement in the cement sector. Viewed in the lens of *dubio pro natura* (in case of doubt, all proceedings before nature), economic development has to be pursued in a sustainable manner for the sake of future generations.

The Audit recommends that a policy review is needed to resolve the clash in current taxation and climate change policies for the cement sector. Adjustment of input tax on coal should be incrementally disallowed in order to discourage the use of coal in the cement sector in the coming years.

4.2 Financial Management

Sugar and cement sectors fall in top five industries in terms of revenue generation in Pakistan. Sugar sector contributed revenue of Rs. 65,449 million as Sales Tax during the Financial Year 2021-22. It was 6% of the total sales tax collection of FBR with a growth of 13.3% as compared with the previous year. On the other hand, cement sector contributed Rs 35,925 million as Sales tax during the Financial Year 2021-22. It was 3.3% of total sales tax collected by FBR with a decline of 3.6% in total collection as compared with 2020-21.

4.2.1. Financial irregularities amounting to Rs. 13.266 billion and inertia of FBR in addressing systemic issues of internal controls

According to various provisions of Income Tax Ordinance, 2001, Sales Tax Ordinance, 2005 taxation regime for sugar sector involves Sales tax on retail price. FED is also levied in addition to Sales tax for the cement sector.

The Audit raised financial observations amounting to Rs. 13.266 billion for the FY 2021-22 in the sugar and cement sectors across FBR formations. These observations have been repeatedly pointed out by the Audit in previous Audit reports as well. This points towards indifference of the management in resolving these systemic issues. These observations are summarized in the following table and graph:

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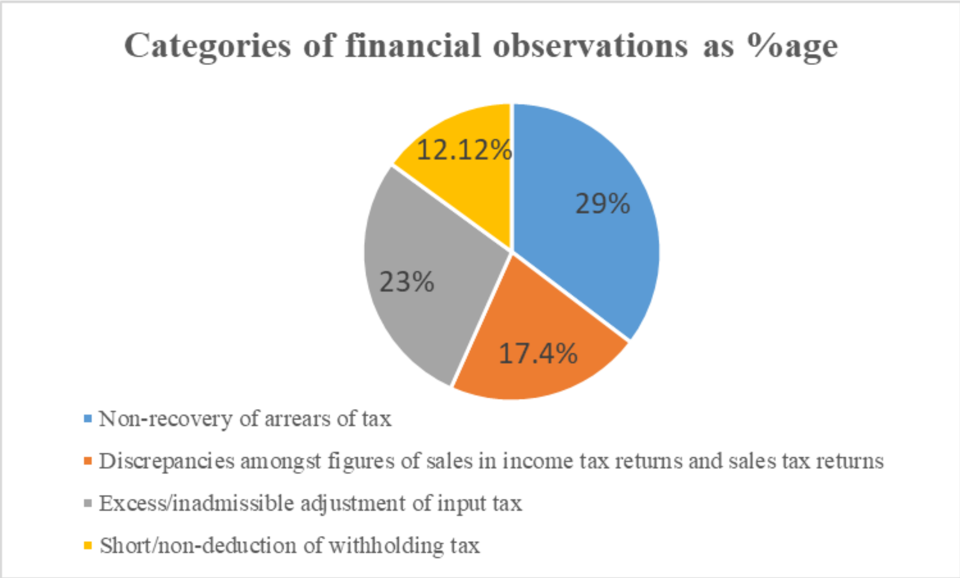
[8] https://pkrevenue.com/fbr-launches-mega-crackdown-against-cement-manufacturers/

Sr. No.	Nature of observation	Amount (in Rs. Million)
1	Non-recovery of arrears of tax	3,782.87
2	Discrepancies amongst figures of sales in income tax returns and sales tax returns	2,287.45
3	Excess/inadmissible adjustment of input tax	3,029
4	Short/non-deduction of withholding tax	1,603.58
5	Adjustment of prior year's refund without verification	388.994
6	Non-imposition of the penalty and default surcharge	385.248
7	Inadmissible claim of provisional expenses	364.02
8	Non-realization of WWF	346.574
9	Non-deduction of withholding tax on royalty	305.935
10	Non/short-collection of advance tax	250.529
11	Excess claim of withholding tax credit	163.35
12	Non-realization of sales tax and further tax on sale of scarp and fixed assets	148.637
13	Non-withholding of tax on commission	60.5
14	Non-realization/ deduction of withholding tax on dividend	48.838
15	Non-taxation of income from other sources	31.208
16	Incorrect claim of initial allowance	11.215
17	Short realization of minimum tax	10.204
18	Non-withholding of income tax on equipment rental	7.066
	Total	**13,226.54**



It is evident from the table and the pie chart above that financial observations raised by the Audit can be categorized into four major heads; (1) Non-recovery of arrears of tax, (2) Discrepancies in figures of sales reported in submitted returns, (3) Excess adjustment of input tax, and (4) Short deduction of withholding tax. All of the above issues are systemic and pointed out by the Audit every year. The failure of tax authorities in tackling these prevalent issues of non-compliance limit the Audit to reporting on the same issues. These systemic issues and their internal controls are discussed in the following paras.

