

## **FBR to employ risk-based audit selection mechanism**

The Federal Board of Revenue (FBR) is likely to select taxpayers for audit (Tax Year 2018) on the basis of risk-based audit selection mechanism, categorizing taxpayers into Red, Yellow and Green Zones where highly mismatched declarations (Red Zone) would be picked up for audit.

The sources told *Business Recorder* that the audit policy for 2018 was discussed during a past meeting of the Tax Reform Implementation Committee (TRIC) held at the FBR Headquarters. Under the proposed audit strategy, selection of taxpayers for audit shall be made on the basis of risk-based audit selection mechanism. Taxpayers would be divided into three categories, ie, Red Zone, Yellow Zone and Green Zone. Taxpayers having highly mismatched declarations would fall in the Red Zone and would be termed risky and would be audited. Taxpayers showing minor mismatch in their declarations would fall in the Yellow Zone and would be subjected to desk-audit. Compliant taxpayers falling in the category of Green Zone would not be audited.

The Member Taxpayer Audit (TPA) FBR reiterated the need for risk-based audit selection process in line with the international best practices and emphasized that 'random balloting' is history.

An official of FBR said that currently there is lacking in taxpayers' profiling, while in the new system, the returns filed by taxpayers will be centralized in the Risk Grid and data matching principle will be utilized to validate the declarations made in the returns and make profiling of the taxpayers according to their risk scores. Taxpayers would be categorized in three Red, Yellow and Green Zones. Taxpayers with highly mismatched declarations would fall in the red zones. Those falling in the red zone would be risky ones to be audited invariably. Taxpayers with minor mismatch in their declarations would fall in the yellow zones to be desk-audited and decisions to be taken, on the basis of findings of desk audit, on case to case basis. The compliant taxpayers would be categorized in Green Zone, where there would be no need to conduct their audit. He informed the committee that the FBR currently sends national tax numbers (NTNs) of the taxpayers selected for audit but after the initiation of risk-based audit framework, the FBR will send complete profile of the taxpayers to the field formations for audit.

The FBR chairman pointed out that there are taxpayers who make declarations without disclosing their identity such as deposit of taxes declaring 0000000 as their NTN and 1234567890123 as their computerized national identity cards (CNIC). These taxpayers would stay out of the data-matching principle and hence can't be profiled for selection; therefore, the selection process may have a mechanism to take them into account for risk profiling for audit selection. The member (TPA) FBR said that there is a need to have more risk-based parameters in addition to data-matching principle to account for such taxpayers. The member (Inland Revenue Operations) suggested that taxpayers in the Green Zone may go to the Red Zone, when errors or mismatching in their declarations are found and subsequently to the Red Zone if so qualifies.

It was decided that selection of taxpayers for audit shall be made on the basis of risk-based audit selection mechanism. Secondly, Green and Red Zones would be developed for tax year 2018 and

taxpayers falling in the Green Zone shall not be audited being compliant taxpayers.

It was also decided that the prime minister shall be briefed about the risk-based audit selection mechanism and zoning of the taxpayers according to the level of mismatched declarations, during a presentation to the prime minister.

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