FBR Quarterly Review

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A Review of Resource Mobilization Efforts of Federal Board of Revenue

FEDERAL BOARD OF REVENUE

Government of Pakistan

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Abbreviations

BPR	Business Process Reengineering
AoPs	Association of Persons
CD	Customs Duties
CFY	Current Fiscal Year
CoD	Collection on Demand
C STRO	Centralized Sales Tax Refund Office
DT	Direct Taxes
FBR	Federal Board of Revenue
FED	Federal Excise Duties
FY	Fiscal Year
GST	General Sales Tax
HSD	High Speed Diesal.
LTU	Large Tax Payers' Unit
MCC	Model Customs Collectorate
NTN	National Tax Number
PCT	Pakistan Customs Tariff
PFY	Previous Fiscal Year
H1:CFY	First Half Current Fiscal Year
H1:PFY	First Half Previous Fiscal Year
RTO	Regional Tax Office
ST(D)	Sales Tax Domestic
ST(M)	Sales Tax Import
STARR	Sales Tax Automated Refund Repository
TARP	Tax Administration Reform Project
USAS	Universal Self-Assessment Scheme
VP	Voluntary Payments
VAT	Value Added Tax
WHT	Withholding Taxes

Foreword

It gives me great pleasure to share the performance of FBR with the stakeholders in the shape of FBR Quarterly Review which is a regular publication. The current issue of the FBR Quarterly Review provides in-depth analysis of federal taxes during first half of the FY 2010-11. The discussion is comprehensive in the sense that it highlights the adverse impacts of various shocks to the economy during the past six months. The report also provides an overview of various segments of the economy.

There is no denying the fact that we are living in a challenging time. There is a lot going on in the region which has directly affected economic activity in the country. The ripples caused by global recession created a slow-down in Pakistan but we had started showing signs of recovery with a 4.1 per cent growth last year. However, in current fiscal year, the devastating floods have affected over 2 million rural homes and wrecked large swathes of infrastructure. As the efforts for rehabilitation of the flood-affectees continues, the challenges for FBR to generate revenue also needs to be re-assessed.

The need for creating targeted fiscal policies as well as finding venues to generate funds for sustaining the socio-economic development is of primary importance. FBR believes that times ahead are certainly challenging, and the FBR team is committed to face the challenges in close liaison with the Taxpayers, Trade Bodies and Chambers of Commerce. FBR is committed to establish a progressive, credible and trustworthy image and is dedicated to optimize revenue through providing quality facilitation services and expecting a tax-compliant culture.

We, at FBR, need to improve our skills in all fields of knowledge and services, i.e., taxation and facilitation to meet the assigned revenue targets. FBR is focused on broadening its tax base as well as removal of distortions in the tax system. It is an uphill task, but with our dedicated team we are committed to accomplishing it.

I appreciate the efforts made by the research team of Strategic Planning and Statistics Wing, FBR in bringing out this valuable publication and firmly believe that the multifaceted information, analysis, and its lucid presentation will be useful for a wide spectrum of readers including business community, policy planners, partners in development, and researchers.

Comments and suggestions from our valued readers will be highly appreciated for forthcoming publications of the FBR Quarterly Reviews.

Salman Siddique
Secretary Revenue Division/
Chairman, FBR

March, 2011

I

FBR Tax Collection:
An Analysis upto 2nd Quarter Revenue Outcome[1]

The Economy

Pakistan's economy is slowly but surely picking up, the real GDP is likely to grow by 2-3% by the end of current fiscal year. The economy is expected to perform better in the second half of the current fiscal year (2010-11). However, growth in agriculture sector is mainly dependent on better production of wheat and the livestock sector. Similarly, large-scale manufacturing growth was negative during first half of the year due to unfavorable weather which disrupted supply chain of refineries and major industries throughout the country. The construction related activities were slowed down due to cut on the development expenditure. However, it is expected that growth will turn positive again in the months ahead as positive trend in the major sectors like fertilizer, cement, sugar, beverages and steel is expected in the second half of the current fiscal year. On a positive note remittances have registered a positive growth of 17% during the period under review. Export has also been positive by 21%. These two major improvements have helped in narrowing the gap in current account deficit. Resultantly, the gross foreign exchange reserve as on 21st, January 2011 stood at $17.2 billion from all time low i.e. $6.4 billion in 2008.

However, domestic environment is still affected by the intensification of war on terror and volatile security situation while external environment is affected by uncertainties surrounding external inflows and oil prices. Notwithstanding substantial improvement in the current account deficit the external sector

[1] The Research Team of Strategic Planning and Statistics Wing of FBR have carried out the analysis.

vulnerabilities need a review, especially, in the backdrop of spike in international crude oil prices which bounced back to beyond $104 per barrel in February 2011. Despite support from the IMF and other bilateral and multilateral donors, recent trends in most macroeconomic variables suggest that the implementation of macroeconomic stabilization program has provided credibility to the economic policies.

On the tax revenue front, despite all economic odds, the resource mobilization efforts by FBR have been encouraging. The tax collection has started picking up and tax to GDP ratio is planned to increase to 9.4% in FY: 2010-11 from the lowest ratio of 9.1% in FY: 2009-10. Mid-to-long term planning is to increase the ratio to 13-15% in the next five years. To achieve the planned tax to GDP ratio, a comprehensive strategy has been evolved. A broad based Reformed General Sales Tax (RGST) is proposed to be introduced in the country to broaden the tax base. The measure is likely to raise additional revenue in the coming 2-3 years which will increase the tax to GDP ratio by 2-3%. Strengthening of Customs controls at import stage and international borders, checking of under invoicing, reactivation of audit functions and implementation of wide-ranging enforcement plan to identify and bring the non compliant taxpayers to tax net are the other important measures of the FBR strategy.

FBR Revenue Collection vis-à-vis Target

FBR revenue target for the FY: 2010-11 was fixed at Rs. 1,667 billion at the time of announcement of Federal Budget. The target was linked with the economy on the assumptions that growth in revenue collection will correspond with growth in the economy. It was anticipated that real GDP will grow by 4.5% during the year. Large scale manufacturing sector will improve by 4-5%. Thus, the tax bases both at import and domestic taxes were assumed to increase accordingly. Unfortunately, the economy of Pakistan had been jolted by a devastating flood in the country during the first quarter of the current fiscal year which virtually affected all sectors of the economy. The economic damage has been estimated about 10 percent of GDP (ADB & WB 2010). Resource mobilization is linked with the performance of macroeconomic indicators. Revenue increases when the economy grows. The devastating flood and energy crises badly affected the economic infrastructure. In fact the macro economic indicators that were assumed to perform better in the beginning of the year actually turned negative. Thus, the revenue target of Rs 1,667 billion fixed for CFY was revised downward to Rs 1,604 billion

Notwithstanding unfavorable macroeconomic situation in the country, FBR has been able to collect Rs. 661.7 billion as net revenue during July- December 2010-11 against a target of Rs.653.9 billion fixed for the same period. Last year during the same period, Rs.582.2 billion was collected. Thus, a growth of 13.7% has been registered. The target has been surpassed by 1.2%. (Table 1). This achievement has been made despite general economic slowdown, particularly, the slow growth in the manufacturing sector and less tax realization from major sectors like cement, beverages and cigarettes. Keeping in view the deteriorating economic conditions, this performance is, to a great extent, satisfactory.

Table 1: Net Collection Vis-à-Vis Targets for H1: 2010-11

(Rs. Billion)

Tax Heads	Revised Target	Collection H1:2010-11	Collection H1:2009-10	Growth in Collection (%)	Target Achieved (%)
Direct Taxes	242.7	240.9	211.4	13.9	99.3
Sales Tax	272.8	282.6	242.9	16.4	103.6
FED	60.7	58.1	56.7	2.6	95.7
Customs	77.7	80.0	71.2	12.3	103.0
Half Year	**653.9**	**661.6**	**582.2**	**13.7**	**101.2**

All the four taxes have performed well during the period under review. The collection under direct taxes has been Rs. 240.9 billion which is higher by 13.9% as compared to the corresponding period of last year. Factors like negative growth in the collection on demand due to audit issues and negative growth in the major components like contracts and electric bills are mainly responsible for missing the assigned target of Rs 242.7.

Similarly, an amount of Rs. 282.6 billion has been collected in the sales tax during July-December, 2010-11, indicating a growth of 16.4% over the collection of Rs. 242.9 billion in the comparable period of last year. The target of Rs. 272.8 billion has been surpassed by Rs 9.8 billion or 3.6%. Sales tax collection from imports has registered a healthy growth of 30% due to 23.4% increase recorded in the value of imports. However, modest growth of 5.2% has been yielded in sales tax collection from domestic side, which is mainly due to higher payments of refunds of Rs 22.6 billion during the period under review as against Rs 9.2 billion during the same period of last year.

As far as customs is concerned, an amount of Rs. 80 billion has been collected during the first six months of CFY, as against the target of Rs. 77.7 billion. The target has been surpassed by Rs.2.3 billion or 3%. The collection of customs duty has recorded a growth of 12.3% over the collection of Rs 71.2 billion in the corresponding period of last year. This achievement has been made mainly on account of 12.7% growth in the dutiable import during the period under review.