4.2.1.1. Non-integration of FBR database with provincial revenue authorities

After the 18th Amendment to the Constitution of Pakistan, the provincial governments are increasingly involved in taxation and revenue collection. Sales Tax on goods is levied by the Federal Government while Sales Tax on Services is levied by the provincial governments. The taxpayers are required to submit returns separately to FBR and provincial revenue authorities. According to Pakistan Revenue Automation Limited (PRAL) website "IRIS is one of the best integrated systems in the country that encompasses various subsystems into one larger system"[9].

[9] https://www.pral.com.pk/

Despite the fact that the clientele of PRAL includes FBR and all provincial authorities there is no integration between the databases of these authorities. This leads to creation of certain loopholes which are exploited by both the sectors to evade taxes i.e. by declaring income/liabilities in provincial domain. The Audit has repeatedly pointed out the issue of non-recovery of tax arrears in Sugar and cement sectors. Under the self-assessment scheme the taxpayers declare their liabilities which should be automatically accounted for, before the submission of subsequent returns. Currently, tax liabilities are declared by the taxpayers in their annual accounts as "notes". According to the FBR management non-recovery of these arrears is attributed to the fact that these arrears are provincial taxes. The Audit is of the view that the prescribed format of returns does not require identification of relevant provincial/federal authority. There are no designated fields in income tax returns which identify the relevant tax authority either. Moreover, due to non-integration of FBR with provincial revenue authorities these arrears and the subsequent adjustment can't be cross-checked or verified.

The Audit recommends integration of databases of FBR and provincial revenue authorities for verification of actual tax liability. In addition to this, systematic checks should be introduced in the existing database such as online submission of tax liability/arrears in designated fields of income tax return instead of declaration in the "notes".

4.2.1.2. Tax evasion through non-apportionment and inadmissible adjustments of input tax

According to Section 8(2) of the Sales Tax Act 1990, if a registered person deals in taxable and non-taxable supplies, he can reclaim only such proportion of input tax attributable to taxable supplies. Adjusting input tax paid on raw materials relating to exempt supplies shall not be admissible. Further, Section 73(4) of the Act provides that a registered person shall not be entitled to deduct input tax (credit adjustment or deduction of input tax) which is attributable to such taxable supplies exceeding, in the aggregate, one hundred million rupees in a Financial Year or ten million rupees in a tax period as are made to a specific person who is not registered.

The Audit has observed that excess adjustment of input tax is reported primarily because of two reasons in Sugar and cement sectors; (i) Non-apportionment of input tax on sales to registered and non-registered persons and (ii) adjustment of input tax against output tax on the purchase of inadmissible items (e.g building material in case of cement industry). These issues have been reported to FBR repeatedly and are indicative of weak desk audit and failure of the tax administration in reforming/reorganizing its policies and processes.

The Audit recommends implementation of established policy of FBR that requires 100% desk audit of the corporate sector.

4.2.1.3. Ineffective implementation of withholding regime in sugar & cement sectors

According to Section 153 read with Section 161 of the Income Tax Ordinance 2001, "every prescribed person making a payment in whole or part, including payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for the supply of goods and on the execution of a contract, other than a contract for the sale of goods or the rendering of or providing services, shall, at the time of making the payment, deduct tax from the gross amount payable including sales tax, if any at the rate specified in Division-III of Part-III of the First Schedule to the Income Tax Ordinance 2001".

FBR has relied heavily on withholding taxes for revenue generation over the years. During FY2021-22, 67% of FBR's direct taxes came from withholding taxes[10]. In addition to this, digital transactions have seen a phenomenal growth in Pakistan after COVID-19. According to State Bank of Pakistan (SBP) mobile phone banking and internet banking was reported at Rs11.9 trillion and Rs10.2 trillion respectively[11]. Withholding tax regime in Pakistan relies on capturing transactions through withholding agents. The Audit observed that FBR has access to data of relevant Accountant General Offices which reports 1/5th of all the transaction happening in public sector. However, even these transactions made by the public sector escape tax authorities as the officers/officials of FBR do not initiate any action to recover the remaining 4/5th of the revenue. Repeated

[10] https://primeinstitute.org/withholding-tax-regime-doing-business-perspective/

[11] Annual Payment Systems Report for the fiscal year 2021-22, State Bank of Pakistan, dated 23-12-2022

pointation of these transactions by the Audit is evidence of ineffective implementation of withholding tax regime and complacency of FBR.

The Audit recommends instituting mechanisms for 100% implementation of withholding regime at least to the extent of data already available with FBR.

4.2.1.4. Dysfunctional Post-refund Audit Cells

Section 170 of the Income Tax Ordinance 2001, read with circular No. 05 of 2003 of FBR, eligibility for tax refund subject to certain conditions like there must be a valid assessment order for the claim of a refund with applicable tax rates, there must be a refund application of refund claimed, there should not be any outstanding tax liability against the taxpayer. There should not be any adjustment of the final tax payment against regular tax liability.

Refund payments were previously made manually by FBR before introduction of Fully Automated Sales Tax Refund (FASTER). FASTER was introduced for the ease of taxpayers and reduction in processing times. However, the Audit has been reporting an increase in number of violations in refund payments over the years. Previously, Post-refund Audit cells were responsible for carrying out desk audit of refund claims and validating the same after refunds were processed. Now these cells have been made dysfunctional by FBR after the introduction of FASTER.

The Audit recommends that Post-refund Audit Cells with access to CSTRO should be mandated to carry out desk audit of refunds after issuance.

