CHAPTER 3

ETHICS IN TAXATION

Ethics for **legislators, tax administrators, tax practitioners and taxpayers**, the difference between **avoidance and evasion**, and the ICAP Code of Ethics as it applies to **tax services**. Mostly lists — and scenarios on threats and safeguards.

CHAPTER ROADMAP

1	Meaning of ethics	ethos · mores
2	Tax legislators	public trust
3	Tax administrators	4 pillars
4	Tax practitioners	5 principles
5	Taxpayers	avoidance · evasion
6	ICAP Code – tax services	threats · safeguards

DEFINITION

Ethics comes from the Greek **ethos** (character); the Latin **mores** (customs) is the root of morality. For Aristotle, ethical action must contribute to the **common good**; virtues include **temperance, courage and justice**.

1 LEGISLATORS AND TAX ADMINISTRATORS

public trust and powers

TAX LEGISLATORS

Legislative office is a **public trust**. The Constitution requires a **code of ethics**: no conflict between public duty and private interest, disclosure of prohibited conduct and financial interests, **post-service restrictions** — and a code for all officials.

TAX ADMINISTRATORS · POWERS

The administration does **not make tax policy**; it applies the system. The FBR can **assess** (incl. best judgment), **collect**, **seize property**, **attach bank accounts** and start legal proceedings. Misuse can mean loss of property, income or even **imprisonment** — ethics keeps these powers within goodness and morality.

2 FOUR PILLARS OF TAX ADMINISTRATION

safeguard taxpayers

FAIRNESS

Impartial, neutral and **consistent**, without regard to race or social / economic status.

TRANSPARENCY

Proceedings must be transparent **and be seen to be** transparent.

EQUITY

Not the most revenue, but **how** it is raised — not squeezing the salaried class after failing to tax businesses.

ACCOUNTABILITY

Strong system for wrongdoers to curb **corruption, nepotism and maladministration**.

3 ETHICAL ISSUES AND USE OF DISCRETION

eight issues · seven principles

ETHICAL ISSUES

Acceptance of **gifts** · **conflict of interest** · selective or inconsistent application of law · **political influence** · confidentiality / secrecy · discretion · **corruption** · lack of autonomy.

SEVEN PRINCIPLES FOR STRUCTURING DISCRETION

Open **plans** · open **policy statements** · open **rules** · open **findings** · open **reasons** · open **precedents** · fair **informal procedure**.

EXAMPLE

Example: a taxpayer exporter has a Rs. 5 million assessed liability but needs his bank balance to fulfil export orders. Ethics supports considering **payment in instalments** (where the law allows) instead of attaching his account. Audit selection must likewise be on **objective, rational grounds**, not arbitrary.

4 RESPONSIBILITIES OF TAX ADMINISTRATORS

ten-point code

1 OBEY THE LAW
Obey tax laws; grant **no exemption, credit or advantage** not provided by law.

2 HONESTY AND INTEGRITY
Highest ideals, to keep the respect of government and taxpayers.

3 IMPARTIAL
Fair, neutral and consistent regardless of race, social status or economic circumstances.

4 SERVICE
Prompt, efficient, quality service to all stakeholders.

5 NO PARTISAN POLITICS
Refrain from actively participating in **partisan political activities**.

6 RECORDS & CONFIDENTIALITY
Record proceedings accurately; keep taxpayer information in the strictest confidence.

7 NO GIFTS
Refrain from soliciting gifts for actions or non-actions.

8 LOWEST COST
Collect the proper tax at the lowest cost to the state, with confidence in integrity and fairness.

9 REFUNDS
Respond to valid refund claims with the same diligence as collection.

10 EDUCATE
Educate taxpayers on rights and responsibilities to raise voluntary compliance.

5 TAX PRACTITIONERS · FIVE FUNDAMENTAL PRINCIPLES

Code of Ethics

INTEGRITY
Straightforward and **honest**; fair dealing and truthfulness.

OBJECTIVITY
No **bias, conflict of interest or undue influence** overriding judgment.

COMPETENCE & DUE CARE
Maintain knowledge of current legislation and techniques; act diligently.

CONFIDENTIALITY
No disclosure without authority or a legal / professional duty; **no personal advantage**.

PROFESSIONAL BEHAVIOUR
Comply with laws; avoid action that **discredits the profession**; courtesy.

6 TAXPAYERS · ETHICAL COMPLIANCE

eight duties

1 ACCURATE INFORMATION
Complete, truthful returns and declarations.

2 PROPER RECORDS
Keep documents supporting income, expenses and claims.

3 PAY ON TIME
File returns and pay within the deadlines.

4 AVOID DISHONESTY
Do not hide income or manipulate facts; avoid deliberate concealment.

5 DEAL HONESTLY
Respond honestly, respectfully and cooperatively to the authorities.

6 SPIRIT OF THE LAW
Arrangements need **genuine business or personal reasons**, not just improper tax benefits.

7 SOCIAL RESPONSIBILITY
Taxes fund public services, infrastructure, education, healthcare.

8 FAIRNESS
Ethical compliance builds trust and voluntary compliance.

7 TAX AVOIDANCE VS TAX EVASION

legal vs illegal

	Tax avoidance	Tax evasion
Nature	**Within the law** (letter of the law), though it may defeat the spirit; full disclosure	**Illegal** means: fraud, concealment, misrepresentation
How	Legal tax planning; uses gaps or loopholes	Deliberately misrepresents or conceals; understates income, overstates deductions
Timing	Generally **before** the liability arises	Generally **after** the liability has arisen
Consequence	Lawful	Penalties, prosecution, legal consequences
Example	Donation to an FBR-recognised charity to claim a **tax credit**; incorporating; a low-tax jurisdiction where permitted	Filing a false return concealing income or claiming **fictitious deductions**

MR A · TURNOVER RS. 10M

Kept the proceeds as cash in a locker and paid expenses from them → **tax evasion**.