The collection under the head of FED has been Rs 58.1 billion during the first six months of the year 2010-11, against the target of Rs 60.7 billion fixed for the same period. The target has been missed by Rs.2.6 billion or 4.3%. The growth of 2.6% recorded over corresponding period of last year is also modest. Main reasons for slow growth and shortfall viz assigned target are decline in the collection from cement and beverages due to reduction in the production of these commodities respectively. Moreover, low growth in the collection from cigarettes has also been recorded due to drop in its production.

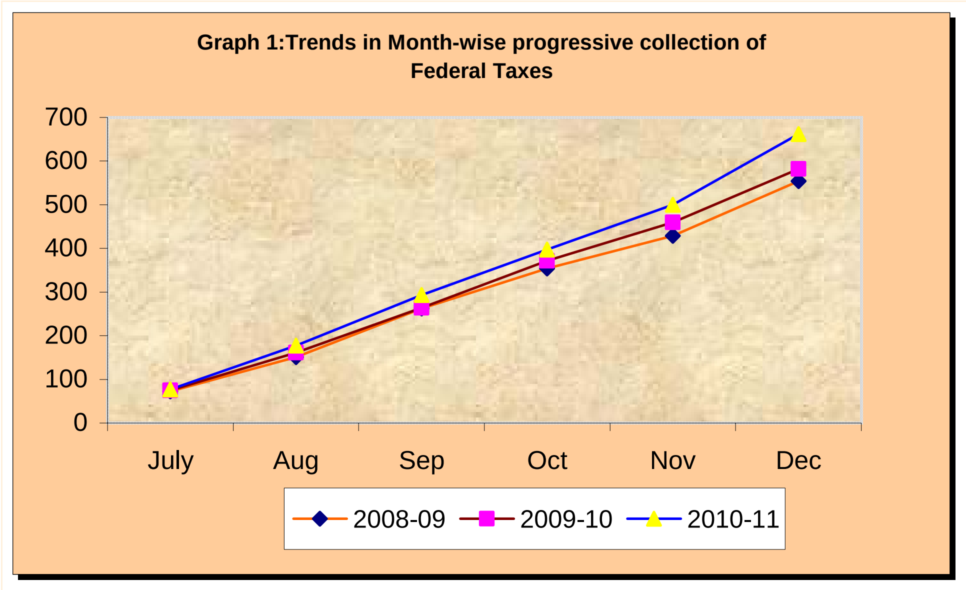
FBR is striving hard and making best efforts to achieve the annual revenue target of Rs 1,604 billion. However, there will be more pressure in the second half of current fiscal year to collect the remaining balance of Rs.950.1 billion which is over 59% of total revenue target. Month-wise details of collection have been depicted in Table 2.

Table 2: Month-wise Comparative Net Federal Revenue Collection

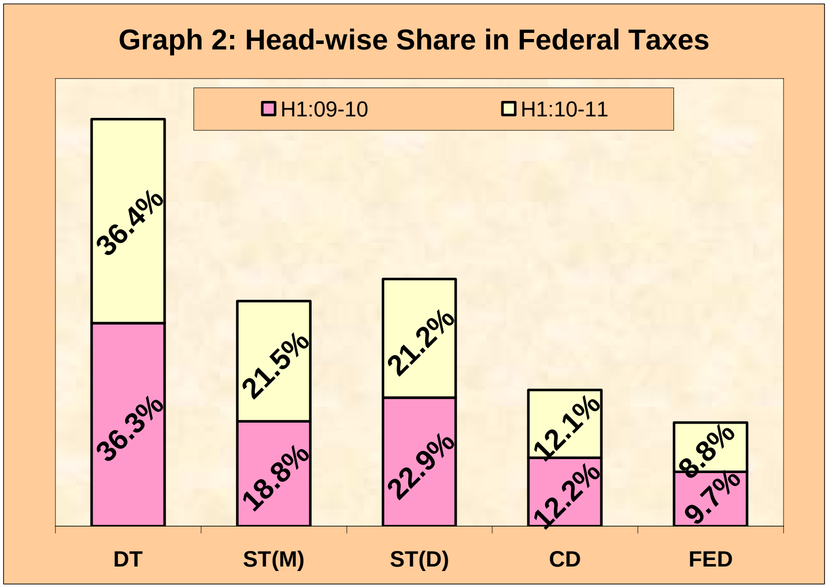
(Rs. Million)

Months	FY 10-11	FY 09-10	Difference	
			Absolute	Percentage
July	77,148	74,680	2,468	3.3
August	99,940	86,189	13,751	16.0
September	116,407	102,990	13,417	13.0
October	103,547	107,957	-4,410	-4.1
November	103,034	87,859	15,175	17.3
December	161,580	122,503	39,077	31.9
July-December	**661,656**	**582,178**	**79,478**	**13.7**

The monthly collection trend during first half of the year has been inconsistent. Starting with low growth in July, 2010, the collection grew by 16% and 13% in August and September, 2010 respectively. During October, the collection has dropped by 4.1%. Major reason was the change introduced in the timeline of advance payments. Last year advance tax was paid in October, whereas the same has been paid in September this year. However, the collection has improved significantly in November, 2010 and December, 2010. It is expected that high growth momentum in revenue realization is likely to develop in the second half of the year (Graph 1).



Graph 2 indicates that contribution of direct taxes during H1: 10-11 has marginally increased to 36.4% during CFY from 36.3% in PFY. On the contrary, the share of Sales tax on imports has increased to 21.5% from 18.8% during PFY. Major reason for rapid growth in collection is an increase in the value of imports during the period under review. The contribution of customs duty and federal excise has been 12% and 8.8% respectively.



Analysis of Refunds/Rebates

FBR has undertaken a revolutionary step by setting up a Centralized Sales Tax Refund Office (CSTRO) in the FBR headquarters during CFY with focused attention on timely issuance of processed refund claims. FBR is also focused on resolving pending sales tax refund claims. Pendancy has been reduced by 22% by December, 2010. This step will resolve the liquidity issues of the taxpayers and will ultimately accelerate the on-going economic activities in the country. This is evident from the information provided in Table 3. Approaching the issue in a holistic manner, it is clear that there has been 44.2% growth in the total refunds payments. The reason is that, refund arrears related to the stuck up amounts are now being cleared expeditiously. Similarly, to clear the large backlog, the sales tax pendancy is also being liquidated promptly but will take more effort to completely clear the deck. The refunds/rebates of customs have also increased substantially. However, the refund payments in case of direct taxes have come down by 3.8%.

Table 3: Comparative Position of Refunds/ Rebates Payments During H1: 10-11 - H1: 09-10

(Rs. Billion)

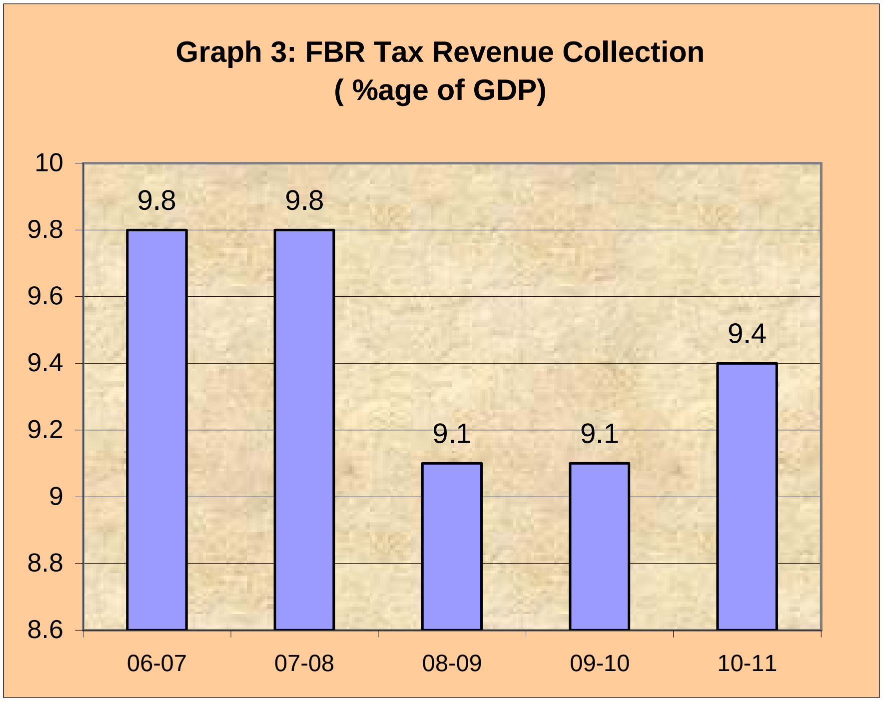
	Refunds/ Rebates		Difference	
	H1:10-11	**H1:09-10**	**Absolute**	**Growth (%)**
Direct Taxes	19.9	20.7	-0.8	-3.8
Sales Tax	22.6	9.2	13.4	145.8
Federal Excise	0.0	0.0	0.0	0.0
Customs	5.1	3.1	2.0	63.9
All Taxes	**47.6**	**33.0**	**14.6**	**44.2**

Tax/GDP Ratio

Like other developing countries, Pakistan is also confronted with low tax /GDP ratio scenario during the past few years. Tax to GDP ratio is one of the major indicators of a tax administration’s efficiency and overall state of economy in a country. Pakistan is amongst the countries having one of the lowest tax to GDP ratio in the world as well as the region. Although FBR’s revenue collection during the last 5 years has considerably increased in absolute terms, but the tax to GDP ratio has been on decline (Graph 3).