4.2.1.5. Non-provision of validation checks in the return filing system of FBR

Section 114 (2) of the Income Tax Ordinance 2001, prescribes the form of income return and types of documents that are required to be submitted along with the return. The procedure in case of non-compliance with above provision is also provided in this section.

During the sectoral audit for the Tax Year 2021, Audit observed that six (06) taxpayers under the jurisdiction of LTO, Lahore filed income tax returns for the tax year 2021 but failed to furnish the return along with complete annual audited accounts duly certified by a chartered accountant. Therefore, the returns were to be declared invalid instead of treating them as assessment orders. The system failed to flag such instances and the concerned authorities did not take any action to ascertain that the subject returns were complete and as per law. Audit has repeatedly pointed out such cases where blank documents were submitted with returns and the same were accepted by the system. This resulted in the acceptance of invalid returns by the tax authorities, as detailed below:

Taxpayer Name	Tax Year
Al-Arabia Sugar NTN 7350354	2021
Ramzan Sugar Mills NTN-0224046	2021
Haq Bahu Sugar Mills (Pvt.) Limited NTN-1743968	2021
Macca Sugar Mills (Pvt) Ltd NTN-1418769	2021

(DP No 21791-IT)

Audit recommends improvement in return filing system through provision of validation checks to effectively monitor the self-assessed income. The department should also justify the reason behind inaction of concerned Commissioner.

4.2.1.6. Non-filing/incomplete filing of sales tax returns in Sugar sector

According to Section 26 of the Sales Tax Act, 1990 every registered person is required to file sales tax return in the prescribed format (STR-10). Furthermore, as per Section 33(1) provides that in case of failure of submission a penalty of Rs. 10,000 will be charged on the defaulter.

During the audit of Commissioner IR, Zone III and IV, LTO Lahore it was observed that forty (40) private/public limited companies in sugar and cement sectors did not file the subject returns. Moreover, no legal action was initiated by the authorities to penalize the defaulters. In addition to this, the Audit observed that in an additional thirty three (33) cases exempt purchases of sugarcane (which is the main raw-material) were not declared in the Sales Tax Return-10 (STR-10) form. The veracity of declared production, sales, stocks etc. cannot be established in the absence of this vital information.

The Audit recommends enforcement measures to ensure timely filing of sales tax returns by the sector. These measures may include incremental increase in penalties and blacklisting of defaulters from claiming refunds for the non-filing period. Moreover, the Audit recommends revision of regulations for self-declaration by inclusion of vital information such as exempt purchase of sugarcane in the STR-10 form for sugar sector.

4.3 Overall Assessment

Reports of tax evasion and cartelization by Sugar and cement sectors have been increasingly reported in the media. Competition Commission of Pakistan has also exposed cartelization in both these sectors. FBR has tried to regulate these sectors through introduction of the Track and Trace system. But the same has not been done with uniformity as evident from non-implementation in the cement sector. Enforcement of FBR remains weak in both sectors as systematic loopholes are exploited by the taxpayers in both sectors. Non-recovery of tax arrears, loopholes in self-declaration scheme, non-capture of full potential of withholding regime, non-registration of buyers, and non-integration of databases remain key challenges for FBR. In addition to lack of systematic checks the Audit found legal and policy issues hindering tax compliance in these sectors. One of these issues is undervaluation and non-implementation of ex-mill price in sugar sector. In the cement sector apparent contradiction in current tax regime and national climate change policy has been pointed out by the Audit.

5. CONCLUSION

5.1 Key issues for future:

Audit identified the following key issues that have hampered and would continue to hamper revenue collection in subject sectors:

- Failure in implementation of Track and Trace system in cement sector should be investigated by the management so that informed decision making and planning may be carried out in future.
- Failure to timely review and determine “ex-mill price” and litigation in the sugar sector is leading to potential revenue loss.
- A re-balancing act is required in tax regime of cement sector to address the challenge of climate change.
- The reform drive in FBR has focused on digitalization. However, in the absence of dedicated and trained staff and officers for audit/assessment, financial irregularities are frequent and go unchecked despite the fact that detailed procedures are laid down.
- Failure to conduct timely audit of self-assessed income has increased the risk of loss of government revenue.

5.2 **Lessons identified**:

Implementation of Track and Trace system in sugar sector resulted in increase in sales tax collection therefore there is an urgent need to replicate the same in cement sector.

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Annexure-1
(Para 4.2.1)

Short realization of tax due to discrepancies amongst figures of sales in income tax returns and sales tax returns causing loss of revenue Rs. 2,287.447 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name Of Taxpayer
1	21768/ST	LTO Lahore	8/ST	215,619,175	1	D.G. Khan Cement Company
2		LTO Lahore	14/ST	62,734,320	1	D.G. Khan Cement Company
3		LTO Lahore	15/ST	14,767,200	1	KOHAT Cement Company
4		LTO Lahore	43/ST	2,723,834	1	Abdullah Sugar Mills Ltd
5		LTO Lahore	50/ST	68,826,149	1	Ashraf Sugar Mills Limited
6		LTO Lahore	91/ST	433,572,268	1	Etihad Sugar Mills Limited
7		LTO Lahore	121/ST	57,199,480	1	Haq Bahu Sugar Mills
8		LTO Lahore	125/ST	271,676,332	1	Jauharabad Sugar Mills Ltd
9		LTO Lahore	173/ST	10,776,305	1	Hunza Sugar Mills (Pvt) Ltd
10		LTO Lahore	183/ST	95,893,447	1	Popular Sugar Mills Ltd
11		LTO Lahore	208/ST	59,104,599	1	Flying Cement Company Ltd
12		LTO Lahore	228/ST	318,572,747	1	Chanar Sugar Mills Limited
13		RTO Peshawar	16/ ST	24,337,810	1	Khazana Sugar Mills
14		LTO Lahore	81/ST	18,567,350	1	Ramzan Sugar Mills
15	21772/IT	LTO Lahore	48/IT	1,588,025	1	Al-Arabia Sugar Mills Ltd
16		LTO Lahore	56/IT	3,067,978	1	Chaudhary Sugar Mills Lid
17		LTO Lahore	71/IT	463,573	1	Tariq Corporation Limited
18		LTO Lahore	86/IT	9,938,557	1	Macca Sugar Mills (Pvt) Ltd

