# FBR Quarterly Review

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**A Review of Resource Mobilization Efforts of Federal Board of Revenue**

FBR
PAKISTAN

*Celebrating Decade of Excellence*
*2002-2012*

**Federal Board of Revenue**
Government of Pakistan

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*Celebrating Decade of Excellence 2002-2012*

The FBR Quarterly Review, April-June, 2012 has been prepared by the Research Team of Strategic Planning and Research & Statistics Wing.

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## *Foreword*

*Fiscal year 2011-12 was a challenging year for Pakistan Economy, energy crises and low growth in the manufacturing sector has impacted the economy to greater extent. However, despite the severe shocks FBR has been able to collect Rs. 1883 billion during 2011-12 by attaining a growth of 20.9%. It is encouraging to note that the tax GDP ratio has considerably improved by 0.6 percentage points during the year and reached to 9.2% from the lowest level of 8.6% in the year 2010-11.*

*The current issue of the FBR Quarterly Review provides an update on FBR's resource mobilization efforts. It includes detailed analysis of tax revenues collected by FBR and elucidates various cogent factors responsible for less than the targeted collection.*

*Besides analysis of tax revenues, the current issue also includes articles on 'Impact Evaluation: An Ex Post Analysis of Budgetary Measures FY: 2011-12 and Monitoring of Withholding Taxes. The publication also includes articles on Pakistan Bangladesh Economic Expansion: Challenges and Opportunities and Pak-China Free Trade Agreement, Prospects and Challenges. Statistical Appendix showing month to month and progressive collection of federal taxes collected during 2011-12 and 2010-11 by FBR is also added.*

*I appreciate the invaluable efforts put in by the research team of Strategic Planning and Research & Statistics in bringing out this issue of FBR Quarterly Review. We look foreword for receiving your valuable comments and suggestions for improving the research efforts.*

**(Ali Arshad Hakeem)**
Secretary Revenue Division/
Chairman, FBR

September, 2012

## *Special Note from Member, SP&S on Celebrating Decade of Excellence*

*It is an occasion of great pleasure and honour to publish this Special Edition of FBR Quarterly Review (April-June 2012). It is the leading publication of FBR prepared by small research team of SP&S Wing, FBR. The FBR Quarterly Review has completed its journey of one decade. During this period a tremendous research work and dissemination of information has been made possible for the researchers, educational institutions and the esteemed taxpayers through this publication. Around one hundred articles relating to taxes, fiscal issues, budgetary impacts, industrial profiles, tax reforms and international trade have been published.*

*SP&S Team is highly thankful to Mr. Mumtaz Haider Rizvi ex-Chairman, FBR for his guidance and patronage to bring out the current issue. I appreciate and complement the efforts put in by the team of SP&S Wing, for their valuable contribution in maintaining the quality in the publication of FBR Quarterly Review for last ten years. The feedback and comments are always welcome from the stakeholders, researchers and academicians to improve this publication. It is my sanguine hope that Quarterly Review will improve further under the able guidance of Mr. Ali Arshad Hakeem, Secretary Revenue Division/Chairman FBR during his tenure.*

*Azra Mujtaba*
*Member (SP&S)*

September, 2012

# Abbreviations

| | |
|---|---|
| FBR | Federal Board of Revenue |
| FTA | Free Trade Agreement |
| DT | Direct Taxes |
| CD | Customs duty |
| GST | General Sales Tax |
| STM | Sales Tax Import |
| STD | Sales Tax Domestic |
| FED | Federal Excise Duties |
| WHT | Withholding Taxes |
| VP | Voluntary Payments |
| CoD | Collection on Demand |
| AOPs | Association of Persons |
| NTN | National Tax Number |
| USAS | Universal Self-Assessment Scheme |
| SED | Special Excise Duty |
| PCT | Pakistan Customs Tariff |
| GDP | Gross Domestic Product |
| CH | Chapter |
| RTO | Regional Tax Office |
| LTU | Large Tax Payers' Unit |
| FY | Fiscal Year |
| CFY | Current Fiscal Year |
| PFY | Previous Fiscal Year |

# I

# FBR Tax Collection:
# An Analysis of the FY: 2011-12 Outcome[1]

## The Economy

Pakistan has confronted difficult challenges in the past few years, external and domestic economic shocks, political uncertainty and security problems. Faced with these challenges, Pakistan has implemented several reforms, including under the recent expired stand–by-arrangement with IMF[2], which helped the economy avoid a full blown crises. More recently, however, continued security issues, two major floods and large fiscal deficit have contributed to make inflation persistently high and limit growth and employment creation. This has left Pakistan economy highly vulnerable.

Nonetheless, Pakistan economy has gradually started recovery and showing resilience. GDP growth for 2011-12 has been recorded at 3.7 percent[3] as against 3 percent in 2010-11. The commodity producing sectors and especially the agriculture sector are doing better. The agriculture sector recorded a growth of 3.1 percent and previous year's growth rate was 2.4 percent. Some improvement is also witnessed in the Large Scale Manufacturing (LSM) sector. This sector grew by 1.9 percent as compared to the target of 2.0 percent. The Service sector has exhibited a growth of 4 percent and gained from trade activities and improvements in the commodity producing sectors. Smooth functioning of the supply chains is playing a key role in improving the economic situation and ensuring the availability of essential items.

On the revenue front, FBR has collected Rs. 1,883 billion (provisional) at the end of FY: 2011-12, although 37.3 percent higher refunds/rebates were paid back to the taxpayers during the same period. The growth in net revenue collection has been 20.9 percent over the actual realization of Rs 1,558 billion during FY: 2010-11. Another improvement has been witnessed in the performance of FBR in relative term; tax GDP ratio has substantially improved to 9.2 percent in the year 2011-12 from the lowest level of 8.6 percent during the year of 2010-11.

[1] The analysis has been prepared by the research team of the Strategic Planning and Research & Statistics Wing of FBR. The figures quoted with respect to economy have been taken from the Economic Survey of Pakistan 2010-11.
[2] IMF Country Report 2011
[3] Pakistan Economic Survey 2011-12

**FBR Revenue Collection and Target**

FBR revenue target for the FY: 2011-12 was fixed at Rs.1,952 billion at the time of announcement of Federal Budget. The target was linked with expected growth in GDP, the rate of inflation, tax buoyancy and other key economic indicators such as growth in the Large Scale Manufacturing sector and imports. To reach the target, 25.3 percent growth was required over the actual collection of Rs. 1,558 billion during Fiscal Year 2010-11.

Unfortunately, economy remained confronted with general economic slowdown right from the beginning of the year. Energy crises played havoc with the manufacturing sector which is a tax base for domestic taxes such as FED and domestic sales tax. The consumption of energy in the industrial sector i.e. electricity and gas are considered to be the primary cause of constraint production activities in a number of industries. According to Economic Survey of Pakistan, 2011-12, energy intensive industries (petroleum, iron and steel, engineering and electrical) shaved off 0.2 percentage points from real GDP growth in 2011-12. Also the estimated cost of power crisis to the economy is approximately Rs 380 billion per year, around 2 percent of GDP. As a result, growth in the large scale manufacturing sector was dismally low throughout the year; therefore, revenue realization from the manufacturing sector and related businesses has also been badly affected

Despite these unfavorable economic conditions, FBR has been able to collect Rs.1,883 billion at the end of the year against the target of Rs 1952 billion fixed for the year. The target has been missed by 3.5 percent (Table 1).