Main reasons for the low tax to GDP ratio have been identified as follows:

- The tax base is narrow
- Agriculture and large number of services are outside the tax net
- Low tax compliance
- Wide spread exemptions
- Large undocumented informal sector
- Weak Audit and Enforcement



FBR is striving hard to generate sufficient resources to increase the Tax to GDP ratio to a respectable level. FBR aims to increase tax to GDP ratio from existing 9.1% to 13-15% during the next five years. A number of additional Tax Policy and Administrative Reforms initiatives being undertaken in this regard which include;

- Phasing out duty/tax exemptions and concessions to help broadening the tax-base and making the system equitable for taxpayers;

- Conversion of GST into full VAT-mode and bringing such sectors as "services" and "retail trade" under the tax net. These measures are expected to broaden the tax base significantly.

- Integration of the management of domestic taxes together with strengthening of enforcement and audit functions has been helpful in increasing compliance of domestic taxes. Restructuring of FBR administration on functional-lines will further help in improving the efficiency of the tax machinery as well as taxpayers' facilitation.
- Prevention of revenue leakages through automation and re- engineering of existing business processes (BPR) is expected to bring new tax-culture in the country.

Detailed Analysis of Individual Taxes

Direct Taxes**:** The gross and net collection of direct taxes during H1:10-11 has been Rs. 260.8 billion and Rs. 240.9 billion indicating a growth of 12.4% and 13.9% respectively. The performance of direct taxes can be viewed in the context of changed scenario by re-shifting of payments of due advance tax from 15^{th} of the following month to end of the quarter. Thus, the due advance tax installment has been received by the end December this year, whereas last year advance tax due for December was paid in January. Similarly, the growth in revenue collection under direct taxes would have been higher by about Rs. 9-10 billion on account of demand creation. Had the audit function which is awarded to Chartered Accountants been completed by the end of December 2010, more revenue would have been collected on demand. However, in the given circumstances, direct taxes have exhibited better performance during the period. Since the economy is picking up and number of enforcement measures has also been undertaken. It can be argued that the collection of direct taxes will get momentum in the second half of the year.

Components of Income & Corporate Taxes

Collection on Demand (COD): Although COD has become a minor component over the years after the shift towards self assessment system. It will remain of paramount importance as it is the only component which reflects the departmental efforts to recover arrear payments and raise current demand by analyzing the documents (returns and annexes) filed by the taxpayers. The share of COD, in total income tax collection has declined from 13.2% during H1: 09-10 to 8.2% during H1: 10-11. Within the COD, the shares of current demand and arrear demand has been 58.7% and 41.3% during July-December, 2010-11 as against 53% and 47% respectively in the previous year. The collection from current demand reached

Rs. 12.3 billion in H1:10-11 against Rs. 15.7 billion in H1:09-10, whereas under the head of arrear demand Rs. 8.6 billion during H1:2010-11 against Rs.14 billion collected last year. Since the audit function is outsourced to Chartered Accountant and the audit has not been completed in the first half of the year, therefore, there is negative growth in the demand creation. However, it is expected that the audit will be completed in the second half and the stuck up amount will be recovered accordingly.

Voluntary Payments (VP): This component includes payments with return and advances. An amount of Rs. 82.4 billion has been generated under the head of Voluntary Payments during H1: 10-11 as compared to Rs. 61.1 billion in the corresponding period last year. A growth of 34.9% has been recorded in voluntary compliance during H1:2010-11 as compared to corresponding period last year. The major reason for this growth is the policy shift in the dates of payments of advance tax as stated above. Details of collection from voluntary payments have been given in Table 4.

Table 4: Voluntary Payments (VP): A Comparison

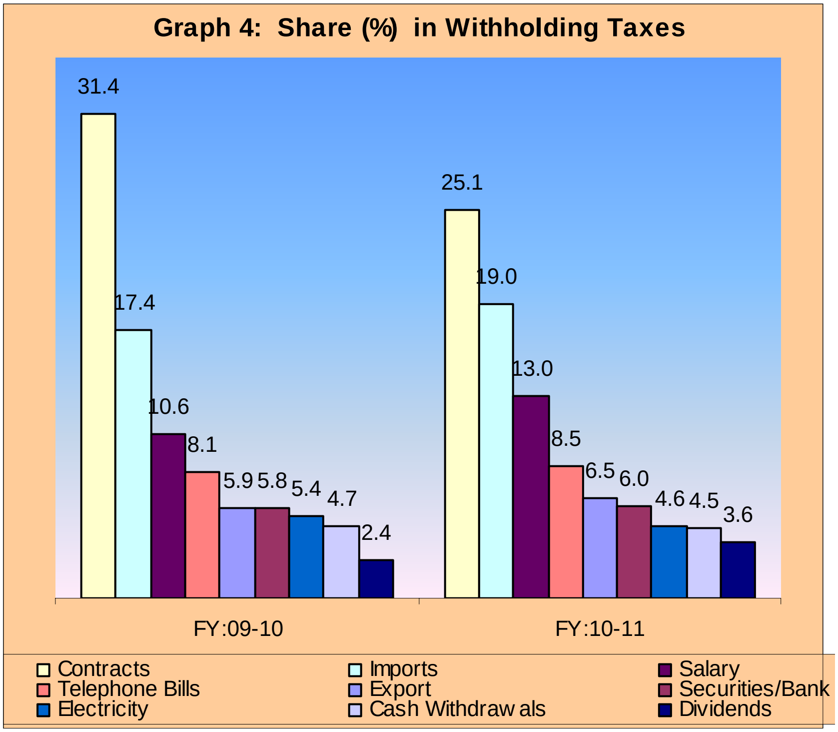
(Rs. Million)

Heads	H1: 10-11	H1: 09-10	Growth (%)	Share (%) in Total VP	
				H1: 09-10	H1: 10-11
With Return	9,080	7,885	15.2	12.9	11.0
Advance Tax	73,347	53,203	37.9	87.1	89.0
Total VP	**82,428**	**61,088**	**34.9**	**100**	**100**

Withholding Taxes (WHT): Withholding tax is the third important component of income tax. During H1: 10-11, tax receipts worth Rs. 151.3 billion have been collected during first half of 2010-11 against Rs. 134.1 billion collected in the corresponding period of last year entailing a significant growth of 12.8%. The share of WHT in gross income tax collection has remained 59% during the period under review.

The major revenue spinners of WHT are: contracts/supplies, imports, salary, telephone, exports, bank interest, electricity, cash withdrawals and dividends.

The major heads mentioned in Table 5 contribute 90.9% of total WHT collection. Their respective shares are shown in Graph 4. The major share of WHT comes from contracts (25.1%) followed by imports (19%), salary (13%), telephone bills (8.5%) exports (6.5%) and so on.



A healthy performance in receipts on account of dividends, salary payments, imports, exports, telephone and bank interest has been witnessed during H1: 10-11. However, a comparatively low growth of 8.3% has been recorded in cash withdrawals from banks. On the other hand, there has been a decline in WHT on contracts and electrical bills. The reason of decline in revenue collection from contracts/supplies is mainly due to reduction in the size of PSDP by the government.

Table 5: Half-Yearly Collection from Major Revenue Spinners of Withholding Taxes

(Rs. Million)

Collection Heads	H1: 10-11	H1: 09-10	Difference (Absolute)	Growth	Share in WHT H1: 10-11
Contracts	38,048.6	42,117.1	-4068.5	-9.7	25.1
Imports	28,748.1	23,307.6	5,440.5	23.3	19.0
Salary	19,716.6	14,274.2	5,442.4	38.1	13.0
Telephone Bills	12,921.4	10,891.9	2,029.5	18.6	8.5
Export	9,872.0	7,897.2	1,974.8	25.0	6.5
Bank Interest	9,016.2	7,841.6	1,174.6	15.0	6.0
Electricity	7,012.4	7,196.8	-184.4	92.6	4.6
Cash Withdrawals	6,780.9	6,259.0	521.9	8.3	4.5
Dividends	5,406.9	3,276.5	2,130.4	65.0	3.6
Sub-Total (9 major items)	137,523.1	123,061.9	14,461.2	11.8	90.9
Share in Total WHT	91.8%	90.9%			
Other WHT	13,800.1	11,062.5	2,737.6	24.7	9.1
Total WHT	**151,323.2**	**134,124.4**	**17,198.8**	12.8	100
Share in Gross I. Tax	59.4%	59.6%			

Analysis of Income Tax Returns: Out of 2,984,563 NTN holders, only 1,965,752 have filed income tax returns and statements during H1:10-11 as compared to 1,919,802 taxpayers filed income tax returns during the corresponding period last year indicating a growth of 2.4%. However, the compliance ratio has improved to 67% during the period. Corporate sector has filed 19,331 income tax returns during the period under review, whereas during the same period of last year 17,071 returns were filed. Thus, a positive growth of 13.2% has been recorded. The Association of Persons (AOPs) has also filed 12.9% higher returns during first half of the CFY. On the statement side, total of 1,240,493 statements have been filed by individuals, importers, exporters, contractors and retailers etc, depicting a growth of 2% over the corresponding period of last year.