19		LTO Lahore	97/IT	17,175,503	1	Kashmir Sugar Mills Limited
20		LTO Lahore	107/IT	2,978,110	1	Seven Star Sugar Mills
21		LTO Lahore	126/IT	465,617,905	1	Jauharabad Sugar Mills Ltd
22		LTO Lahore	131/IT	120,731,433	1	Tandlianwala Sugar Mills
23		LTO Lahore	154/IT	7,576,331	1	Shahtaj Sugar Mills Limited
24		LTO Lahore	221/IT	3,938,178	1	Chanar Sugar Mills Limited
			Total	**2,287,446,609**	**24**	

Annexure-2
(Para-4.2.1)

Excess/inadmissible adjustment of input tax resulting in short realization of sales tax Rs. 2,109.922 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name Of Taxpayer
1	21767 ST	LTO LHR	11	14,044,780	1	D.G. Khan Cement Company Ltd
2		LTO LHR	12	219,367,426	1	D.G. Khan Cement Company Ltd
3		LTO LHR	13	12,890,902	1	D.G. Khan Cement Company Ltd
4		LTO LHR	35	1,807,983,592	1	D.G. Khan Cement Company Ltd
5		LTO LHR	151	217,324	1	Shahtaj Sugar Mills Limited
6		LTO LHR	168	3,494,346	1	Shakarganj Limited
7		LTO LHR	201	19,122,218	1	Shakarganj Limited
8		LTO LHR	211	32,801,528	1	Flying Cement Company Limited
			Total	**2,109,922,116**	**8**	

Annexure-3
(Para-4.2.1)

Short/non-deduction of withholding tax resulting in loss of revenue Rs. 1,603.582 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21769 IT	LTO Lahore	60	711,092	1	Chaudhary Sugar Mills Limited
2		LTO Lahore	62	15,712,312	1	Abdullah Sugar Mills Limited
3		LTO Lahore	64	4,577,343	1	Al-Arabia Sugar Mills Limited
4		LTO Lahore	65	6,141,170	1	Ashraf Sugar Mills Limited
5		LTO Lahore	76	3,048,082	1	Tariq Corporation Limited
6		LTO Lahore	84	17,464,871	1	Ramzan Sugar Mills
7		LTO Lahore	96	9,748,088	1	Etihad Sugar Mills Limited
8		LTO Lahore	100	13,425,984	1	Kashmir Sugar Mills Limited
9		LTO Lahore	142	303,540,216	1	Gharibwal Cement Limited
10		LTO Lahore	147	7,636,710	1	Tandlianwala Sugar Mills Ltd
11		LTO Lahore	155	459,386,602	1	D.G. Khan Cement Company Ltd
12		LTO Lahore	156	666,653,956	1	Kohat Cement Company Limited
13		RTO Peshawar	157	2,772,613	1	Dandot Cement Company Limited
14		LTO Lahore	166	4,021,155	1	Shakarganj Limited

15		LTO Lahore	177	11,592,857	1	Hunza Sugar Mills (Private)
16		LTO Lahore	186	11,998,941	1	Popular Sugar Mills Limited
17		LTO Lahore	195	13,205,620	1	Noon Sugar Mills Limited
18		LTO Lahore	210	35,694,158	1	Flying Cement Company Limited
19		LTO Lahore	224	5,589,266	1	Chanar Sugar Mills Limited
20		RTO Peshawar	15	8,611,518	1	Khazana Sugar Mills
21		LTO Lahore	128	2,049,778	1	Jauharabad Sugar Mills Limited
			Total	**1,603,582,332**	**21**	

Annexure-4
(Para-4.2.1)

Inadmissible adjustment of input tax on items not used in taxable supplies resulting in short realization of sales tax Rs. 920.396 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21771 ST	LTO Lahore	36	239,576,506	1	Maple Leaf Cement Factory
2		LTO Lahore	37	19,122,541	1	Kohat Cement Company Limited
3		LTO Lahore	42	25,720,739	1	Pioneer Cement Limited
4		LTO Lahore	55	61,930,547	1	Ashraf Sugar Mills Limited
5		LTO Lahore	58	3,939,321	1	Chaudhray Sugar Mills Limited
6		LTO Lahore	68	7,685,414	1	Abdullah Sugar Mills Limited
7		LTO Lahore	87	68,767,362	1	Macca Sugar Mills (Pvt) Ltd
8		LTO Lahore	144	2,838,196	1	Gharibwal Cement Limited
9		LTO Lahore	145	46,979,181	1	D.G Khan Cement Company Ltd
10		LTO Lahore	162	13,947,131	1	Jauharabad Sugar Mills Ltd
11		LTO Lahore	163	8,453,461	1	Tandlianwala Sugar Mills