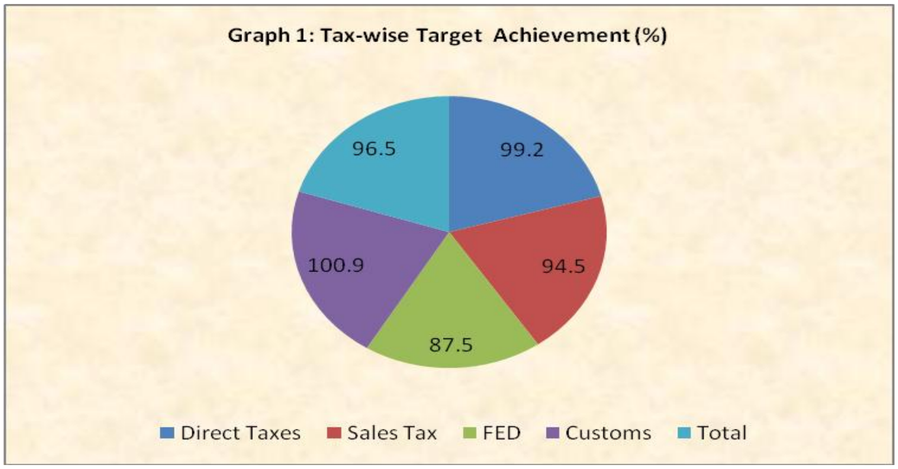
**Table 1: A Comparison of Collection vis-avis Target 2011-12**

(Rs. Billion)

| Tax Head | Target | Provisional Collection | Achievement of Target (%) |
|---|---|---|---|
| Direct Taxes | 745.0 | 738.8 | 99.2 |
| Sales Tax | 852.0 | 804.8 | 94.5 |
| Federal Excise | 140.0 | 122.5 | 87.5 |
| Customs duty | 215.0 | 216.9 | 100.9 |
| All Taxes | 1952.0 | 1883.0 | 96.5 |

Note: Rs 25 billion collected by SRB on account of services from Sindh was also included in FBR's revenue target for 2011-12. By inclusion of Rs 25 billion in FBR collection the total receipts will go up to Rs 1908 billion.

**Except customs duty all other taxes have missed their targets (Graph 1).**




## FBR Revenue Collection

FBR has collected Rs. 1883 billion during the FY: 2011-12 against Rs. 1,558 billion collected during FY: 2010-11 a growth of 20.9% has been registered. This achievement has been made despite general economic slowdown in the economy, particularly, the slow growth in the large manufacturing sector and less tax realization from major sectors like cement, beverages and services. Keeping in view the deteriorating economic conditions, this performance is satisfactory to a greater extent. The head-wise provisional collection of FY: 2011-12 is shown in the Table 2.

**Table 2: Comparison of Net Revenue Collection**

(Rs. Billion)

| Revenue Heads | FY: 2011-12 | FY: 2010-11 | Growth (%) |
|---|---|---|---|
| Direct Taxes | 738.8 | 602.5 | 22.6 |
| Sales Tax | 804.8 | 633.4 | 27.1 |
| FED | 122.5 | 137.4 | -10.8 |
| Customs | 216.9 | 184.9 | 17.3 |
| **TOTAL TAXES** | **1,883.0** | **1,558.0** | **20.9** |

Note: Rs 25 billion collected by SRB on account of services from Sindh was also included in FBR's revenue target for 2011-12. By inclusion of Rs 25 billion in FBR collection the total receipts will go up to Rs 1908 billion.

All the four taxes have performed well during the period under review except FED where there is a negative growth of 10.8%. Major reasons behind the negative growth is abolition of Special Excise Duty (SED) both at import and domestic stages, reduction of FED rates of beverages from 12 percent to 6 percent and also reduction of FED rates on cement from Rs 700 per Metric ton to Rs 500 per Metric ton. The collection under direct taxes has been 738.8 billion which is higher by 22.6% as compared to the corresponding period of last year. Similarly, an amount of Rs. 804.8 billion has been collected under the sales tax head during FY: 2011-12 indicating a growth of 27.1% over the collection of Rs. 633.4 billion in the comparable period of last year. This is partially due to the tax base broadening efforts of the Government by removing major sales tax exemptions and Zero rating. Sales tax collection from imports has registered a healthy growth of 39.4%. Around 15% growth has been yielded in sales tax collection from domestic side.

As far as customs duty is concerned, an amount of Rs. 216.9 billion has been collected during the year 2011-12. The collection of customs duty has recorded a growth of 17.3% over the collection of Rs 184.9 billion in the corresponding period of last year. This achievement has been made despite modest growth of 6.1% in the dutiable import during the period under review.

### Analysis of Refunds/Rebates

FBR is focusing on the taxpayers' facilitation in many respects. In this regard, speedy liquidation of pending refunds and prompt disposal of refunds claims have been the top priority of the organization. This is evident from the information provided in Table 3 that during FY: 2011-12, FBR has paid Rs. 139.2 billion refunds higher by 37.3% over refund paid during FY: 2010-11.

**Table 3: Comparative Position of Refunds/ Rebates Payments during FY: 20 11-12 and FY: 2010-11**

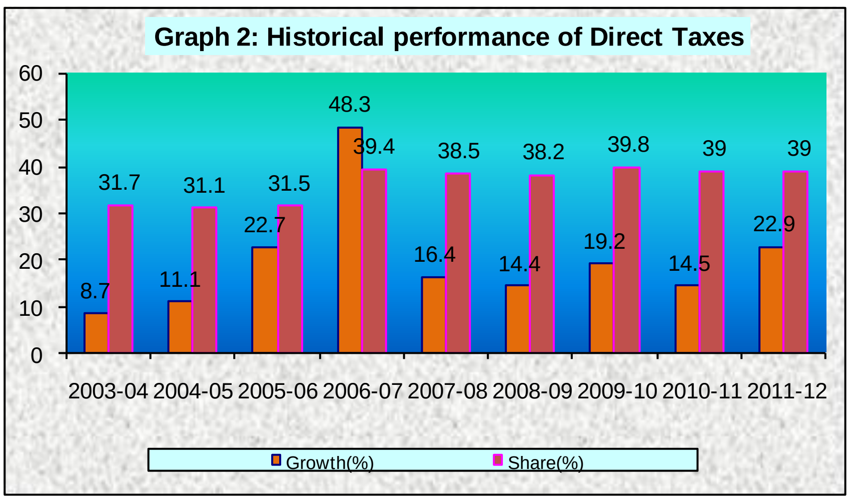
(Rs. Billion)

| Tax Head | Refund / Rebate | | Difference | |
|---|---|---|---|---|
| | 2011-12 | 2010-11 | Absolute | Growth (%) |
| Direct taxes | 91.6 | 46.7 | 44.8 | 96.2 |
| Sales Tax | 45.3 | 50.8 | -5.5 | -10.9 |
| Federal Excise | 0.2 | 0 | 0 | 0 |
| Customs Duty | 8.5 | 8.5 | 0.0 | 0.0 |
| **Total** | **145.6** | **106.0** | **39.3** | **37.3** |

### Detailed Tax wise Analysis

***Direct Taxes*****:** The direct taxes have contributed 39.2% in the total tax receipts collected during FY: 11-12. The net collection stood at Rs. 738.8 billion reflecting a growth of 22.6% over the corresponding period last year. An amount of Rs. 91.6 billion refunds has been paid back to the claimants as against Rs 46.7 billion during FY: 10-11.

If we look at the performance of direct taxes in a historical perspective, the improved tax efforts and effective implementation of tax policy and administrative reforms has geared up the collection over the years. The share of direct taxes in total federal tax receipts has increased from around 15% in 1989-90 to 32% in FY: 2000-01. It has touched 39% in FY: 11-12 (Graph 2). On the contrary, growth pattern which was uneven but on the rise during the past few years, has declined from 48.3% in FY: 06-07 to 21.5% in FY: 11-12. A number of reasons are there for this slowdown in revenue realization in few years. Apart from general economic slowdown and energy crisis during the period under review, the major setback has been due to reduction in the size of federal PSDP in past years which has adversely affected the revenue realization from WHT on contracts.