***Sales Tax*:**

Sales tax has been the leading revenue generation source of federal taxes during the first half of the current fiscal year. The total gross and net collection realized i.e. Rs. 305.2 billion and Rs.282.6 billion respectively during July-December 2010-11. The gross collection grew by 21.1% while net collection improved by 16.4%. The double digit growth both in gross and net collection has been attained despite payment of higher refund of Rs 13.2 billion or 145.8% to the claimants during first two quarters of CFY. The target of 272.8 billion assigned to sales tax for H1:2010-11 has been surpassed by 3.6%.

Sales tax is collected at domestic and import stages. Table 6 highlights details of net collection of both the components during H1:2010-11.

Table 6 : Collection of Sales Tax during H1:2010-11

(Rs. Million)

Tax-Head	Net Collection		Growth	
	H1:10-11	H1:09-10	Absolute	%
Sales Tax Imports	142,051	109,277	32,774	30.0
Sales Tax Domestic	140,552	133,594	6,958	5.2
Sales Tax (Total)	**282,603**	**242,871**	**39,732**	**16.4**

A sizable growth of 30% in the receipts of sales tax from imports has been achieved due to 23.4% growth in the value of imports at the end of first half of the year. On the other hand, a low growth of 5.2% has been recorded in the collection of sales tax domestic mainly due to higher refunds payments during the period as compared to last year. It may be mentioned that to address the taxpayers' complaints and clear the backlog, a Centralized Sales Tax Refund Office (CSTRO) in the FBR headquarters has been established during CFY with focused attention on liquidating all pending sales tax refunds and timely issuance of refunds. This step has resolved the liquidity issues of the taxpayers.

***Sales Tax (Domestic) Collection and Major Revenue Spinners*:**

Sales tax domestic contributed around half of total sales tax collection during July-December, 2010-11. The share of major ten commodities has come down to 92.6% in H1:2009-10 from 89.3% in H1: CFY mainly due to improvement in the shares of petroleum products. Details of net collection from 10 major commodities have been highlighted in Table 7.

Table 7: Net Collection of GST (Domestic) from Major Revenue Spinners

(Rs. Million)

Commodities	Net Collection			Share (%)	
	H1:10-11	**H1:09-10**	**Growth (%)**	**H1:10-11**	**H1:09-10**
1.POL Products	63,318	56,018	13.0	45.0	41.9
2.Telecom Services	23,429	21,701	8.0	16.7	16.2
3.Natural Gas	11,735	10,196	15.1	8.3	7.6
4.Services	9,119	7,367	23.8	6.5	5.5
5.Electrical Energy	6,493	6,469	0.4	4.6	4.8
6.Cigarettes	4,995	4,444	12.4	3.6	3.3
7.Beverages	4,386	3,505	25.1	3.1	2.6
8.Tea	2,880	1,958	47.1	2.0	1.5
9.Sugar	2,336	5,497	-57.5	1.7	4.1
10.Cement	1,456	2,115	-31.2	1.0	1.6
Major Ten Commodities	**130,147**	**119,270**	**9.1**	**92.6**	**89.3**
Other	10,405	14,324	**-27.4**	**7.4**	**10.7**
All Commodities	**140,552**	**133,594**	**5.2**	**100.0**	**100.0**

Petroleum is the top revenue generation source of sales tax domestic with 45% contribution. The collection of petroleum products grew by 13% during H1:10-11 mainly due to 7.2% growth in its taxable sales. The collection from telecom sector, the second major source of sales tax domestic, has improved by 8% due to increased usage of the telecom services by 9.2%. Similarly, the growth in revenue from natural gas is restricted to 7.6% mainly due to payment of Rs.1.9 billion higher refunds during the same period. The collection of services recorded a growth of around 24% mainly due to improved collection from banking and insurance services. The collection from electrical energy grew marginally. The low growth in the collection from electrical energy is mainly due to Rs 2.5 billion higher payment of refunds. The collection from cigarettes grew by 12.4%. This is partly due to increased taxable sales by 8.4% and lower input/out ratio during July-December, 2010-11 as compared to corresponding period last year. Similarly, the collection from beverages has grown strongly by 25.1% due to increased taxable sales by 30.9% and low input out ratio during H1:2010-11 as compared to corresponding period last year. A growth of 47.1% was reflected in the collection from tea as its taxable sales have gone up by 31.5%.

On the contrary, collection from sugar has recorded negative growth of 57.5% attributable due to higher input-output ratio of 38.3% during H1:2010-11 against 12.1% during PFY. Moreover, a decline of 3% has been recorded in the production of sugar during the period under review. Similarly, the collection of cement has also declined by 31.2% due to higher input-out ratio of 87% during July-December, 2010-11 as compared to 80.3% in the corresponding period last year. The production of cement has come down by 10.1% during H1:2010-11 as compared to corresponding period last year.

Payments of Refunds (Sales Tax Domestic)

It is evident from Table 8 that a significant surge has been recorded in the payment of sales tax refunds during H1:2010-11 as compared to corresponding period last year.

Table 8: Sales Tax Refunds during July-December, 2010-11

(Rs. Million)

Commodity	H1: 10-11	H1: 09-10	Percent
Electrical Energy	2,823	272	937.9
Agricultural Tractors	2,160	165	1209.1
Natural Gas	1,848	-	-
Bus Tractors, Truck bodies	1,646	820	100.7
Zero Rated Sectors	6,997	3,430	104.0
Sub Total	**15,474**	**4,687**	**230.1**
Others	7,125	4,493	58.6
Grand Total	**22,599**	**9,180**	**146.2**

Sales Tax Collection on Imports

Volume of import is the base of sales tax on imports. Due to higher imports of around 23.4%, the share of sales tax on imports in total sales tax has improved from 45% in the first half of 2009-10 to around 50% in July-December, 2010-11. The collection of sales tax on imports grew by 30% during July-December, 2010-11.

Major Revenue Spinners of Sales Tax on Imports

Ten major revenue spinners contributed around 81.1% of the sales tax import collection during July-December 2010-11. It is encouraging that all the 10 major revenue spinners have recorded double digit growths in the collection of sales tax during H1:2010-11 (Table 9).

Like sales tax domestic, petroleum sector is the major revenue generation source of sales tax imports as well. The contribution of POL Products has been 38% in the total collection of sales tax on imports. Higher imports of some of the petroleum products i.e. motor spirit, JP1 and furnace oil have vastly improved the tax collection by 182%, 106% and 26% respectively.

Edible oil (Ch:15) is the second most prolific revenue source of sales tax on imports during H1:2010-11. The growth of 60.4% has been recorded in the collection from this item during July-December, 2010-11 as compared to corresponding period last year. This robust growth is achieved due to 70.3% growth in its imports. The collection from imports of plastic grew by 31.5%, which is in line with the growth of 31.2% recorded in its imports. The auto sector (Ch: 87) has also exhibited 36.8% growth in the collection due to increase in its 15.4% in its import.

The electrical machinery (CH:85) and mechanical machinery (CH:84) improved their collection by more than 24%. Iron and steel sector (Ch: 72) has exhibited significant growth of 21.9% in the collection due to 22.3% growth in its imports. Similarly, organic chemical and oilseeds recorded double digits growths in the collection by 10.8% and 28% mainly due to 9.7% and 18.8% growths in their imports respectively.

Table 9: Sales Tax (Imports) from Ten Major Chapters during July-December: 2010-11

(Rs. Million)

PCT Chapters	Description	H1: 10-11	H1: 09-10	Growth (%)	Share (%)
27	POL Products	54,845	43,526	26.0	38.6
15	Edible oil	13,382	8,343	60.4	9.4
39	Plastic	11,203	8,517	31.5	7.9
87	Automobile	8,963	6,551	36.8	6.3
72	Iron and Steel	8,786	7,208	21.9	6.2
84	Mechanical Machinery	4,033	3,245	24.3	2.8
48	Paper and Paper board	3,907	2,394	63.2	2.8
85	Electrical Machinery	3,892	3,040	28.0	2.7
29	Organic Chemicals	3,384	3,054	10.8	2.4
12	Oilseeds	2,831	2,212	28.0	2.0
	Sub Total	**115,226**	**88,090**	**30.8**	**81.1**
	Others	26,841	21,207	26.6	18.9
	Gross	142,067	109,297	30.0	100.0
	Refund	16	20	-20.0	
	Net	**142,051**	**109,277**	**30.0**	

Customs Duties: Despite large scales tariff reduction in the last couple of decades, customs duty is still one of the significant sources of collection of federal taxes. It constituted 19% of the indirect taxes and 12.1% of the total taxes.. The gross and net collection from CD during H1:10-11 has been Rs. 85.1 billion and Rs. 80.3 billion reflecting double digits of 14.5% and 12.3% respectively. Difference between gross and net collection is due to higher payments of refunds/rebates by Rs. 2 billion during July-December, 2010-11 as compared to corresponding period last year. The growth in the gross collection is aligned with the growth in the dutiable imports i.e. 12.7%.

Customs Duty from Major Revenue Spinners July-December 2010-11

Like sales tax on imports bulk of the collection of customs emanated from major ten chapters/commodities groups. In fact, around 64% of the collection of customs has been contributed by major 10 commodities/chapters (Table 10).