12		LTO Lahore	164	5,804,667	1	Noon Sugar Mills Limited
13		LTO Lahore	165	17,973,820	1	Kashmir Sugar Mills Limited
14		LTO Lahore	179	36,053,974	1	Hunza Sugar Mills Pvt Ltd
15		LTO Lahore	180	5,108,881	1	Pattoki Sugar Mills Limited
16		LTO Lahore	181	10,220,761	1	Ramzan Sugar Mills Limited
17		LTO Lahore	202	3,598,472	1	Shakarganj Limited
18		LTO Lahore	203	20,150,884	1	Rasool Nawaz Sugar Mills
19		LTO Lahore	204	2,168,136	1	Seven Star Sugar Mills Pvt Ltd
20		LTO Lahore	213	210,528,536	1	Flying Cement Company Ltd
21		LTO Lahore	214	4,235,301	1	JK Sugar Mills (Private) Ltd
22		LTO Lahore	215	4,554,136	1	Popular Sugar Mills Limited
23		LTO Lahore	217	14,957,492	1	Haq Bahu Sugar Mills Pvt Ltd
24		LTO Lahore	219	19,422,138	1	Etihad Sugar Mills Limited
25		LTO Lahore	231	3,320,389	1	Shahtaj Sugar Mills Limited
26		LTO Lahore	232	715,437	1	Chanar Sugar Mills Limited

27		LTO Lahore	233	41,586,425	1	Thal Industries Corporation
28		LTO Lahore	234	21,035,824	1	Baba Farid Sugar Mills Ltd
			Total	**920,395,672**	**28**	

<u>Annexure-5</u>
(Para-4.2.1)

Loss of revenue due to adjustment of the prior year's refund without verification – Rs. 388.994 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21773 IT	LTO Lahore	80	6,579,749	1	Tariq Corporation Limited
2		LTO Lahore	85	87,190,885	1	Ramzan Sugar Mills
3		LTO Lahore	95	67,673,795	1	Etihad Sugar Mills Limited
4		LTO Lahore	112	12,795,903	1	Seven Star Sugar Mills Pvt Ltd
5		LTO Lahore	130	36,123,451	1	Jauharabad Sugar Mills Limited
6		LTO Lahore	135	174,691,321	1	Tandlianwala Sugar Mills Ltd
7		RTO Peshawar	17-IT	3,939,131	1	Khazana Sugar Mills
			Total	**388,994,235**	**7**	

Annexure-6
(Para-4.2.1)

Non-imposition of penalty and default surcharge – Rs. 385.248 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21774/ST	LTO Lahore	77/ST	6,035,780	1	Tariq Corporation Limited
2		LTO Lahore	105/ST	9,107,627	1	Kashmir Sugar Mills Limited
3		LTO Lahore	110/ST	7,835,713	1	Seven Star Sugar Mills Pvt Ltd
4		LTO Lahore	129/ST	305,541	1	Jauharabad Sugar Mills Limited
5		LTO Lahore	134/ST	236,636,268	1	Tandlianwala Sugar Mills Limited
6		LTO Lahore	153/ST	4,769,522	1	Shahtaj Sugar Mills Limited
7		LTO Lahore	189/ST	549,028	1	Popular Sugar Mills Limited
8		LTO Lahore	199/ST	9,573,472	1	Abdullah Sugar Mills Limited
9		LTO Lahore	226/ST	39,639,122	1	Chanar Sugar Mills Limited
10		LTO Lahore	230/ST	62,235,307	1	Chanar Sugar Mills Limited
11	21789 IT	LTO Lahore	78/IT	850,277	1	Tariq Corporation Limited
12		LTO Lahore	92/IT	23, 953,811	1	Etihad Sugar Mills Limited

13		LTO Lahore	122/IT	3,101,900	1	Haq Bahu sugar mills (pvt.) Ltd
14		LTO Lahore	188/IT	2,702,771	1	Popular Sugar Mills Limited
15		LTO Lahore	104/IT	1,905,492	1	Kashmir Sugar Mills Limited
			Total	**385,247,820**	**15**	

Annexure-7
(Para-4.2.1)

Less realization of tax due to claim of provisional expenses – Rs. 364.020 million

Sr. No	DP NO	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21775 IT	LTO Islamabad	2	19,167,840	1	Askari Cement Limited
2		LTO Lahore	2	77,244,690	1	D.G. Khan Cement Company Ltd
3		LTO Islamabad	6	3,702,720	1	Fauji Cement Company Limited
4		LTO Islamabad	9	33,923,758	1	Best Way Cement Limited
5		LTO Lahore	16	86,268,390	1	Kohat Cement Company Limited
6		LTO Lahore	27	42,008,240	1	Maple Leaf Cement Factory Ltd
7		LTO Lahore	44	2,355,772	1	Abdullah Sugar Mills Limited
8		LTO Lahore	51	6,322,130	1	Ashraf Sugar Mills Limited
9		LTO Lahore	72	13,272,256	1	Tariq Corporation Limited