MR B · INCOME RS. 10M

Declared only Rs. 6m (what bank records show), hid Rs. 4m → **tax evasion**.

MR C · INCOME RS. 10M

Claimed Rs. 7m genuine, allowable, documented expenses and offered Rs. 3m → **lawful planning**.

8 ICAP CODE OF ETHICS · TAX SERVICES

revised 2024 · based on IESBA 2023

TAX SERVICES TO AN AUDIT CLIENT

May create a **self-review or advocacy** threat. Some services are prohibited where safeguards cannot work.

TAX RETURN PREPARATION

Usually no threat: compiling information, advising on past transactions, answering tax authority queries — based on historical information, subject to the authority's review.

TAX CALCULATIONS FOR ACCOUNTING ENTRIES

Current and deferred tax calculations that the firm later audits create a **self-review threat**; materiality to the financial statements matters.

NOT A PUBLIC INTEREST ENTITY

Safeguards: use professionals who are **not audit team members**; an **independent reviewer**; advice from an **external tax professional**.

PUBLIC INTEREST ENTITY

The firm **shall not** prepare tax calculations (current / deferred) for accounting entries that are **material** to the financial statements.

EMERGENCY EXCEPTION

Only if impractical for the client to arrange otherwise: providers **not on the audit team**, **short period**, not expected to recur, discussed with **those charged with governance**.

FACTORS Factors that raise or lower the threat: the **characteristics of the engagement**, the client's tax expertise, how tax authorities assess the tax and the firm's role, and the **complexity and judgment** in the tax regime.

9 THREATS AT A GLANCE

as they appear in tax services

SELF-REVIEW

The firm reviews or audits **its own work** — e.g. auditing tax entries the firm calculated.

ADVOCACY

The firm **promotes the client's position** so that objectivity is compromised.

INTIMIDATION

A professional is **deterred from acting objectively** by actual or perceived pressure, e.g. from a senior.

10 WORKED SCENARIO · AUDIT CLIENT TAX CALCULATIONS

two situations

SITUATION 1 · NOT A PIE

The firm is asked to prepare current and deferred tax workings that it will review at audit. **Self-review threat**; significance depends on complexity, client expertise and materiality. **Safeguards:** non-audit-team professionals; a non-team partner or senior reviews; external tax adviser.

SITUATION 2 · A PIE

Same request, but the client is a **public interest entity**. The firm **shall not** prepare material calculations for accounting entries — except in **emergency or unusual situations** (only the firm has the knowledge; refusal would cause significant difficulty). Then: non-team providers, short period, discuss with governance.

11 WORKED SCENARIO · MANAGER AND PARTNER

intimidation threat

THE FACTS

Mr. XYZ prepares a company's tax return and finds **expenses without supporting documents**. Partner ABC says it is not an audit, so it is not their responsibility to raise it.

BREACH BY THE PARTNER

Professional behaviour — ignoring the adjustments could discredit the profession. **Integrity** — knowingly ignoring required adjustments may make the return materially false.

THREAT AND RESPONSE

XYZ faces an **intimidation threat** (his job is at risk). Safeguards: discuss with ABC; raise with a senior partner / those charged with governance; **refuse** if it breaches law; legal advice; **withdraw or resign** if unresolved.

12 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Policy vs administration
The administration applies the system; it **does not make tax policy**.

2 Four pillars
Fairness, transparency, equity, accountability.

3 Five principles
Integrity, objectivity, competence and due care, confidentiality, professional behaviour.

4 Lawful vs unlawful
Avoidance is lawful with full disclosure; evasion = concealment, understated income, overstated deductions.

5 Timing
Avoidance: **before** the liability arises. Evasion: usually **after**.

6 PIE rule
Firm **shall not** prepare material tax calculations for a PIE audit client (limited emergency exception).

7 Non-PIE safeguards
Non-audit-team staff, an independent reviewer, external tax advice.

8 Return vs calculations
Return preparation: **usually no threat**. Calculations for accounting entries: **self-review threat**.

CLASSIFY IT · WHICH PRINCIPLE?

1	Honest and straightforward in all relationships	INTEGRITY
2	Bias or undue influence overrides judgment	OBJECTIVITY
3	Keeps knowledge current with legislation	COMPETENCE
4	Does not disclose client information without authority	CONFIDENTIALITY
5	Avoids action that discredits the profession	PROFESSIONAL BEHAVIOUR
6	Impartial and consistent in applying the law	FAIRNESS
7	Strong system to curb corruption and nepotism	ACCOUNTABILITY
8	Proceedings seen to be transparent	TRANSPARENCY

CLASSIFY IT · AVOIDANCE OR EVASION?

1	Claiming legitimate, documented deductions	AVOIDANCE
2	Donation to a recognised charity for a tax credit	AVOIDANCE
3	Hiding turnover as cash in a locker	EVASION
4	Declaring Rs. 6m of Rs. 10m income	EVASION
5	Claiming fictitious deductions	EVASION
6	Incorporating with full disclosure	AVOIDANCE
7	Overstating deductions	EVASION
8	Genuine, allowable, documented expenses	AVOIDANCE

LISTS TO KNOW

Pillars	Practitioner	Threat	PIE	Non-PIE
Fairness · Transparency · Equity · Accountability	Integrity · Objectivity · Competence · Confidentiality · Behaviour	Self-review · Advocacy · Intimidation	Material tax calculations: not allowed	Non-team staff · reviewer · external

REVISION MAP



Pillars
Four, for administrators.

Principles
Five, for practitioners.

Avoidance
Lawful planning.

PIE
No material tax calculations.