It may be recalled that the collection of direct taxes includes income tax and other direct taxes i.e. capital gain tax, worker welfare fund and worker profit participatory fund. The contribution of income tax in total direct taxes has been 97%.

The structure of income tax is based on withholding taxes (WHT), voluntary payments (VP) and collection on demand (COD). The collection during FY: 2011-12 shows that the share of WHT, VP and COD in gross collection has been 51.9%, 29.2% and 16% respectively. Details of these components of income tax are presented in Table 4.

**Table 4: Head-wise Performance of Direct Taxes**

*(Rs Million)*

| | 2011-12 | 2010-11 | Change (%) |
|---|---|---|---|
| Voluntary Payments | 237,362 | 196,066 | 21.1 |
| Collection on Demand | 129,954 | 72,182 | 80.0 |
| Deductions at Source (WHT) | 422,405 | 357,836 | 18.0 |
| Miscellaneous | 30,975 | 3,018 | 926.0 |
| Gross Income Tax | 831,908 | 629,102 | 29.4 |
| Total Net Direct Taxes | 738,822 | 602,451 | 22.6 |

*Source: FBR Data Bank*

**Analysis of Components of Income Tax**

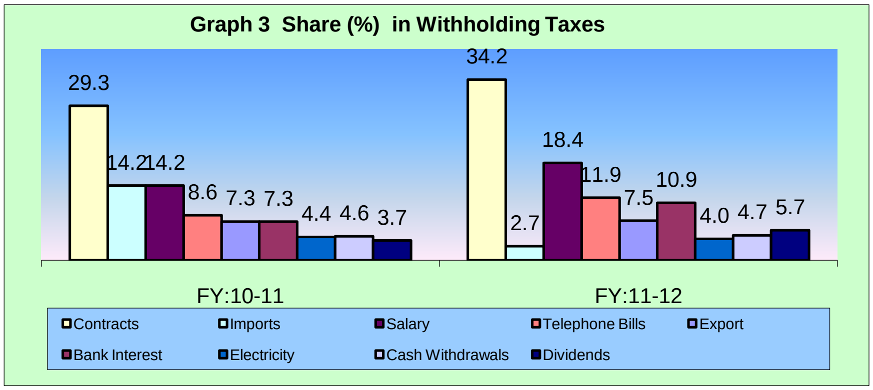
***Voluntary Payments (VP):*** This component includes payments with return and advances. Rs 237.3 billion have been generated during FY: 2011-12 as compared to Rs 196.1 billion in the corresponding period last year, 31.2% growth has been witnessed in collection from this important component. Since FY: 2007-08 this important source of revenue is on the declining trend in total share of direct taxes till date mainly due to non effective audits by the department. It may be highlighted that effective audit and punitive action against tax defaulters is the only effective tool in the hand of tax department. Major component of voluntary payment is advance tax where a sum of Rs 222.4 billion has been collected in FY 2011-12 against Rs 184.2 billion in FY: 2010-11. The second component of VP is payment with returns which has increased significantly during the period under review. During FY: 2011-12 Rs 14.9 billion were collected against Rs.11.8 billion in FY: 10-11, indicating a growth of 26.3% (Table 5).

**Table 5: Collection of Income Tax by Voluntary Compliance**

*(Rs .Million)*

| | **Collection 2011-12** | **Collection 2010-11** | **Change (%)** |
|---|---|---|---|
| Voluntary Payments (A+B) | 237,362 | 196,066 | 21.1 |
| A) With Returns | 14,964 | 11,852 | 26.3 |
| B ) Advance Tax | 222,398 | 184,213 | 20.7 |

**Withholding Taxes (WHT):** WHT continues to be the leading source of direct tax receipts in view of the large undocumented sector of the economy. However, despite its large contribution, there is ample scope to enhance this collection further. The WHT collection during FY: 11-12 has been Rs 422.4 billion against Rs 357.8 billion during FY: 10-11 indicating a healthy growth of 18%. The nine major withholding taxes contributed around 90% of total WHT collection. These are: contracts, imports, salary, telephone, export, bank interest/securities, cash withdrawal, dividends and electricity. The share of each category is given in Graph 3.




On the other hand, the highest growth in WHT collection has been from dividend (46.8%), bank interest (43.4%), salary (25.8%), imports (28.5%), exports (-3.3%), telephone (33.9%). The highest growth registered in collection from dividend is due to record growth in respect of disbursement of profits by the companies to their shareholders. The main reason is that the investment opportunity are shrinking down due to economic uncertainty and deteriorating economic indicators therefore, companies are not investing in new ventures and also are not retaining profit rather they are disbursing it. Similarly, the reason of 25.8% growth in collection from salary is due to increase in the pay package of employees. Likewise, growth of 28.5% from imports is mainly on account of increase in the volume of imports in the country.

**Table 6: A Comparison of FY: 11-12 & FY: 10-11 Collection**

*(Rs .Million)*

| | **2011-12** | **2010-11** | **Change (%)** |
|---|---|---|---|
| Contracts | 106,489 | 99,240 | 7.2 |
| Imports | 85,.334 | 66,399 | 28.5 |
| Salary | 57,338 | 45,581 | 25.8 |
| Telephone | 36,921 | 27,566 | 33.9 |
| Exports | 23,277 | 24,060 | -3.3 |
| Bank Interest | 33,823 | 23,584 | 43.4 |
| Cash Withdrawal | 12,538 | 10,630 | 17.9 |
| Electricity | 14,635 | 14,313 | 2.3 |
| Dividend | 17,620 | 12,003 | 46.8 |
| *Sub-Total* | *387,979* | *322,986* | 19.9 |
| Other WHT | 34,426 | 34,850 | 0.1 |
| **Total WHT** | **422,405** | **357,836** | **18** |

*Source: FBR Data Bank*

The higher growth of 43.4% in bank interest and securities is due to the reason that people are reluctant in investing in industrial sector/commerce & trade etc. rather they are waiting for conducive environment for safe investment. There has been modest growth of 7.2% in the major revenue spinner i.e. contracts as a result of economy cut on the size of federal PSDP.

***Sales Tax****:* GST is the major revenue generating sources of federal tax receipts. It constitutes around 42.7% of the total net revenue collection during the FY 2011-12. The gross and net sales tax collection during the year has been Rs 850.1 billion and Rs 804.8 billion, respectively, showing growth of 24.3% and 27.1% over the corresponding period of PFY**.** Of net collection, more than half of total sales tax is contributed by sales tax on domestic goods and services while the rest originates from imports. Within net domestic sales tax collection, major contribution has come from POL products, telecom, natural gas, services, fertilizer, sugar and cigarettes etc. On the other hand, POL products, edible oil, plastic resins, vehicles, iron & steel and machinery have made major contribution in the collection of Sales tax from imports. Month-wise details of Sales tax collection have been presented in Table 7. It is evident from the monthly collection trend that despite shifting of number of services to the Sindh province during CFY, the net collection has registered vibrant growths throughout the year except May, 2012 where there has been negative growth but the same has been compensated in June, 2012 where 17.8% growth has been recorded.