10		LTO Lahore	90	23,931,171	1	Etihad Sugar Mills Limited
11		LTO Lahore	108	716,960	1	Seven Star Sugar Mills Pvt Ltd
12		LTO Lahore	124	789,654	1	Jauharabad Sugar Mills Limited
13		LTO Lahore	137	14,480,860	1	Gharibwal Cement Limited
14		LTO Lahore	174	26,042,343	1	Hunza Sugar Mills (Private) Ltd
15		LTO Lahore	191	1,708,970	1	Noon Sugar Mills Limited
16		LTO Lahore	220	3,595,511	1	Chanar Sugar Mills Limited
17		LTO Lahore	160	8,488,419	1	Dandot Cement Company Ltd
			Total	**364,019,684**	**17**	

Annexure-8
(Para-4.2.1)

Non-realization of WWF – Rs. 346.574 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21776 IT	LTO Lahore	1	1,597,736	1	D.G. Khan Cement Company Ltd
2		LTO Islamabad	1	2,925,991	1	Askari Cement Limited
3		LTO Lahore	26	23,184,813	1	Maple Leaf Cement Factory Limited
4		LTO Lahore	49	3,341,387	1	Ashraf Sugar Mills Limited
5		LTO Lahore	89	30,108,423	1	Etihad Sugar Mills Limited
6		LTO Lahore	123	1,849,944	1	Jauharabad Sugar Mills Limited
7		LTO Lahore	136	44,439,904	1	Gharibwal Cement Limited
8		LTO Lahore	148	403,282	1	Shahtaj Sugar Mills Limited
9		LTO Lahore	182	4,412,716	1	Popular Sugar Mills Limited
10		LTO Lahore	190	1,458,605	1	Noon Sugar Mills Limited
11		LTO Lahore	205	1,295,532	1	Flying Cement Company Limited
12		LTO Islamabad	11	231,555,842	1	Best Way Cement Limited
			Total	**346,574,175**	**12**	

Annexure-9
(Para-4.2.1)

Non-realization/deduction of withholding tax on royalty – Rs. 305.935 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21777 IT	LTO Lahore	6	169,981,650	1	D.G. Khan Cement Company Ltd
2		LTO Lahore	18	76,632,118	1	Kohat Cement Company Limited
3		LTO Lahore	139	47,374,050	1	Gharibwal Cement Limited
4		LTO Lahore	206	11,947,613	1	Flying Cement Company Limited
	Total			**305,935,431**	**4**	

Annexure-10
(Para-4.2.1)

Lack of monitoring of withholding agents resulting in non/short-collection of advance tax –Rs.250.529 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21778/IT	LTO Lahore	7	15,543,655	1	D.G. Khan Cement Company Ltd
2		LTO Lahore	19	4,309,955	1	Kohat Cement Company Limited
3		LTO Lahore	32	11,538,605	1	Maple Leaf Cement Factory Limited
4		LTO Lahore	39	14,662,915	1	Pioneer Cement Limited
5		LTO Lahore	57	9,736,206	1	Chaudhary Sugar Mills Limited
6		LTO Lahore	61	1,776,145	1	Abdullah Sugar Mills Limited
7		LTO Lahore	63	7,173,020	1	Al-Arabia Sugar Mills Limited
8		LTO Lahore	66	15,458,739	1	Ashraf Sugar Mills Limited
9		LTO Lahore	69	18,555,360	1	Al-Arabia Sugar Mills Limited
10		LTO Lahore	73	3,060,047	1	Tariq Corporation Limited
11		LTO Lahore	83	22,137,936	1	Ramzan

						Sugar Mills
12		LTO Lahore	93	7,422,130	1	Etihad Sugar Mills Limited
13		LTO Lahore	146	41,812,935	1	Tandlianwala Sugar Mills Limited
14		LTO Lahore	98	1,268,059	1	Kashmir Sugar Mills Limited
15		LTO Lahore	175	52,699,292	1	Hunza Sugar Mills (Private) Limited
16		LTO Lahore	184	9,107,060	1	Popular Sugar Mills Limited
17		LTO Lahore	192	3,943,875	1	Noon Sugar Mills Limited
18		LTO Lahore	207	7,279,897	1	Flying Cement Company Limited
19		LTO Lahore	222	3,043,050	1	Chanar Sugar Mills Limited
			Total	**250,528,881**	**19**	

Annexure-11
(Para-4.2.1)

Excess claim of withholding tax credit in return resulting in short-realization of income tax – Rs. 163.350 million

(Rs. in million)

Sr. No	DP No	Tax Office	Taxpayer name	Withholding tax deduction claimed in return	Withholding tax deduction verified from ITMS Re-CAP System of FBR	Excess claim of withholding tax
1	21780/ IT	LTO Lahore	Abdullah Sugar Mills	3.89	0.04	3.85
2		LTO Lahore	Haq Bahu Sugar Mills	10.04	9.42	0.62
3		LTO Lahore	Macca Sugar Mills	1.59	0.54	1.05
4		LTO Lahore	Hunza Sugar Mills	76.64	75.27	1.37
5		LTO Lahore	Ramzan Sugar Mills	61.27	45.33	15.94
6		LTO Lahore	Rasool Nawaz Sugar ills	80.83	67.52	13.31
7		LTO Lahore	Shahtaj Sugar Mills	17.49	2.16	15.33
8		LTO Lahore	Etihad Sugar Mills	85.22	17.76	67.46
9		LTO Lahore	Chaudhary Sugar Mills	24.15	10.07	14.08
10		LTO Lahore	Noon Sugar Mills	50.63	48.77	1.86
11		LTO Lahore	Chanar Sugar Mills	8.80	6.13	2.67
12		LTO Lahore	Thal Industries Corporation	34.32	8.51	25.81
			Total	**454.87**	**291.52**	**163.35**