Automobile, the leading revenue generator of customs duty, has improved its collection by 28.2% during H1:10-11 due to 32.2% growth in the dutiable imports and its share in customs duty has also gone up from 13.6% during July-December, 2009-10 to 15.2% during H1:2010-11.

Edible oils (CH:15) is the second major revenue generation source of customs duty during H1:2010-11. Its collection grew by 19.6% as compared to 72.8% growth in the dutiable imports. The reason for this conspicuous mismatch is that specific rates of customs duty are applied to edible oils. So any increase in the prices of imported edible oil can not affect the collection of customs duty. On the contrary, collection from edible oils has been negatively affected by 84% decline in the imported quantity of R.B.D palm oil. Another reason behind less collection from edible oil is the reduction of customs duty rate for Crude Palm Oil from Rs.9000/MT in 2009-10 to 8000/MT in 2010-11.

The collection from petroleum product (CH:27) is the third productive revenue generating source of customs duty. The collection of customs from petroleum has dropped by 8.8% during H1:10-11 due to 9% decline in its dutiable imports. Moreover, the share of POL products has also come down from 11.5% in H1:09-10 to only 9.1% in H1:10-11. Now the question arises why the collection of sales tax from petroleum products grew by more than 20%, while customs duty has declined by 9% during July-December, 2010-11?. It can be clarified that imports like furnace oil, motor spirit and JP-1 are exempt from customs duty, while these items are subjected to sales tax and contributes substantially in sales tax collection. Similarly, High Speed Diesel (HSD) is the most significant source of customs duty and sales tax. The tariff differential is also one of the reasons of high collection from HSD under sales tax and low in customs duty. Customs duty is charged @ 7.5% on HSD and sales tax is levied @ 17%.

The collection from mechanical machinery (CH:84) has recorded 7.1% growth during H1:2010-11 as compared to previous year while the collection from electrical machinery (CH:85) declined by 0.6%. The remaining chapters/commodity groups improved their collections due to growth in the dutiable imports during July-December, 2010-11

Table 10 : Major Revenue Spinners of Customs Duties
July-December During FY: 2010-11

(Rs. Million)

PCT Chapter	Description	Collection of Customs Duties			Contribution in Customs Duties (%)	
		H1:10-11	H1:09-10	Growth (%)	H1:10-11	H1:09-10
87	Automobile	12,969	10,114	28.2	15.2	13.6
15	Edible oil	8,911	7,452	19.6	10.5	10.0
27	POL Products	7,773	8,524	-8.8	9.1	11.5
84	Mechanical Machinery	5,227	4,882	7.1	6.1	6.6
85	Electrical Machinery	4,554	4,581	-0.6	5.4	6.2
39	Plastic	4,035	3,199	26.1	4.7	4.3
72	Iron and Steel	3,586	3,378	6.2	4.2	4.5
48	Paper and Paperboard	3,552	2,377	49.4	4.2	3.2
54	Textile Materials	1,968	982	100.4	2.3	1.3
9	Tea, Coffee etc	1,727	1,234	40.0	2.0	1.7
Sub-total		**54,302**	**46,723**	**16.2**	**63.8**	**62.8**
Others		22,250	22,250	0.0	26.1	29.9
Gross		**85,100**	**74,342**	**14.5**	**100.0**	**100.0**
Refund/Rebate		**5,073**	**3,094**	**64.0**		
Net		**80,027**	**71,248**	**12.3**		

Federal Excise: Federal Excise duty is still one of the significant sources of collection of federal taxes collected by FBR. The contribution of FED is 13.8% in indirect taxes and 8.8% in total taxes during H1:2010-11. The receipts of FED reflected a growth of Rs.2.6% by collecting Rs.58.1 billion during July-December, 2010-11 as compared to Rs. 56.7 billion corresponding period last year.

The commodity-wise collection of major revenue spinners during H1:10-11 and H1: 09-10 has been presented in Table 11. The share of six major items excluding SED has been around 77% during H1:2010-11.

Cigarette is the top revenue spinner of FED during July-December, 2010-11, which contributed 1/3rd of the collection of FED. The collection from cigarettes recorded a modest growth of 6.1% despite increased in retail prices due to upward adjustment in FED rates during Budget 2010-11. The decline in the production of cigarettes by 4.4% has affected the collection of FED from cigarettes.

Similarly, the collection from services has declined by 31.8%. One reason for this decline is the transfer of insurance and banking services from FED to sales tax. The collection of these items was included in the collection of FED in July, 2009 but started reporting in sales tax in August, 2009 and onwards.

A strong growth of 84.5% has been recorded by natural gas during July-December, 2010-11. The major reason for this huge growth has been the enhancement of the rate of FED on natural gas from Rs.5.09 per MMBTU to Rs.10 per MMBTU during Budget 2010-11. The energy items of petroleum products like motor spirit, furnace oil, high speed diesel oil etc. are exempt from federal excise duties. However, a modest growth of 6.4% has been reflected in the collection from petroleum products.

The FED collection from cement and beverages has reduced by 18.4% and 17.3% respectively during first half of the fiscal year 2010-11. The reason is decline in the production of these commodities by 10% and 16.6% respectively during the period.

Table 11 : FED Collection from Major Commodities During H1:10-11

(Rs. Million)

Commodities	Collection		Difference	
	H1: 10-11	**H1: 09-10**	**Absolute**	**Percent**
1.Cigarettes	19,460	18,346	1,114	6.1
2.Cement	6,456	7,907	-1,451	-18.4
3.Services	6,111	8,964	-2,853	-31.8
4.Natural Gas	5,586	3,028	2,558	84.5
5.Beverages	4,878	5,900	-1,022	-17.3
6.POL Products	2,295	2,157	138	6.4
7. SED@1%	8,129	7,583	546	7.2
Sub Total	**52,915**	**53,885**	**-970**	**-1.8**
Others	5,232	2,771	2,461	88.8
Grand Total	**58,147**	**56,656**	**1,491**	**2.6**

As far as Special Excise Duty (SED) is concerned, it grew by 7.2% by collecting Rs. 8.1 billion as compared to Rs. 7.6 billion in the corresponding period last year.

Concluding Remarks

FY: 2010-11 has been a challenging year for Pakistan and the domestic environment is still affected by the intensification of war on terror and volatile security situation while external environment is affected by uncertainties surrounding external inflows and oil prices. The energy crisis is crippling industrial production on one hand and flood devastation has badly affected the economic growth of the country on the other hand. Since the revenue realization depends on the state of the economy, therefore, tax revenues have been affected accordingly. Despite all these impeding factors, the FBR has been able to achieve 13.7% growth during first half of 2010-11.

FBR believes that despite all challenges, close liaison with the stakeholders the organization will establish a progressive, credible and trustworthy image and will improve revenues through providing quality facilitation services and a tax-compliant culture.

FBR, need to improve its skills in all fields of knowledge and services, i.e., taxation and facilitation to meet the assigned revenue target. FBR is also focused on broadening its tax base resolving pending refund claims as well as removal of distortions in the tax system. It is an uphill task, but with the help of dedicated team FBR is committed to accomplishing it.

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II

Revisiting the Present Setup of Tax Facilitation Centers and Measures to Strengthen by Devolving core Tax Functions[2]

Introduction

Decentralization of certain human resource functions is now considered as an important tool to increase efficiency at the lower tiers of an organization. Majority of the developing countries in Asia and Africa are taking measures of decentralization so as to improve their public sector, particularly the civil service. These reform processes are generally in-vogue in developing countries under structural adjustment, where funding agencies such as the World Bank are important partners in the process of reform, and in many instances its driving force (Kolehmainen-Aitken, 2006).

In majority of these reforms, the devolution of powers has not been matched with the distribution of personnel (Parrado-Diez, 2000), thus not achieving the desired objective in letter and spirit. The apathy of these reforms is that they are of certain prototype, researched and implemented by those who have little knowledge of the prevailing ground realities. The same thing happened in the case of Pakistan with regard to its Tax Administration Reform Programme (TARP) funded by World Bank. As a result of this reform, the whole system of tax administration was changed in 2002, by functionalizing the various tax administrative powers. To the extent of functionalizing, the system could have delivered if clubbed with adequate powers with the tax authorities to deter the taxpayers, but by creating another hub

[2] Disclaimer: This write up is provided by Mr. Waseem Hayat Bajwa Second Secretary (Projects)/Project Director, Tax Facilitation Centre, Administration Wing, FBR, Islamabad, who is an officer of IRS and served in the filed offices. The views/comments expressed in the write up are his own and does not necessarily represent the policy of FBR on tax administration in any manner.

centralized powers in the form of Regional Tax Offices, the system has become dysfunctional at the lower levels with regard to its administration.

The main priority of FBR is to broaden the tax base so as to achieve the desired tax to GDP ratio. As a result of recent reforms, the power of the tax offices at lower tiers has been divested and concentrated at the Regional Tax Offices (RTOs) level, this divesture of power has made the tax officers at lower tiers (now renamed as Tax Facilitation Centers) almost redundant and dysfunctional, As a result, the work force in these TFCs in grossly underutilized and the contribution of these office to achieve revenue has reached the bare minimum level.