**Table 7: Sales Taxes Gross and Net Revenue Receipts:**

*( Rs. Million)*

| Months | F.Y 11-12 | | F.Y 10-11 | | Growth (%) | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| July | 66,668 | 61,674 | 42,902 | 40,800 | 55.4 | 51.2 |
| August | 66,572 | 64,395 | 54,163 | 51,568 | 22.9 | 24.9 |
| September | 63,134 | 59,248 | 45,409 | 41,333 | 39.0 | 43.3 |
| October | 66,333 | 63,726 | 54,011 | 46,784 | 22.8 | 36.2 |
| November | 65,285 | 61,006 | 49,826 | 46,207 | 31.0 | 32.0 |
| December | 75,115 | 70,957 | 58,907 | 55,911 | 27.5 | 26.9 |
| January | 70,839 | 65,578 | 52,349 | 46,579 | 35.3 | 40.8 |
| February | 60,631 | 57,066 | 49,201 | 44,994 | 23.2 | 26.8 |
| March | 68,745 | 64,734 | 51,940 | 48,495 | 32.4 | 33.5 |
| April | 69,839 | 66,865 | 56,695 | 52,300 | 23.4 | 27.8 |
| May | 79,672 | 75,734 | 83,971 | 78,681 | -5.1 | -3.7 |
| June | 97,314 | 93,863 | 84,918 | 79,705 | 14.6 | 17.8 |
| **July-June** | **850,148** | **804,846** | **684,192** | **633,357** | **24.3** | **27.1** |

It is manifested from data that growth under sales tax import has been 39.4% both at gross and net term, whereas due to sluggish growth in the economy and payment of refund by Rs.45.3 billion, has restricted its growth to 27.1% in net term.

**Table 8: Collection and Growth of GST: FY: 2011-12**

*(Rs Billion)*

| Heads | 2011-12 | | | 2010-11 | | | Growth (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross | Refund | Net | Gross | Refund | Net | Gross | Refund | Net |
| Import | 430.4 | 0.0 | 430.4 | 308.7 | 0.0 | 308.7 | 39.4 | 0.0 | 39.4 |
| Domestic | 419.7 | 45.3 | 374.4 | 375.5 | 50.8 | 324.7 | 11.8 | -10.8 | 15.3 |
| **Total** | **850.1** | **45.3** | **804.8** | **684.2** | **50.8** | **633.4** | **24.3** | **-10.9** | **27.1** |

*Source: FBR Data Bank*

***Sales Tax Domestic Collection and Major Revenue Spinners:*** The collection of sales tax has been highly concentrated in few commodities. This is confirmed by the fact that only petroleum products and telecom sector contribute more than 50% of the total sales tax domestic. Major ten commodities contribute 82.6% of the total net sales tax from domestic. Detail of major revenue spinners is presented in Table 9.

**Table 9: Comparison of Sales Tax Domestic (Net) Collection by Major Commodity: FY: 11-12 & FY: 10-11**

*(Rs Million)*

| Major Commodities | 2011-12 | 2010-11 | Growth (%) | Share (%) 11-12 | Share (%) 10-11 |
|---|---|---|---|---|---|
| POL Products | 150,380 | 153,276 | -1.9 | 40.0 | 47.2 |
| Telecom Sector | 49,132 | 52,657 | -6.7 | 13.1 | 16.2 |
| Natural Gas | 29,240 | 17,190 | 70.1 | 7.8 | 5.3 |
| Other Services | 17,410 | 20,655 | -15.7 | 4.6 | 6.4 |
| Fertilizer | 13,198 | 3,796 | 247.7 | 3.5 | 1.2 |
| Sugar | 12,732 | 7,275 | 75.0 | 3.4 | 2.2 |
| Cigarettes | 12,522 | 11,527 | 8.6 | 3.3 | 3.5 |
| Electrical Energy | 9,841 | 8,190 | 20.2 | 2.6 | 2.5 |
| Beverages | 8,432 | 8,342 | 1.1 | 2.2 | 2.6 |
| Cement | 8,049 | 4,862 | 65.5 | 2.1 | 1.5 |
| **Sub-Total** | **310,936** | **287,770** | **8.1** | **82.6** | **88.6** |
| Others | 63,507 | 36,939 | 71.9 | 17.4 | 11.4 |
| **Total** | **374,443** | **324,709** | **15.3** | **100.0** | **100.0** |

*Source: FBR Data Bank*

Petroleum has been the top revenue generation source of sales tax domestic and contributed around 40% of the total sales tax domestic during 2011-12. Its collection has negatively grown by 1.9%. Main reason of negative growth is attributed to decline in international price of oil during CFY as compared to past fiscal year. Besides, 120% higher refunds have been paid back to the oil sector which has adversely impacted the net revenues.

The collection from telecom sector has exhibited negative growth of 6.7% mainly due to shifting of Sindh related telecom sector to the province of Sindh effective from July 2011. The Sindh Revenue Board (SRB) has been entrusted to collect sales tax on telecom sector in the province. As far as natural gas is concerned; the gross collection has grown by 24.3% but due to less payments of refunds to the tune of 58% has pushed the growth in net collection to over 70%.

The services excluding telecom sector is the fourth major revenue generation source of sales tax domestic. The gross and net collection under this head has been Rs 17.5 billion and 17.4 billion respectively. However, due to shifting of number of services like hotel and restaurants, advertisements, courier services and customs agents etc. to the province of Sindh during CFY, resultantly negative growth in services has been witnessed. The collection from fertilizer sector has markedly improved and has registered a growth of 247% during CFY. This is mainly due to withdrawal of sales tax exemption from this sector.

The collection from cigarette sector grew by only 8.6% during FY: 2011-12. The growth seems below the expectation, as the rate of FED was also revised upward in the Budget FY:2011-12. On the other hand, the production grew marginally which is also one of the reasons for low growth. The collection from beverages has attained a modest growth of 1.1%which is mainly attributed to decline in effective rate during 2011-12. The collection realized from sugar has increased by 75% mainly due to increased effective rate to 6% in CFY as compared to 2% in the corresponding period of last year. The revenue fetched from cement reflected a considerable growth of 65.6% due to improvement in the taxable sales by 35.2% during FY: 2011-12.

***Sales Tax at Import Stage****:* Sales tax on imports is a significant component of federal tax receipts. The collection of sales tax has posted an increase of 39.4% during 2011-12 mainly due to withdrawal of exemptions on certain commodities and 16% growth registered in the value of imports during the year. Major 10 commodities of sales tax import have contributed 76% of the total sales tax collection (Table 10).

Like sales tax domestic, petroleum is also a leading source of sales tax collection at import stage. The collection of sales tax from petroleum reflected a growth of 42.3%. Although imports from petroleum products grew by 31% but main driver behind this growth is import of crude oil which is zero rated. Thus, growth in the collection of sales tax from petroleum is not matching with the overall growth in the imports of petroleum products.

The collection of edible oils (Ch:15) has improved by only 22% during 2011-12 due to 20% growth in the import of edible oil. Plastic is the third major revenue generation source of sales tax. It has contributed 6% of the total sales tax on imports. As far as automobile is concerned, around 42% growth in the collection of sales tax from imports of automobile has been recorded during 2011-12. The value of imports of automobile grew by only 37% during this period. Thus growth in revenue collection is almost aligned with growth in the value of import.

**Table 10: Collection of Sales Tax (Import) from Major Items**

*(Rs Million)*

| Description | 2011-12 | 2010-11 | Growth (%) | Share (%) 2011-12 | Share (%) 2010-11 |
|---|---|---|---|---|---|
| POL Products (27) | 157,278 | 110,543 | 42.3 | 36.3 | 35.8 |
| Edible Oil (15) | 34,898 | 28,598 | 22.0 | 8.1 | 9.3 |
| Plastic (39) | 26,102 | 24,575 | 6.2 | 6.0 | 8.0 |
| Vehicles and Parts (87) | 28,100 | 19,795 | 42.0 | 6.5 | 6.4 |
| Iron and Steel (72) | 21,809 | 19,010 | 14.7 | 5.0 | 6.2 |
| Mechanical Machinery (84) | 22,638 | 12,640 | 79.1 | 5.2 | 4.1 |
| Electrical Machinery (85) | 14,099 | 9,664 | 45.9 | 3.3 | 3.1 |
| Organic Chemicals (29) | 9,582 | 8,374 | 14.4 | 2.2 | 2.7 |
| Paper & P. Board (48) | 7,377 | 7,964 | -7.4 | 1.7 | 2.6 |
| Tea & Coffee (09) | 5,654 | 5,879 | -3.8 | 1.3 | 1.9 |
| ***Sub Total*** | **327,537** | **247,042** | **32.6** | **75.6** | **80.0** |
| Other | 102,873 | 61,652 | 66.9 | 23.9 | 20.0 |
| ***Gross*** | **430,410** | **308,694** | **39.4** | **100** | **100** |
| Refund/Rebate | 7 | 46 | -82.7 | | |
| **Net** | **430,403** | **308,648** | **39.4** | | |