Annexure-12
(Para-4.2.1)

Non-realization of sales tax Rs. 136.548 million further tax Rs. 12.089 million aggregating Rs. 148.637 million on sale of scarp and fixed assets

(Amount in Rs)

Sr. No	DP No	Office	AO No	Sales Tax	Further tax	Total recoverable	Cases	Name Of Taxpayer
1	21781/ST	LTO Islamabad	3	17,442,950	-	17,442,950	1	Askari Cement Limited
2		LTO Islamabad	5	19,616,170	-	19,616,170	1	Fauji Cement Company
3		LTO Islamabad	7	16,371,160	-	16,371,160	1	Best Way Cement Ltd
4		LTO Lahore	24	32,145,963	5,672,817	37,818,780	1	Kohat Cement Company
5		LTO Lahore	30	12,014,302	2,120,171	14,134,473	1	Maple Leaf Cement Ltd
6		LTO Lahore	59	803,992	-	803,992	1	Chaudhary Sugar Mills
7		LTO Lahore	67	3,570,000	-	3,570,000	1	Fatima Sugar Mills Ltd
8		LTO Lahore	82	36,492	-	36,492	1	Ramzan Sugar Mills
9		LTO Lahore	167	2,287,010	-	2,287,010	1	Shakarganj Limited
10		LTO Lahore	172	5,840,247	-	5,840,247	1	JDW Sugar Mills Ltd
11		LTO Lahore	225	2,074,000	-	2,074,000	1	Chanar Sugar Mills Ltd
12		LTO Lahore	152	228,990	40,410	269,400	1	Shahtaj Sugar Mills Ltd
13		LTO Lahore	197	372,300	65,700	438,000	1	Noon Sugar Mills Ltd
14		LTO Lahore	212	23,744,247	4,190,161	27,934,408	1	Flying Cement Company
	Total			**136,547,823**	**12,089,259**	**148,637,082**	**14**	

Annexure-13
(Para-4.2.1)

Undervaluation of sugar resulting in short-realization of sales tax- Rs. 80.061 million

Period	DP No	Sales value in annex-J (Rs)	Quantity supplied (M Tons)	Rate applied /kg(Rs)	Rate fixed by FBR (Rs) /kg since 16.08.2021	Rate /kg Short applied (Rs)	Value suppressed (Rs)	Sales tax (Rs)
	1	**2**	**3**	**4(2/3/1000)**	**5**	**6(5-4)**	**7(6*1000*3)**	**8(7*17%)**
Seven Star Sugar Mills (Private)Limited bearing NTN-3004943								
21-Dec	21782/ ST	96,459,619	7,635.20	12.63	72.22	59.59	454,981,568	77,342,269
22-Apr		216,151,574	3,070.90	70.39	72.22	1.83	5,619,747	956,900
22-May		113,271,023	1,577.50	71.80	72.22	0.42	662,550	111,525
22-Jun		98,816,262.00	1,410.10	70.08	72.22	2.14	3,017,614	513,597
Chanar Sugar Mills Limited bearing NTN-0225970							0	0
21-DEC	21782/ ST	643,793,765	9,006.00	71.48	72.22	0.74	6,664,440	1,125,324
						TOTAL	**470,945,919**	**80,060,806**

Annexure-14
(Para-4.2.1)

Non short- realization/ deduction of withholding tax on commission– Rs. 60.500 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21783/IT	LTO Lahore	10	8,405,027	1	D.G. Khan Cement Company Ltd
2		LTO Lahore	21	42,904,626	1	Kohat Cement Company Limited
3		LTO Lahore	102	737,130	1	Kashmir Sugar Mills Limited
4		LTO Lahore	141	8,138,760	1	Gharibwal Cement Limited
5		LTO Lahore	198	314,994	1	Noon Sugar Mills Limited
			Total	**60,500,537**	**5**	

Annexure-15
(Para-4.2.1)

Non-realization/ deduction of withholding tax on dividend– Rs. 48.838 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21784/IT	LTO Lahore	3	34,904,250	1	D.G. Khan Cement Company Limited
2		LTO Islamabad	4	235,800	1	Fauji Cement Company Limited
3		LTO Lahore	17	272,519	1	Kohat Cement Company Limited
4		LTO Lahore	28	4,979,750	1	Maple Leaf Cement Factory Ltd
5		LTO Lahore	38	1,142,000	1	Pioneer Cement Limited
6		LTO Lahore	200	7,303,800	1	Noon Sugar Mills Limited
			Total	**48,838,119**	**6**	

Annexure-16
(Para-4.2.1)

Loss of revenue due to non-taxation of income from other sources-
Rs. 31.208 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name Of Taxpayer
1	21785/IT	LTO Lahore	4	4,471,966	1	D.G. Khan Cement Company Ltd
2		LTO Islamabad	8	4,969,170	1	Askari Cement Limited
3		RTO Peshawar	16	6,141,910	1	Chashma sugar mill pvt. Ltd
4		LTO Lahore	54	916,427	1	Ashraf Sugar Mills Limited
5		LTO Lahore	138	14,708,510	1	Gharibwal Cement Limited
	Total			**31,207,983**	**5**	

