

## Federal Board of Revenue Act, 2007



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There was lack of trust between the taxpayer and the tax collector in the past. As a result, proper tax culture could not be developed in Pakistan and tax collection appeared difficult, unfriendly and unpleasant task.

In order to build confidence of the public on tax department, Government of Pakistan embarked upon an ambitious programme to completely reform the tax collection machinery of the Government and overhaul it, instill in the officials proper motivation, and to provide relief to the taxpayer in a manner that he meets his obligation and voluntarily fulfils his tax commitments.

The Government of Pakistan has undertaken a comprehensive programme of reforms under the Tax Administration Project. The OICCI one of the important taxpayers organization in its recent survey has observed that “the CBR has further improved its performance this year. This is a result of timely reforms, consistency in policies and professional management of the regulatory”. The Tax Reform Admn Project at the Board is a success

story being studied by various tax regimes in the developing countries.

Some technical and Legal difficulties were being faced in implementing Tax Administration Reform Project and also keeping in view global advancement in taxation laws' and in order to achieve the reform objectives, *inter alia*, relating to adequate autonomy in administrative and financial matters, it became necessary to enact a comprehensive statute to replace the CBR Act, 1924. The Cabinet accordingly approved tabling of the Federal Board of Revenue Bill, in this regard. The Senate Finance Committee discussed the bill and suggested amendments which were subsequently carried out by the National Assembly. Before tabling the Bill the stakeholders were consulted; the drafts appeared in the newspapers; comments were received from the line members and field formations and trade bodies etc. The Establishment, Finance and Law Justice and HR Division were consulted. The Board also sought assistance of Ahmer Bilal Sufi & Co. lawyers in this regard. Accordingly the Federal Board of Revenue Act 2007 was enacted by the Parliament.

## **2. Comparison of CBR Act, 1924 with FBR Act, 2007**

A Comparative analysis of both laws, that is the CBR Act, 1924, and FBR Act, 2007 show that the new law has enhanced the scope of the Board related activities and functions empowering it to better achieve

reform objectives such as developing taxpayer friendly culture, creating investment and business friendly environment and increasing efficiency of work force etc.

The preamble of CBR Act 1924 provided only for the constitution of the Central Board of Revenue and to amend certain enactments for the purpose of conferring powers and imposing duties on the said Board.

The Preamble of FBR Act 2007 has, on the other hand, a very wide scope including enhancing the capacity of the tax system to collect due taxes through application of modern techniques, providing assistance to taxpayers and creating a motivated, satisfied, dedicated and competent professional workforce that is required to perform at an enhanced efficiency level. Its objective and mission is to be a modern, progressive, effective autonomous and credible organization providing quality services and promoting compliance with tax related laws, while being mindful of upholding values such as integrity, professionalism teamwork, courtesy, fairness, transparency and responsiveness. The Preamble also includes the role of FBR to regulate the matters relating to the fiscal and economic policies; administration management; imposition, levy and collection of duties and taxes.

The FBR Preamble further states that it is necessary to re-organize the Board of Revenue to enhance the scope of activities and operations and to have appropriate autonomy and resulting in reconstituting CBR as the FBR

while retaining its status of the Attached Department of the Federal Government

**3. Enactment of new law was a vital part of Reform Process:**

Section 24 of FBR Act 2007 replaces section 3 of CBR Act of 1924. The enactment of new law was a part of the Reform process and has also been appreciated in the World Bank *Aide - memoire* as one of the milestones achieved by the Board. A number of Notifications/SROs have so far been issued in the official Gazette by invoking the relevant enabling provisions of the FBR Act and are discussed as follows:-

- (a) the Act itself came into force on the 1<sup>st</sup> Novemebr, 2007 through Notification No. SRO 1064(I)/2007;
- (b) The transition of the appointment of Members FBR from Members CBR took place under SRO 1066(I)/2007;
- (c) the Federal Board of Revenue Rules, as approved by the Government, came into being through SRO 1067(I)/2007;
- (d) the distribution of powers, functions and business of the Board by the Chairman amongst its members was realized through SRO 1071(I)/2007;
- (e) the Internal Job Posting regulations were issued vide SRO 61(I)/2007; and finally
- (f) the incentive to BPS-21 officers of FBR was granted under SRO 306(I)/2008.

The Uniform and Liveries Regulations under the Act have been finalized and got vetted by the Law and Justice Division which will also be published in the official Gazette in due course of time.