### *Customs Duty*

Customs duty is levied on dutiable imports and contributing significantly to the national exchequer. In fact, it has contributed around 12% of federal tax receipts during 2011-12. Apart from tariff peaks, there have been 8 slabs of customs duty rates applicable during 2011-12 i.e. 0%, 5%, 10%, 15%, 20%, 25%, 30% and 35%. Apart from these slabs, there are tariff peaks applied on automobile and alcoholic beverages. There is an escalated tariff in Pakistan i.e. 0-5% applied on primary goods, 10-15% on intermediate goods and 20% & above on finished goods. Dutiable imports constituted around 40% of the total imports during 2011-12. This reflects that 60% of the total imports have been duty free during 2011-12 mainly through SROs. This phenomenon can also be viewed in the context of 16% growth in the value of total imports during 2011-12 while dutiable imports grew by only 6%. The gross and net collection of customs duty has been Rs 225.4 billion and Rs 216.9 billion respectively during 2011-12. The difference between the gross and net collection is the refund/rebate payment. In fact, Rs.8.5 billion has been paid back as refunds/rebates during 2011-12 against the same payments in the corresponding period of last year. The net collection of customs duty yielded a growth of 17.3%. The target allocated to the customs duty for 2011-12 was Rs 215 billion which was surpassed by 0.9%.

It is encouraging that receipts of customs duty exhibited a double digit monthly growth throughout the year except July, 2012 where lesser dutiable imports of mechanical machinery and petroleum products affected the collection. Month-wise details of customs duty have been given in Table 11

**Table 11: Customs duty Gross and Net Revenue Receipts**

*(Rs in million)*

| Months | F.Y 11-12 | | F.Y 10-11 | | F.Y 10-11 | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| July | 13,201 | 11,968 | 11,879 | 10,953 | 11.1 | 9.3 |
| August | 15,255 | 14,175 | 12,960 | 12,044 | 17.7 | 17.7 |
| September | 17,125 | 16,368 | 15,077 | 14,168 | 13.6 | 15.5 |
| October | 15,455 | 14,516 | 13,106 | 12,303 | 17.9 | 18.0 |
| November | 16,752 | 15,825 | 14,220 | 13,378 | 17.8 | 18.3 |
| December | 21,576 | 20,861 | 17,858 | 17,181 | 20.8 | 21.4 |
| January | 17,949 | 17,205 | 15,068 | 14,410 | 19.1 | 19.4 |
| February | 17,393 | 16,634 | 14,651 | 13,949 | 18.7 | 19.2 |
| March | 21,634 | 20,995 | 18,633 | 18,387 | 16.1 | 14.2 |
| April | 18,251 | 17,940 | 15,595 | 14,663 | 17.0 | 22.3 |
| May | 20,779 | 20,517 | 18,431 | 17,701 | 12.7 | 15.9 |
| June | 29,981 | 29,894 | 25,902 | 25,716 | 15.7 | 16.2 |
| **July-June** | **225,351** | **216,898** | **193,380** | **184,853** | **16.5** | **17.3** |

*Performance of Major Revenue Spinners of Customs:* There is a considerable degree of concentration of collection of customs duty in few items; only five items i.e. vehicles, petroleum products, edible oils, mechanical machinery and electrical machinery contributed 48.2% of the total collection during 2011-12. Similarly, 58.2% of the total collection of customs duty has been realized from 10 major commodities groups (PCT chapters). The collection of customs duty from these fifteen leading commodities (Chapters) is highlighted in Table 11.

Automobile (Ch: 87) is the top revenue spinner of customs duty which constituted 19% of the total customs duty collected during 2011-12. The collection of automobile grew by 53.4% during 2011-12 due to growth of 37.2% in the value of dutiable imports. The customs duty mainly emanated from motor cars (87.03) which are subject to tariff peaks. Dutiable imports of motor car etc has considerably improved by 51.4% which has vastly improved the collection from Rs.18.4 billion from 2010-11 to Rs. 33.5 billion during 2011-12. The commendable performance of customs duty from automobile sector has improved the share of 14.5% during 2010-11 to 19% in 2011-12.

Petroleum products have been the second major revenue source of customs duty. Some of the major petroleum items like crude oil, furnace oil, motor spirit, jp-1 etc are exempt from customs duty. Overall imports of petroleum products (CH:27) grew substantially by 31.1% while dutiable imports have recorded negative growth by 15.3%. This decline in the dutiable imports has resulted in drop of customs duty from POL by 18%. The customs duty from petroleum products mainly depend on the level of contribution by High Speed Diesel Oil (HSD). In fact, the value of imports of HSD has come down considerably by 17.2% and its collection has also recorded decrease by 19%. In fact, the imported quantity of HSD has dropped by 14% which has largely affected its collection. The decline in the collection of HSD has lowered the share of petroleum products from 11% in 2010-11 to around 7% in 2011-12.

Edible oils are the third major source of revenue generation of customs duty. Edible oils are subject to specific customs duty rates. During 2011-12, a growth of 6.7% in the collection of customs duty from edible was recorded as compared to FY: 2010-11. The major contribution in the collection of customs duty comes from the imports of palm oils. The collection from palm olien has significantly dropped from Rs.9.8 billion during 2010-11 to Rs. 6.3 billion in 2011-12 due to decline in the imported quantity by 35%. This decline has largely compensated by R.B.D plam oil. Its collection has increased robustly by 612% from Rs 0.7 billion in 2010-11 to Rs 5.1 billion during 2011-12 due to exceedingly higher growth of 643% in the imported quantity.

The dutiable imports of mechanical machinery (CH:84) has grown modestly by 6.8% while collection of customs duty from this item grew by 6.2%. On the other hand collection of customs duty from electrical machinery has increased by 4.2% while its dutiable imports improved by 12.7%. This mismatch is mainly due to only 2% growth in the collection of import of mobile phones while its value of import grew by 9.9%. Moreover, decline in the collection of motor heaters and board, console, disc etc have also contributed in lesser collection due to decline in dutiable imports.

The collection of plastic items has declined by 0.3% due to low growth of 1.3% in its dutiable imports during 2011-12. As far as iron and steel (Ch: 72) is concerned, the collection recorded a low growth of 3.2% against 11.8% growth in dutiable imports. This conspicuous mismatch mainly caused by higher dutiable imports of flat-rolled products of iron or non alloy (PCT 72.08) by 66.9% during 2011-12 and its collection grew only by 19%. The remaining three major revenue spinners of customs duty have recorded negative growth in 2011-12 as a result of declined in their dutiable imports.