Annexure-17
(Para-4.2.1)

Non-realization of further tax on scrap sale – Rs. 11.450 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21786 ST	LTO Lahore	23	297,096	1	Kohat Cement Company Limited
2		LTO Lahore	25	10,864,165	1	D.G. Khan Cement Company Ltd
3		LTO Lahore	29	201,450	1	Maple Leaf Cement Factory Limited
4		LTO Lahore	143	87,831	1	Gharibwal Cement Limited
			Total	**11,450,542**	**4**	

Annexure-18
(Para-4.2.1)

Loss of revenue due to incorrect claim of initial allowance – Rs. 11.215 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1	21787 – IT	LTO Lahore	5	4,515,545	1	D.G. Khan Cement Company Limited
2		LTO Islamabad	10	852,570	1	Best Way Cement Limited
3		RTO Peshawar	15	468,712	1	Chashma sugar mill pvt. Ltd
4		LTO Lahore	22	4,038,299	1	Kohat Cement Company Limited
5		LTO Lahore	31	201,282	1	Maple Leaf Cement Factory Limited
		LTO Lahore	79	25,455	1	Tariq Corporation Limited
7		LTO Lahore	101	117,415	1	Kashmir Sugar Mills Limited
8		LTO Lahore	150	151,905	1	Shahtaj Sugar Mills Limited
9		LTO Lahore	169	749,560	1	Jdw Sugar Mills Limited
10		LTO Lahore	196	94,326	1	Noon Sugar Mills Limited
			Total	**11,215,069**	**10**	

Annexure-19
(Para-4.2.1)

Non-recovery of arrears of tax Rs. 3,782.872 million

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name of Taxpayer
1		LTO Lahore	47/ST	123,561,465	1	Abdullah Sugar Mills Limited
2		LTO Lahore	53/ST	169,309,426	1	Ashraf Sugar Mills Limited
3		LTO Lahore	75/ST	183,809,141	1	Tariq Corporation Limited
4		LTO Lahore	133/ST	6,260,327	1	Tandlianwala Sugar Mills Ltd
5		LTO Lahore	171/ST	358,115,490	1	JDW Sugar Mills Limited
6		LTO Lahore	178/ST	390,202,670	1	Hunza Sugar Mills (Private) Ltd
7		LTO Lahore	187/ST	40,597,266	1	Popular Sugar Mills Limited
8		LTO Lahore	194/ST	80,492,000	1	Noon Sugar Mills Limited
9	21766 ST/FED	LTO Lahore	34/ST	139,585,738	1	Maple Leaf Cement Factory Ltd
10		LTO Lahore	41/ST	795,669,120	1	Pioneer Cement Limited
11		LTO Lahore	159/ST	163,295	1	Dandot Cement Company Ltd
12		LTO Lahore	9/IT	11,293,000	1	D.G. Khan Cement Company Ltd
13		LTO Lahore	20/IT	13,690,463	1	Kohat Cement Company Ltd
14		LTO Lahore	33/IT	270,331,000	1	Maple Leaf Cement Factory Ltd
15		LTO Lahore	40/IT	153,007,000	1	Pioneer Cement Limited
16		LTO Lahore	52/IT	4,662,195	1	Ashraf Sugar Mills Limited
17		LTO Lahore	74/IT	353,608	1	Tariq Corporation Limited
18		LTO Lahore	94/IT	362,192	1	Etihad Sugar Mills Limited

19		LTO Lahore	99/IT	5,082,344	1	Kashmir Sugar Mills Limited
20	21770 IT	LTO Lahore	109/IT	1,456,285	1	Seven Star Sugar Mills Pvt Ltd
21		LTO Lahore	127/IT	118,024	1	Jauharabad Sugar Mills Limited
22		LTO Lahore	132/IT	68,606,613	1	Tandlianwala Sugar Mills Ltd
23		LTO Lahore	140/IT	489,298,000	1	Gharibwal Cement Limited
24		RTO Peshawar	149/IT	440,000	1	Shahtaj Sugar Mills Limited
25		LTO Lahore	158/IT	2,183,618	1	Dandot Cement Company Ltd
26		LTO Lahore	170/IT	44,380,178	1	JDW Sugar Mills Limited
27		LTO Lahore	176/IT	2,999,205	1	Hunza Sugar Mills Pvt Ltd
28		LTO Lahore	185/IT	2,737,209	1	Popular Sugar Mills Limited
29		LTO Lahore	193/IT	554,000	1	Noon Sugar Mills Limited
30		LTO Lahore	209/IT	379,942,770	1	Flying Cement Company Ltd
31		LTO Lahore	223/IT	21,306	1	Chanar Sugar Mills Limited
32		LTO Lahore	45/IT	43,587,077	1	Abdullah Sugar Mills Limited
			Total	**3,782,872,025**	**32**	

Annexure-20
(Para-4.2.1)

Irregular supply of goods under DTRE resulting in potential loss of sales tax

Sr. No	DP No	Office	AO No	Amount in Rs.	Cases	Name Of Taxpayer
1	21779 /ST	LTO Lahore	88	26,871,403	1	Macca Sugar Mills (Pvt) Limited
2		LTO Lahore	106	62,475,009	1	Kashmir Sugar Mills Limited
3		LTO Lahore	229	80,175,246	1	Chanar Sugar Mills Limited
	Total			**169,521,658**	**3**	