To arrive at a better conclusion, this paper derive its genesis from the literature of decentralization in the first instance and secondly the prevailing view point from the field officers with regard to the decentralization, delegation and devolution of various functions and powers to the lower tiers of tax administration.

Objective of Study

Through this paper, it has been tried to deliberate upon various options and achieve the following major objectives:

- Decentralizing some of the core functions to the lower tiers from Regional Offices so as to maximize efficiency at the grass root levels regarding tax administration
- Strengthening the human resource at lower tiers by devolving certain powers from the regional offices
- Empowering the officers and officials at the lower tiers of tax administration by partial fiscal decentralization so as to enhance their motivation level.

Methodology adopted

In the first instance, the relevant literature pertaining to decentralization has been explored, so as to derive the pertinent literature for the decentralized, devolved and effective tax administration.

Further a study was also conducted by circulating questionnaire to all field officers (Regional Tax Offices) having jurisdiction of tax facilitation centers. Through this

questionnaire input of all officers was taken regarding the decentralization of various functions from RTOs to TFCs. Also an input from the officers was taken to re-designate the functions of TFCs and re-naming then accordingly.
In this regard various other parameters have also been taken into account like:

a) Taxpayers to tax officer ratio.
b) Committing with the functional set up of field officers.
c) Improvement of Audit functions.
d) Monitoring of with-holding taxes.

Literature Review:
Different studies pertaining to appropriate human resource management to de-centralization of functions have been taken into account to derive its basis for the study under consideration.

Herzberg Theory
Herberg's "Two Factor" motivation theory distinguishes between motivators and hygiene factors. He identified, the job itself, career progression and recognition as the major motivators arising from the intrinsic conditions of job. On the other hand salary, perquisites and job security though aid job satisfaction but does not contribute to the motivation of employees.
Decentralization defined by various experts:

1. **Wallace E. Oates** argues that a federal system of government is the most promising form for organizing the public sector in resolving the allocation, distribution, and stabilization problems. There are two near polar forms of government:

   • *Complete centralization* (a unitary form of government): in the absence of other levels of government, the central government assumes full responsibility for the three economic functions of the public sector.

   • *Total decentralization*: the opposite direction of centralization on the spectrum of governmental forms that would presumably represent a state of anarchy. A highly decentralized system in which the central government is almost completely devoid of economic responsibility. In this case, a system of small local governments would perform virtually all the economic tasks of the public sector. But this would be highly unrealistic.

Oates sees that a unitary government has a comparative advantage in resolving stabilization and distribution problems (including externalities of collective goods) while a decentralized government has comparative advantages in satisfying varying preferences of the residents of the different communities by providing public goods and services whose benefits are *limited to a specific subset of the population*. Oates argues that federalism combines the advantages of these two polar forms and avoids the most serious shortcomings of each. In a federal system, each level of government makes decisions concerning the provision of certain public services in its respective geographical jurisdiction: *each does what it can do best rather than attempting to perform all the functions of the public sector*.

Oates argues that economists might be interested in which "different levels of decision-making do exist, each of which determines levels of provision of particular public services in response largely to the interests of its geographical constituency" (Oates 1972, pp. xvi). Thus, economists' central concerns are the allocation of resources and the distribution of income within an economic system. By this definition, any fiscal system /government at least possess federal elements. In that decentralization (fiscal decentralization) has compelling advantages for *some f*unctions over a complete reliance on centralized decision-making.

2. **Prud'homme** (1994) suggests a typology that distinguishes between three types of decentralization: spatial, market and administrative. *Spatial decentralization* is defined as a process of diffusing urban population and activities away from large agglomerations; *market decentralization*, economic liberalization, is defined as a process of creating conditions in which goods and services are provided by market mechanism; and ***administrative deconcentration is defined as the transfer of responsibility for planning, management, and the raising and allocation of financial***

resources from the central government and its agencies to field units of government agencies, or subordinate units or levels of government.

According to Prud'homme, administrative decentralization can be subdivided into three types: de-concentration, delegation, and devolution.

• ***De-concentration*** **is the redistribution of decision-making among different levels within the central government;**

• *Delegation* is the transfer of responsibilities from the central government to semi-autonomous organizations not wholly controlled by the central government but ultimately accountable to it; and

• *Devolution* is the transfer of powers from the central government to independent sub-national governments. However, this typology does not seem to hold always: the word "decentralization" is often being used for a synonym for "devolution."

3. **Vito Tanzi** (1996) describes decentralization in two broad categories:
   - ***De-concentration: implies only a delegation of administrative control to lower levels (sub-national governments in the administrative hierarchy)*** and
   - *Decentralization*: genuine possession of independent decision-making power by decentralized units.
4. **Richard M. Bird and Francois Vaillancourt** (2006) consider three types of decentralization:
   - ***De-concentration: giving regional or local offices of the central government decision-making power previously held in the central offices in the capital;***
   - *Delegation*: making a sub-national government responsible for carrying out a function for which the central government retains responsibility; and
   - *Devolution*: transferring responsibilities from the central government to sub national governments.

5. **James Manor** (1999) considers three types of decentralization: de-concentration or administrative decentralization, fiscal decentralization, and devolution or democratic decentralization.

   - ***De-concentration/administrative decentralization: refers to the dispersal of agents of higher levels of government into lower level arena. However when de-concentration (even with fiscal decentralization) occurs in isolation without simultaneous democratization, it still enables the central authority to penetrate more effectively into lower level arena without increasing the influence of interests at those arena. This could be especially true in developing countries.***

   - *Fiscal decentralization*: refers to downward fiscal transfers to lower levels influencing over budgets and financial decisions. Fiscal decentralization in isolation without democratization would face the same problems mentioned above (e.g. central control) although it is less prone to these tendencies than de-concentration.

   - *Devolution/democratization*: refers to the transfer of resources and power (and tasks) to lower level authorities which are largely or wholly independent of higher levels of government, and which are democratic in some way and to some degree.

Administrative Decentralization

Administrative decentralization seeks redistribute authority, responsibility, and financial resources for providing public services among different levels of government. It is transfer of responsibility for planning, financing and managing certain public functions from the central government and to agencies to field units of government agencies, subordinate unit or level of government, semi autonomous public authorities or corporations, or area side, regional or functional authorities. Administrative decentralization has three major forms-decentralization, delegation and devolution-each with different characteristics.

Decentralization is the re-distribution of decision making authority and financial and management responsibilities among different levels of the central government, is otherwise considered weakest form of decentralization and is used most frequently in unitary status. Within this category, however, policies and opportunities for local input vary, decentralization can merely shift responsibilities from central government officials in the capital city to those working in regions, province or districts or it can create strong field administration of local administrative capacity under the supervision of central government ministries.

Delegation is a more extensive form of decentralization. Though delegation central governments transfer responsibility for decision making and administration of public function to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable it . Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi autonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have great deal of discretion in decision making. They may be exempt from constraints on regular civil service personnel and may be able to charge users directly for services.

Devolution is the transfer of authority for decision-making, finance and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. In a developed system local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underlies most political decentralization.

The ***"subsidiary principle"*** argues that the efficient provision of public goods and services requires that the government satisfy citizens' needs and preferences as much as possible. Taxing, spending, and regulatory functions should be exercised by lower levels of government unless a convincing case can be made for assigning them to higher levels of government. This principle is the opposite of the residual principle applied in a unitary country, where local governments are assigned functions by the central government. Thus the subsidiary principle and decentralization in federalism should produce the optimal allocation of resources and consequently maximize welfare.

Inference

In the first instance, reliance has been made on the motivators of Herzberg Theory i.e. job itself, career progression and recognition arising from the intrinsic conditions of job. Thus, it is argued here that to inculcate motivation in the officers and staff at the lower tiers of tax administration; they should be empowered to perform their functions with authority and control. This can only be achieved by decentralizing or de-concentrating powers from the regional centers to the local centers of tax. Hence, by enhancing the factors of motivation, the ultimate goal of job satisfaction can be approached. Such an environment would definitely attract the able officers and staff and would be willing workers thereby contributing plausibly for their organization.

Then from the definitions / concepts of decentralization, we can fairly infer the type of decentralization relevant to Federal Board of Revenue is de-concentration or administrative decentralization as defined by Prud'homme, Vito Tanzi, Richard M. Bird and James Manor. For instance the definition of Prud'homme i.e. ***'De-concentration is the redistribution of decision-making among different levels within the central government'*** immaculately fits to resolve the issues of existing Tax Facilitation Centers of FBR. All what is required is the de-concentration and partial fiscal decentralization from the regional offices to the local offices of some of the core functions.