**Table 12: Details of Collection of Customs duty during 2010-11**

*(Rs Million)*

| Description | 2011-12 | 2010-11 | Growth (%) | Share (%) 2011-12 | Share (%) 2010-11 |
|---|---|---|---|---|---|
| 1.Vehicles and Parts (87) | 43,090 | 28097 | 53.4 | 19.0 | 14.5 |
| 2. POL Products (27) | 17,554 | 21402 | -18.0 | 7.7 | 11.1 |
| 3.Edible Oil (15) | 18,417 | 17263 | 6.7 | 8.1 | 8.9 |
| 4.Mechanical Machinery (84) | 11,606 | 10929 | 6.2 | 5.1 | 5.7 |
| 5.Electrical Machinery (85) | 9,928 | 9528 | 4.2 | 4.4 | 4.9 |
| 6.Plastic (39) | 8,807 | 8832 | -0.3 | 3.9 | 4.6 |
| 7.Iron and steel (72) | 7,813 | 7574 | 3.2 | 3.4 | 3.9 |
| 8..Paper & P. Board (48) | 6,574 | 7277 | -9.7 | 2.9 | 3.8 |
| 9.Textile material (54) | 4,289 | 4453 | -3.7 | 1.9 | 2.3 |
| 10.Organic Chemical (29) | 3,873 | 3923 | -1.3 | 1.7 | 2.0 |
| ***Sub Total*** | **131,951** | **134,236** | **-1.7** | **58.6** | **69.4** |
| Other | 93,400 | 59,144 | 57.9 | 41.4 | 30.6 |
| ***Gross*** | **225,351** | **193,380** | **16.5** | **100** | **100** |
| Refund/Rebate | 8,453 | 8,527 | -0.9 | | |
| **Net** | **216,898** | **184,853** | **17.3** | | |

### *Federal Excise Duty (FED):*

Federal excise duty is levied at import and domestic stages. The major portion of the receipts emanates from domestic sector. The base of the federal excise duty is quite narrow and is limited to few commodities. Federal excise duty has contributed around 7% of total tax collection during 2011-12. The tax collection realized has been Rs 122.5 billion in 2011-12 as compared to Rs 137.4 billion in 2010-11 yielding a negative growth of 10.8%. Month wise collection is depicted in Table 12. The major reasons for negative growth were the abolition of SED and reduction in the rates of beverages and cement. A positive growth has been witnessed in the months of July, January and March, whereas growth in all other months was negative. Quarter-wise data reveals that first and third quarters recorded a positive growth whereas negative growth was recorded in second and fourth quarters.

**Table 13: Month-wise Collection of FED**

*(Rs. Million)*

| Months | 2011-12 | 2010-11 | Growth (%) |
|---|---|---|---|
| July | 9,668 | 7,293 | 32.6 |
| August | 9,867 | 10,322 | -4.4 |
| September | 8,900 | 9,296 | -4.3 |
| *Quarter 1* | *28,435* | *26,911* | *5.7* |
| October | 8,507 | 10,242 | -16.9 |
| November | 9,596 | 10,779 | -11.0 |
| December | 6,913 | 10,215 | -32.3 |
| *Quarter 2* | *25,016* | *31,236* | *-19.9* |
| January | 11,640 | 10,564 | 10.2 |
| February | 8,453 | 9,761 | -13.4 |
| March | 11,261 | 10,616 | 6.1 |
| *Quarter 3* | *31,354* | *30,941* | *1.3* |
| April | 10,752 | 13,088 | -17.8 |
| May | 13,393 | 16,246 | -17.6 |
| June | 13,510 | 18,931 | -22.0 |
| *Quarter 4* | *37,655* | *48,265* | *-22.0* |
| **July-June** | **122,460** | **137,353** | **-10.8** |

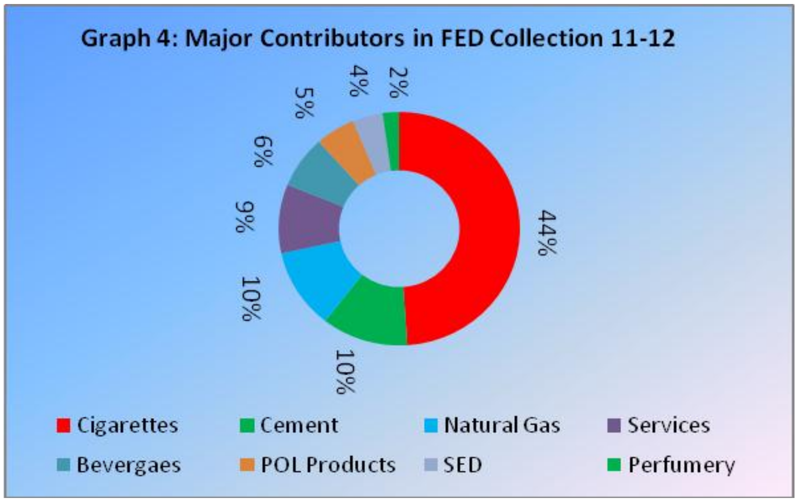
### *Analysis of Major Commodities of FED*

Among major items, cigarette has been the top most revenue generator with 44% share in FED collection, followed by cement (10%), natural gas (10%), services (8%), beverages (6%), POL products (5%) and perfumery (2%). Only eight major spinners of FED contributed 90% of the total FED collection.

**Table 14: FED Collection from Major Commodities**
**FY: 11-12 and FY: 10-11**

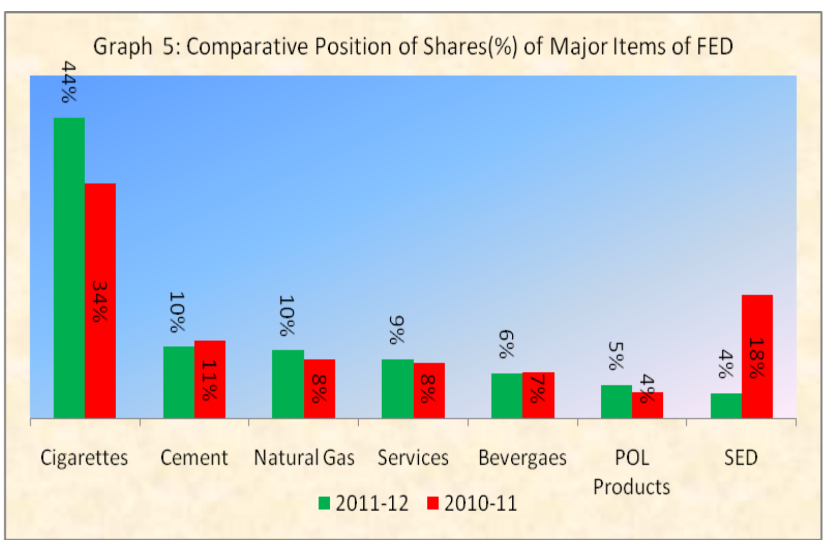
*(Rs Million)*

| Heads | Collection | | Growth (%) |
|---|---|---|---|
| | 2011-12 | 2010-11 | |
| Cigarettes | 53,492 | 47,070 | 13.6 |
| Cement | 12,686 | 15,469 | -18.0 |
| Natural Gas | 12,105 | 11,656 | 3.9 |
| Services | 10,425 | 11,023 | -5.4 |
| Beverages | 7,920 | 9,148 | -13.4 |
| POL Products | 5,839 | 5,120 | 14.0 |
| SED | 4,440 | 24,613 | -82.0 |
| Perfumery | 2,413 | 2,024 | 19.2 |
| **Sub-total** | **109,320** | **126,123** | **-13.3** |
| Others | 12,248 | 11,231 | 13.0 |
| **Grand total** | **122,460** | **137,354** | **-10.8** |




Cigarette is the most prolific revenue generation source of collection of FED. The collection of cigarettes has exhibited a growth of 13.6%, POL products by 14% and natural gas by 3.9% during 2011-12. On the other hand, during the same period collection of beverages declined by 13.4%, cement by 18% and services by -5.4%. As far as SED is concerned, 82% decline was recorded due to its abolition in Budget 2011-12.

The share of cigarettes has gone up from 34% in 2010-11 to 44% in 2011-12, Natural gas from 8% to 10%and POL 4% to 5% (Graph 5). The share of beverages and cement has declined from 7% to 6% and 11% to 10% respectively during the same period.



**Concluding Observations**

It is heartening that despite all odds and overall economic slowdown FBR has been able to collect Rs. 1,883 billion in fiscal year 2011-12. Overall target has been met to the extent of around 97%. The target of Rs. 2,381 billion set for FY: 2012-13 is challenging as about 27% growth over the PFY collection would be required to achieve the target. Keeping in view the huge target, FBR field formations have to strive hard and make all out efforts to achieve the revenue target of Rs.2, 381 billion for the CFY.