**4. Some functional Autonomy of the Federal Board of Revenue Act, 2007 is necessary in order to achieve the following objectives.-**

1. To create enabling legal environment and support for implementing tax reforms;
2. to independently determine its own policies and strategies in relation to recruitment and allowances;
3. to implement comprehensive policies and programs for the education and facilitation of taxpayers ,stakeholders and employees etc;
4. to adopt modern effective tax administration methods, information technology systems and policies in order to consolidate assessments; improve processes, organize registration of taxpayers, widen the tax base, and make departmental remedies more efficient including enforcing penalties and implementation of the provisions of this Act;

5. to improve the productivity through a comprehensive and effective human resource strategy; to identify and select efficient hardworking competent officers and employees of integrity and to appoint or transfer them internally to posts and jobs designated for specialized or demanding work to fulfil the purpose of this Act;
6. to direct investigation or coordinate inquiry into suspected tax evasion ,tax fraud, money laundering, financial crimes; in close liaison with the empowered agencies under any law for the time being in force;
7. to implement international obligations pursuant to treaty, resolution of any international commitment;
8. to combat, corruption, checks and processes ensuring the integrity of officials and employees of the Federal Board;
9. to introduce and maintain a system of accountability of performance, competence, conduct of the officials and employees of the Federal Board including capacity building ,incentive package ,and to tackle readjustment issues;
10. to implement the provisions of all the fiscal laws in force for the time being; succeeding enactments, amendments or any other tax, levies impositions, fees, surcharge etc;
11. to set up any subsidiary entity that may be required in order to

implement fully the process of reform;

12. to establish foundation for the employees welfare;
13. to engage any person or entity on contract basis to carry out a particular assignment;
14. to enter into any agreement, contract, understanding with any outside body, private entity, international organization or institution donor agency or any other entity, with the approval of the Federal Government;
15. to enter into any agreement with its counter-part entity in any other country;
16. to set up mechanisms and processes that facilitates the removal of grievances and complaints of the taxpayers;
17. to maintain database and require information in the prescribed manner;
18. to develop projects on public private partnership ;
19. to establish system for redressing the grievances of the taxpayer community and the employees; and
20. to carry out any other functions and acts as decided and determined by the Board.

**5. Composition of FBR;**

The Federal Board of Revenue presently comprises Chairman and eleven members, appointed by the Federal Government, as follows;

- i)** Three line members Member(Direct Taxes), Member (Sales Tax and Federal Excise), Member(Customs).
- ii)** Four functional members : Member Fiscal (Research and Statistics), Member (Human Resource Management), Member (Audit), Member (Administration).
- iii)** Support members such as Member (Legal), Member (Tax Policy and Reforms), Member (Information Management Systems)and Member (Facilitation and Tax Education)

The number of members has to be minimum of seven to be appointed by the Chairman in consultation with the Federal Government.

6. The FBR Act presently contains provision which allows the Federal Government to constitute Cabinet Committee on Finance and revenue (CCFR), but in a recent meeting of the Standing Committee on Finance and Revenue, it has been decided that a Policy Board shall be constituted by giving share to the public representatives and private sector in its composition

7. It is no simple matter to raise revenues in any third world country struggling to design and launch a plan for accelerated economic growth. Pakistan is today in the midst of an aggressive program of tax reform that



holds considerable promise . At the heart of the reform program is an unprecedented and inspired emphasis on the training of FBR personnel.

The World Bank in its Aide memoire appreciated that Pakistan's tax administration set up now looks better than the tax administration in other South Asian countries. It was observed that the government and CBR management are committed to the reform program and most of the reform activities are on track and many irreversible actions have been taken towards achievement of project development objectives including Promulgation of FBR Act 2007, Reduction in litigation particularly reduction in number of appeals and adjudication cases etc.

**8.** A lot of progress has been achieved in terms of reforming CBR on functional basis and the manifestation of the same is evident in the form of establishment of RTOs and co-location of the Sales tax and Income tax officials in the RTOs ,the ongoing ,awareness and facilitation campaigns .

There has been a marked surge in tax collections since FBR plans to eventually up the Tax to GDP to at least 16% by;

- training, re-training and rightsizing the workforce,
- changing workforce mindset,
- building workforce capacity and
- putting technology to work as a force multiplier.
- Creating business and investment friendly environment, by simplification of laws procedure, automation and reengineering of

processes, building confidence among the taxpayer to file correct statements and serve the country well.