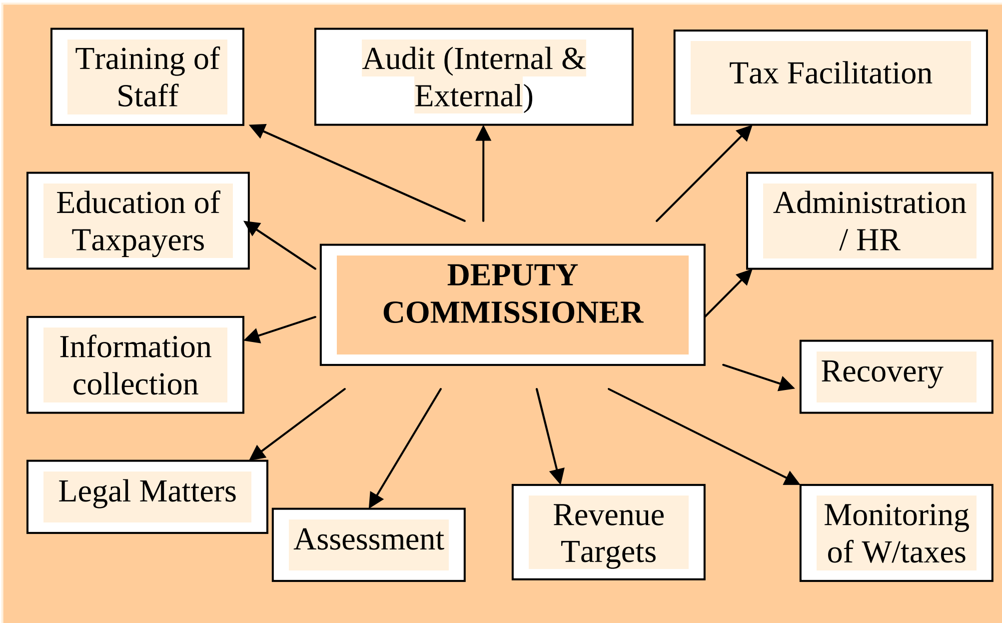
Analysis of the Old and New System

1. Historical Overview

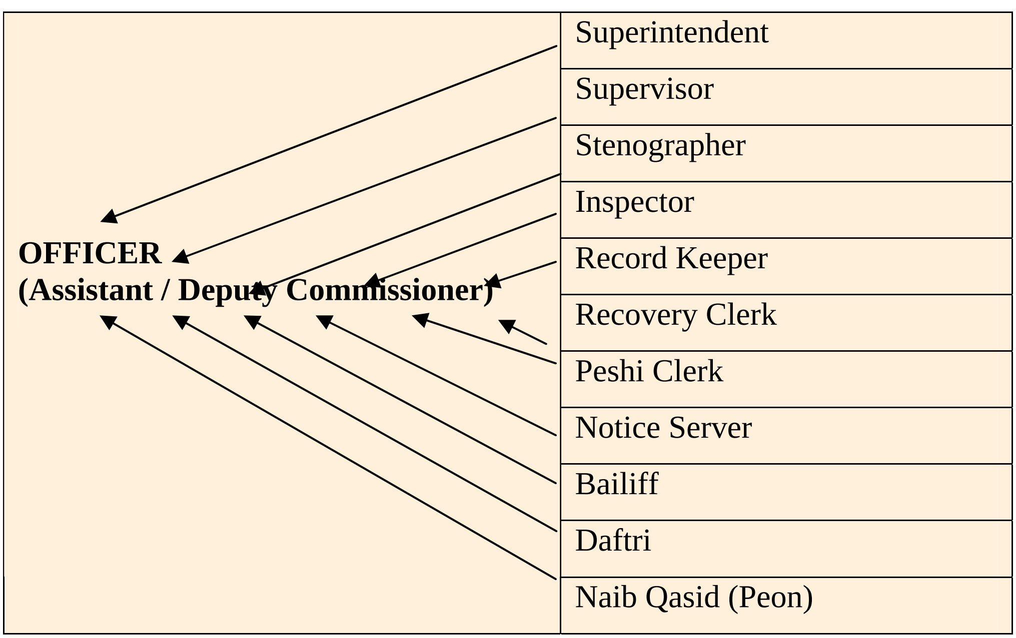
The foundations of the tax system in Pakistan were laid on the colonial British system, which Pakistan inherited at the time of independence in 1947. Pakistan continued with that system, by following the Indian Income Tax Act of 1922 with slight changes till 1979. During this period, one major development was enactment of Wealth Tax Act in 1963, and whereby wealth tax assessment and collection was also placed under the administration of Income Tax. The first indigenous sort of change brought in the tax system of Pakistan was enactment of Income Tax Ordinance, 1979, which stipulated certain changes pertaining to administration and also the scope of the income tax was widened by incorporating different type of incomes in it.

This system of income tax had a cylindrical structure and continued in the same form till the latest Income Tax Ordinance, 2001. The premise or the basic principle of this system was official assessment and administered with the help of Circle Management System. The official assessment system involved the assessment of all the income tax returns manually by the in charge (head) of the circle. The jurisdiction of the circle was territorial for the individual income tax and for the corporate sector; it was predominantly class or type based. So, a lot depended on the circle in charge (Assistant or Deputy Commissioner), who was responsible for all the matters involving receiving of the return, assessment of income, collection and recovery of taxes, legal matters, provision of information and administration of staff (Ref. figure 1, page).

DUTIES OF OFFICER IN THE REDUNDANT CIRCLE SYSTEM
(Figure No. 1)



OVERDEPENDENCE OF STAFF (Figure No. 2)

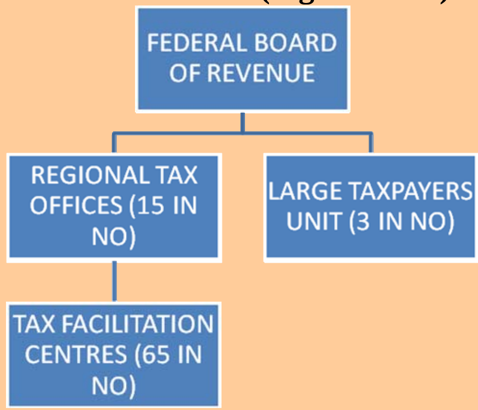


2. Present Tax System in Pakistan:

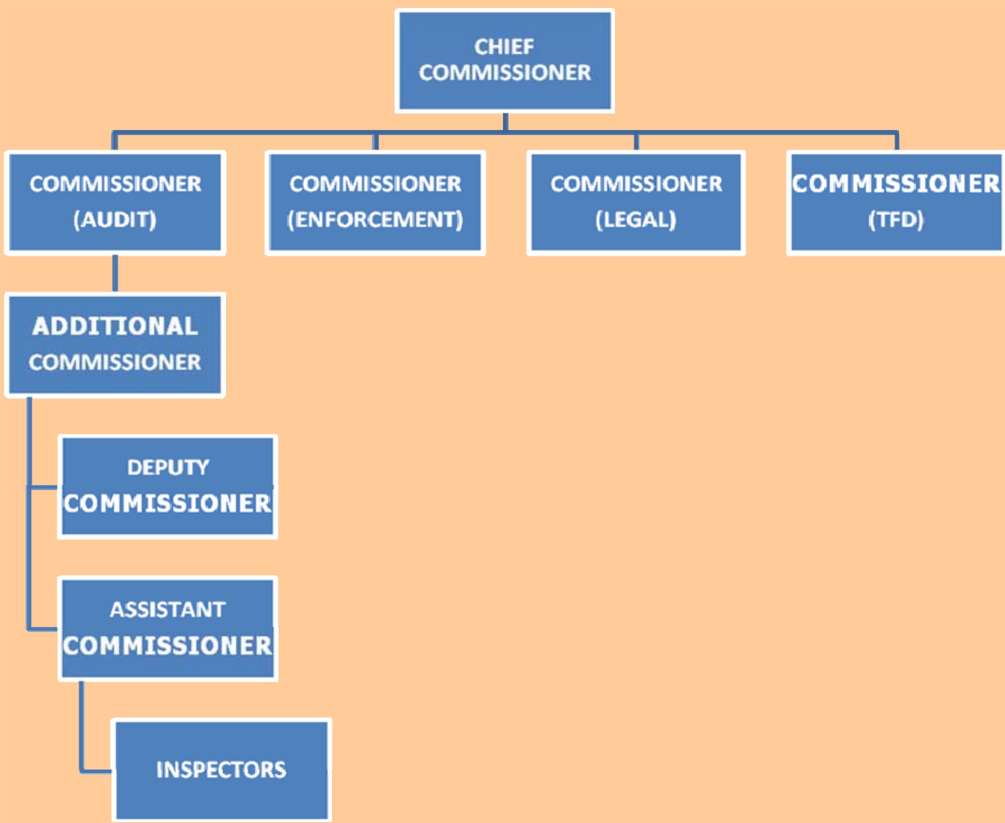
Through a major shift in 2001, this rudimentary system has been changed to a functional based management system and also legislatively replacing the official assessment system with the universal self assessment system, by enacting the new Income Tax Ordinance in 2001. In this new functional system, there are now three core functions of Audit, Enforcement & Compliance, and Legal, and two support functions of information processing and tax facilitation. Now, each officer or official is assigned with only one function, so as to reduce work burden and induce efficiency. Another shift brought in, is the overall revamping of the administrative structure of the field formations working under the FBR. For effective management and administration, the five tiers of the old system (Ref. figure 3,) have been reduced to only three tiers (Ref. figure 4). By doing away with the old system of regions (five in number) headed by Regional Commissioners, assisted by various zonal Commissioners, now there are 15 Regional Tax Offices headed each by a Chief Commissioner supported by Commissioners having functional jurisdiction rather than territorial and at the third tier there are 65 Tax Facilitation Centers (TFCs). These TFCs are with limited functions involving only education and facilitation of taxpayers in addition to receiving of tax returns and periodic withholding statements for onwards transmission to the respective Regional Tax Office. The TFC is supervised by an Assistant / Deputy Commissioners (Grade 17, 18) with a limited support staff and is under utilized with respect to its capacity and jurisdiction. Then there are three Large Taxpayers units (LTUs) dealing with the big corporations at three main cities of Pakistan.