The FBR management is confident 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. The efforts will be supported by automation of the tax system. The integrated Tax Management System will provide assistance to all collectors and policymakers to deal with revenue collection. There will be focus on broadening of tax base and effective audit and enforcement for more resource generation.

## II
## An *Ex Post* Analysis of Budgetary Measures of Fiscal Year 2011-12

***By***
**Mir Ahmad Khan**[4]

### Introduction

Introduction of discretionary tax measures are a common feature of almost every tax system. In case of Pakistan, bulk of the tax measures announced at the time of Budget every year. A host of budgetary measures were announced in the Federal Budget 2011-12. Among other objectives, these budgetary measures were undertaken to reduce the cost of doing business and providing relief to the taxpayers and general public, promoting investment, reducing distortions and accelerating economic activity. Finally, the simplification of laws and procedures was also undertaken for the benefit of taxpayers. Specifically, major initiatives included abolition of special excise duty, reduction of standard sales tax rate by 1%, withdrawal of exemption of sale tax from defense stores, reduction of FED rates on cement & beverages, abolition of most of non-essential regularity duties, reduction of income tax rate of withdrawal of cash etc.

The objective of this paper is to undertake an *ex post* analysis of budgetary tax measures announced in the Budget 2011-12 in the light of *ex anti* projections. This will enable us to determine the accuracy of *ex anti* projections for future understanding and improvement. The projected impacts of the budgetary measures are taken into accounts while allocating targets to different taxes in the Budget every year.

A detailed *ex post* analysis of important tax-wise tax measures is presented in the following paragraphs.

### Measures Related to Federal Excise

The major policy changes in the FED regime were related to withdrawal of special excise duty, reduction of FED on cement, and beverages.

[4] *Author* is the Second Secretary, SP&S Wing, FBR

### *i) Withdrawal of Special Excise Duty*

In order to generate additional tax revenues, Special Excise Duty (SED) was levied at domestic and import stages vide SRO 655(I)/2007 dated 29th June, 2007. This arrangement continued till March, 2011 when rate of the SED was enhanced from 1% to 2.5% to raise additional receipts of FED to provide resources for floods victims. It was difficult to continue extra excise taxation measures creating distortion in the tax structure. Hence, the special excise duty both at import and domestic stages was withdrawn in the Budget 2011-12.

A loss of Rs. 12 billion was projected due to withdrawal of special excise duty. As is evident from Table 1, a huge loss of around Rs 20 billion in the collection of SED was recorded which is exceedingly higher than the projection. This has vastly affected the overall collection of federal excise duty.

**Table 1: Impact of Abolition of Special Excise Duties**

*(Rs Billion)*

| Collection Stage | 2011-12 | 2010-11 | Loss |
|---|---|---|---|
| i) Domestic | 4.3 | 14.0 | 9.7 |
| ii) Import | 0.1 | 10.6 | 10.5 |
| Total | 4.4 | 24.6 | 20.2 |

*Source: FBR Databank*

### *ii) Reduction of Rate of Duty on Aerated Waters*

Aerated waters were subject to federal excise duty @ 12% of retail price during 2010-11.The rate of federal excise duty levied on aerated water was reduced from 12% to 6% of the retail price in the Budget 2011-12. A loss of Rs. 2.6 billion was recorded due to this measure against projection of Rs. 1.5 billion at the time of Budget 2011-12. Details of the collection both at import and domestic stages have been spotlighted in Table 2:

**Table 2: Impact of Reduction of rate of Aerated Waters**

*(Rs Million)*

| Collection Stage | 2011-12 | 2010-11 | Loss |
|---|---|---|---|
| i) Domestic | 770.9 | 3,338.0 | -2,567.9 |
| ii) Import | 35.3 | 20.8 | 14.5 |
| Total | 805.4 | 3,358.8 | -2,553.4 |

***iii) Reduction of Rate of FED on Cement***

During 2010-11, cement was subject to FED @Rs. 700 per Metric ton which was reduced to Rs. 500 per Metric ton during the Budget 2011-12. A loss of Rs 2.8 billion was recorded against target of Rs. 3 billion as loss during 2011-12. The estimate for revenue decline in the Budget 2011-12 were in line with the actual impact to a great extent. Despite relief in the form of reduction of tax rates, the production of cement grew only around 2%.

***iv) Withdrawal of FED on Services Provided by Property Developers or Promoters***

Federal excise duty was levied on services provided by property developers or promoters @ Rs. 100/- per square yard on development of purchased or leased land for conversion into residential or commercial plots and Rs. 50/- per square foot of covered area in case of construction of residential or commercial units.

Since CVT was earlier transferred earlier to the provincial governments, therefore, federal excise duty on services provided by property developers and promoter was withdrawn during the Budget 2011-12 to reduce the quantum of taxation. A loss of Rs. 50 million was estimated at the time of Budget as compared to actual loss of Rs.63 million at the end of 2011-12.

***v) Upward Revision of FED Rates for Cigarettes***

Cigarette industry is the top revenue generation source of tax revenues in federal excise duty. In order to raise tax revenues from cigarettes, the rate of FED was increased in the Budget 2011-12. A comparison of FED rates of cigarettes during 2011-12 and 2010-11 has been highlighted in Table 3.

**Table 3: FED Rate for Cigarettes during 2011-12 and 2010-11**

| HS Codes | Category of Cigarettes (2011-12) | FED 2011-12 | Category of Cigarettes (2010-11) | FED 2010-11 |
|---|---|---|---|---|
| 24.02 | Locally produced cigarettes if their retail price exceeds eleven rupees and fifty paisa per ten cigarettes but does not exceed twenty-one rupees per ten cigarettes. | Six rupees and four paisa per ten cigarettes plus seventy per cent per incremental rupee or part thereof. | Locally produced cigarettes if their retail price exceeds ten rupees per ten cigarettes but does not exceed nineteen rupees and fifty paisa per ten cigarettes. | Five rupees and twenty five paisa per ten cigarettes plus seventy per cent per incremental rupee or part thereof. |
| 24.02 | Locally produced cigarette if their retail price does not exceed eleven rupees and fifty paisa per ten cigarette | Six rupees and four paisa per ten cigarettes | Locally produced cigarette if their retail price does not exceed ten rupees per ten cigarette | Five rupees and twenty five paisa per ten cigarettes. |
| 24.02 | Cigarette manufactured by a manufacturer who remains engaged on and after the 10th June, 1994, either directly or through any other arrangement if the manufacture of any brand of cigarette in non-tariff areas | Sixty five per cent of retail price. | Cigarette manufactured by a manufacturer who remains engaged on and after the 10th June, 1994, either directly or through any other arrangement if the manufacture of any brand of cigarette in non-tariff areas | Sixty five per cent of retail price |

The collection of federal excise duty from cigarettes has yielded a growth of 13.6% and increased from Rs. 47.1 billion in 2010-11 to Rs. 53.5 billion in 2011-12. In absolute, Rs. 6.4 billion higher collection has been realized during 2011-12 as compared to previous fiscal year. The projection for increased revenues from cigarettes was Rs. 9 billion in the Budget 2011-12. In the face of upward revision of FED rates of cigarettes, the production has dropped by around 3%.

***vi) Upward Revision of Federal Excise Duty on Unmanufactured Tobacco from Rs. 5 to Rs. 10 per Kg***

The unmanufactured tobacco is the main raw material used by the cigarette industry. During 2010-11, FED @ Rs. 5 per kg was levied on unmanufactured tobacco which was adjustable by a registered manufacturer. During Budget 2011-12, the levy of excise duty was enhanced from Rs. 5 per kg to Rs.10 per kg.