ADMINSITRATIVE SET UP AT THE FIELD LEVEL BEFORE THE REFORM (Figure No. 3)

ADMINSITRATIVE SET UP AT THE FIELD LEVEL AFTER THE REFORM (Figure No. 4)



<u>ADMINSITRATIVE SET UP REGIONAL TAX OFFICE (Figure No. 5)</u>



Analysis of the Old and New System

By briefly analyzing the old system of taxation vis-à-vis the new system, the following inferences may be drawn with respect to changes, improvements and unresolved or new problems.

1. **Change in assessment system**

   The major shift in this regard is the change in assessment system from the official assessment to universal self assessment. Though, this change is in line with the modern tax practices, but it poses a major challenge to the FBR owing to the poor tax culture in Pakistan. So, FBR faces a Herculean task to educate, guide and facilitate the taxpayers to acquaint them adequately with the new system.

2. **Delineation of Functions**

   In the new system number of tasks performed by one officer has been divided and delineated among various officers and one officer performing one task or function only. This has not only reduced the burden on the assessing officers but also reduced the dependence of staff on officers. In this regard, though the functions defined but the work load has not been evenly distributed.

3. **Examination system**

   There have been some procedural changes in the examination and assessment in the new system as compared to old system, but as such no major change in the methods and practices of examination. In the old system involving official assessment, the major reliance was on desk audit with limited field audit and the assessment was made on the basis of available data and documents. In the present system also the field audit is also very rare and still the reliance is on the available but limited data base of FBR and respective RTO.

4. Concentration of powers at the RTOs and limited role of TFCs

In the old system the tax offices at the small cities and in far flung areas use to perform all the functions including official assessment and examinations. Though the standards of assessments or examinations were not upto the mark but still the local staff and officers have some knowledge and understanding of the prevailing businesses in their jurisdictions. In the present system the powers of assessment / examination and collection of taxes has been taken from these local offices now known as Tax Facilitation Centres (TFCs) and concentrated at the Regional Tax Office (RTO) level. By concentrating powers of examination at the RTO level, on the one hand the RTO audit wing has been overburdened and on the other there is a huge gap created at the local level in sense of effective examinations in the small cities and far flung areas. An examiner or the Audit Officer sitting at the RTO cannot effectively examine a case of a place 80 to 100 km away from him. So by abolishing the powers and jurisdiction of local offices the far fetched effects of universal self assessment and broadening of tax base without proper examination jurisdiction at local level have been hindered to a greater extent.

Overview of the Existing System of Tax Facilitation Centers (TFCs)

- Existing total number of TFCs : 65
- Major function is tax facilitation and education of taxpayers involving receiving of returns / statements, documents and assistance to the taxpayers.
- Administrative control primarily under 17 & 16 grade officers of ITG

NUMBER OF TFCs – RTO WISE

S.No	Name of RTO	Number of TFCs
1.	**Peshawar**	07

2.	**Abbottabad**	02
3.	**Rawalpindi**	05
4.	**Gujranwala**	03
5.	**Faisalabad**	02
6.	**Sargodha**	04
7.	**Lahore**	06
8.	**Sialkot**	04
9.	**Multan**	09
10.	**Bahawalpur**	06
11.	**Sukkur**	05
12	**Hyderabad**	06
13	**Quetta**	03
14	**Karachi**	03
15	**Islamabad**	-
	Total	65

RTO WISE DETAIL OF TFCs

S.NO.	NAME OF RTO	NAME OF TFCS
1	**RTO Peshawar**	D.I. Khan
2		Bannu
3		Swabi
4		Charsaddah
5		Nowshera
6		Mardan
7		Kohat
8	**RTO Abbottabad**	Haripur
9		Mansehra
10	**RTO Rawalpindi**	Attock
11		Chakwal
12		Wah Cantt
13		Pind Dadan Khan
14		Jhelum
15	**RTO Gujranwala**	Hafizabad
16		Wazirabad
17		Pindi Bhattian
18	**RTO Sialkot**	Deska
19		Narowal
20		Gujrat
21		Sambarial
22	**RTO Lahore**	Kasur
23		Sheikhupura
24		Nankana
25		Chunian

26		Kala Shah Kaku
27		Okara
28	**RTO Faisalabad**	Jhang
29		Toba Tek Sing
30	**RTO Sargodha**	Joharabad
31		Bhakkar
32		Mianwali
33		Mandi Bahauddin
34	**RTO Multan**	Khanewal
35		D.G. Khan
36		Rajanpur
37		Muzaffargrah
38		Layyah
39		Vehari
40		Burewala
41		Sahiwal
42		Bahawalnagar
43	**RTO Bahawalpur**	Rahim Yar Khan
44		Sadiqabad
45		Ahmed Pur East
46		Khanpur
47		Chishtian
48		Lodhran
49	**RTO Sukkur**	Ghotki
50		Shikarpur
51		Khairpur
52		Jaccobabad
53		Larkana
54	**RTO Hyderabad**	Thatta
55		Nawabshah
56		Dadu
57		Badin
58		Mirpur Khas
59		Sanghar
60	**RTO Quetta**	Sibbi
61		Gawadar
62		Hub
63	**RTO Karachi**	Gurumander
64		Gulistan-e-Johar
65		Gulshan-e-Iqbal

Issues and problems in the Existing system of Tax Facilitation at the lower tiers

Following are the major issues and problems faced by the tax officers /officials and taxpayers compelling for an immediate change in the existing structure of tax facilitation centers at the lowest level of tax administration:

- Officers and staff of the TFCs are underutilized due to transfer of core functions to the RTOs.
- Deterrence of tax authorities has reached to its bare minimum level
- Improper enforcement and recovery due to lack of powers and distance from the regional office.
- Absence or poor audits because of lack of know how of the prevailing business
- Divesture of expenditure and transfer of funds to the regional offices, leading to poor office conditions and lack of any facilities.
- Even field vehicles meant for the TFCs have been taken over by the RTOs, so means of official transport available to conduct any extensive field surveys in far flung areas of their jurisdiction has been restricted, thus no effective broadening of tax base.
- The basic spirit of tax facilitation and education has been comprised because of lack of able and efficient officers at these centers.
- The office procedures have become more cumbersome and lengthy for the taxpayers regarding submitting of documents, issuance of refunds and obtaining of basic information about tax matters.

ADVANTAGES OF DEVOLVING FUNCTIONS TO TFCs

- Effective audit because of proximity and know how of the business so as to create deterrence
- Effective monitoring and recovery of taxes by regular visits and checks
- Broadening of tax-base through extensive surveys

PROPOSED / ADDITIONAL BRANCHES OF TFCs

The field offices has proposed about 30 additional branches of TFCs on the basis of

- Effective performance of tax functions
- Existence of potential taxpayers so as to broaden the tax base
- Distance from the RTO
- District & Tehsil HQ basis
- Existence of Corporate taxpayers
- To nab the springing and typical businesses in tourist resort areas involving hotels/ restaurants business in Murree & Nathiagali

Name of RTO	Proposed TFCs	Nos	Criteria
Faislabad	Bhalwal, Chiniot, Samundari, Jaranwala, Tandianwala, Gojra, Kamalia	07	Potential Taxpayers and distance from RTO
Gujranwala	Kamoke	01	Potential Taxpayers
Lahore	Pattoki, Deepalpur, Renalakhurd, Sangala Hill & 4 TFCs within Lahore City	08	Potential Taxpayers and distance from RTO
Abbottabad	Nathiagali	01	Potential Taxpayers
Sukkur	Nausheroferoze	01	Distance from RTO
Hyderabad	Nooriabad, Kotri, Gharo & Mithi	04	Potential Taxpayers and distance from RTO
Sialkot	Kharian	01	Potential Taxpayers & important Tehsil HQ
Rawalpindi	Gujar Khan, Talagang, Murree	03	Tehsil HQs and potential taxpayers
Quetta	Chaman	01	Potential Taxpayers and distance from RTO
Peshawar	Karak, Hangu & Lakki Marwat	03	District HQs & Distance
	Total	30	

Recommendations

- To make the new setup Inland Revenue Service successful and derive requisite benefits of the proposed RGST, the core functions of audit and enforcement must be de-concentrated at the TFC or local level.
- In addition to the strengthening of TFCs the focus of study is to strength the career progression of FBR officers. A viable option in this regard would be to follow the resurrected pattern of District Management Group, whereby they have created grade 20/19 seats at the district level.
- Further, a large number of officers have proposed to change the name of Tax Facilitation Centers to District Tax Office or Local Tax Office. At district level, the tax office should be headed by a district tax officer of grade 20/19 depending on the volume of taxpayers. The District Head (Commissioner / Additional Commissioner) must be empowered with all the core functions as in the case of old Circle System. The core functions of audit, enforcement, monitoring etc may be then de-concentrated below among officers of grade 18/17 or 16 as per the availability.