At the time of Budget, it was expected that additional collection of Rs. 50 million will be realized but actually Rs. 123 million was realized in 2011-12 against Rs. 315 million collected during 2010-11.

***vii) Abolition of FED from 15 items***

FED is a fading tax and its base has shrunk over time. In the Budget 2011-12, federal excise duty was removed from 15 items such as oil and subsidiary products, viscose staple fibre, motorcars, air conditioners and deep freezers. At the time of Budget, it was projected a loss of Rs. 800 million but actually only Rs.404 million has been foregone during 2011-12.

***viii) Reduction of Federal Excise Duty on Filter Rods From. 1/- per filter rod to 20% of Value of goods***

FED on filter rods during 2010-11 was Rs. 1 per filter rod which was converted to advalorem 20% of the value of the filter rod to bring down its cost. It was expected at the time of Budget 2011-12 that Rs. 200 million as additional collections will be realized but actually only Rs. 35 million has been collected during 2011-12 against Rs. 65 million in 2010-11.

**Measures Related Sales Tax**

***ix) Withdrawal of Exemption of Sales Tax from Defense Stores on Import and Domestic Local Supply***

In order to broaden the base of sales tax and improve revenue, exemption from sales tax was withdrawn from import and local supply of defense stores during Budget 2011-12. The projection for additional revenues was Rs. 10 billion at the time of Budget. In fact, Rs.7 billion has been realized during 2011-12.

***x) Reduction of Sales Tax Rate from 17% to 16%***

Sales tax standard rate on all goods and services was reduced from 17% in 2010-11 to 16% in 2011-12 to provide relief to the taxpayers and general public.

It was expected a loss of Rs. 35 billion from this measure at the time of Budget 2011-12. The impact of change of tax rates, however, has been estimated at around Rs. 36 billion.

***xi) Enhancement of Value Addition Tax on Commercial Importers from 2% to 3%***

Tax @2% was levied on commercial importer in term of value addition. In the Budget 2011-12, the rate of 2% was enhanced to 3%. The collection from value addition by commercial importers has vastly increased from Rs. 2.3 billion to Rs. 9.8 billion during 2011-12. This increase is exceedingly higher as compared to the projection of Rs. 3 billion in the Budget 2011-12.

**Measures Related to Income Tax**

***xii) Reduction in Withholding Tax Rate on Cash Withdrawals From Banks***

An adjustable advance tax @ 0.3% was withheld on cash withdrawals from a bank where such cash withdrawal exceeds Rs. 25,000 in a day during 2010-11.

In order to facilitate taxpayers and to improve their liquidity position, rate of tax deductable on cash withdrawal from bank was reduced to 0.2% in the Budget 2011-12. It was expected that around Rs. 3 billion will be foregone from this relief at the time of Budget. The collection from cash withdrawals has increased from Rs 10.6 billion to Rs. 12.5 billion during 2011-12 entailing an increase of Rs. 1.9 billion.

**Measures Related to Customs**

***xiii) Removal of Regulatory Duty***

In order to save foreign exchange, regulatory duty (RD) was imposed on 397 luxury / non-essential items in August, 2008. Considering the improved status of foreign exchange reserves and to remove the distortion created by this levy in the tariff, regulatory duty was removed on all the items except betel nuts, cigarettes, luxury tiles & bathroom fittings, luxury vehicles (1800 CC & above except electric hybrids) and arms & ammunition.

It was anticipated at the time of Budget that a loss of Rs. 2 billion will be incurred due to this measure. Actually, Rs. 2 billion was foregone due to abolition of regulatory duty which reflects the accuracy of estimates at the time of Budget 2011-12.

***xiv) Relief to Pharmaceutical Sectors***

A large number of pharmaceutical raw materials, medicines, diagnostic kits and packing materials are already either duty free or importable at concessionary rates. In continuation of this government's policy to provide relief to common man, 22 pharmaceutical raw materials were added to the existing concessionary regime for this sector. A projection of Rs. 100 million loss from these concession was made at the time of Budget. Actual loss due to concessionary rates of these items has been only Rs.29 million during 2011-12.

**Conclusion**

The tax measures announced in the Budget 2011-12 were mainly intended to provide relief to taxpayers and general public. A loss of around Rs.27 billion was projected from budgetary tax measures during 2011-12. Loss was projected in all the taxes i.e. Rs. 21 billion in case of sales tax & federal excise, Rs. 3.8 billion in direct taxes and Rs. 2.1 billion in customs. This reflects the resolve of the government in providing relief to the taxpayers and public at large, in all the taxes. In case of customs and income tax, the projection at the time of Budget 2011-12 was accurate to a great extent when compared with the ex post impact. However, in case of sales tax and federal excise duties, the impact of abolition of special excise duties has been quite higher than the projected amount. Measures like withdrawal of sales tax from defense stores and rate increase on the value addition of commercial importers have vastly increased the collection of sales tax which has neutralized the negative impact of relief measures to a great extent.

## III.

### Pakistan- Bangladesh Economic Expansion Challenges and Opportunities

*By*

**Umar Wahid**[5]

### Introduction

Geography plays a significant role in formulating relations between states. In the era of globalization and information technology, major requirements for a meaningful interaction at the official and non official levels also include political will, determination and commonality of interests. Pakistan- Bangladesh relations could be defined in the dichotomy of geographical reality and various common and divisive issues. Pakistan and Bangladesh are separated by 1,000 miles of distance but the two countries, despite being distant neighbors, also share numerous interest and objectives not only because of common history for over four decades but also in religious, economic, commercial, political and social areas.

Amidst the feelings overshadowed by the events of 1971, it has been an uphill task for Pakistan and Bangladesh to overcome the unpleasantness of the past and move towards a better future. But the question is how one should proceed to achieve that objective? According to Moonis Ahmad[6] "the growth of relationship between former adversaries is nothing new and often forms a part of real politik. There are instances of past enemies entering into excellent bilateral understanding and times forging multilateral cooperation found in today's Europe"

Bangladesh and Pakistan have a shared history and culture, and commonality of interest in a wide range of regional and international issues, which provide a sound basis for building cordial and mutually beneficial relationship between them. These two countries have already developed close cooperation in their

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[5] Author is Secretary (SP&S) Wing FBR. This paper was presented in the 11th SMC at Lahore commenced from 5th March - 21 July 2012. The author was a participant of the said course and highly indebted to the Chief Instructor and faculty Advisor of SMW for awarding this important topic for research. The paper has been modified to fit in the FBR quarterly review. There is substantial trade potential between the two countries. The economic expansion between the Pakistan and Bangladesh will benefit both the economies with respect to economic production, employment generation and revenue realization as well.

[6] Moonis Ahmar, Pakistan & Bangladesh: From Conflict to Cooperation ( Karachi MAS Printer 2004),19.

dealings with such multilateral bodies as SAARC, OIC, WTO, NAM, D-8, the United Nations and its specialized agencies. During the past four decades that elapsed since the break-up of Pakistan and the emergence of Bangladesh as a sovereign independent country, both these countries extended their trade links with the industrial countries because of their growing requirements of technical know-how, equipment, raw materials and intermediate goods. Bilateral trade between them has therefore remained low. There is, however, a growing realization at both official and private sector levels in the two countries of the need to expand trade and investment between them. At the official level, the desire is reflected in the formation, of SAARC, then SAPTA, and the SAFTA. The two countries have also a Joint Economic Commission (JEC), which is responsible for promoting cooperation in trade and other economic matters. At the private sector level, the growing realization among trade and industry circles of these two countries to intensify efforts at expanding both way trade is reflected in the strong links that have been established between the national federations of chambers of the two counties – FBCCI in Bangladesh and FPCCI in Pakistan - as also between the Karachi Chamber of Commerce and Industry (KCCI) and the Dhaka Chamber of Commerce and Industry (DCCI) to achieve the trade promotion objective. There are also regular business exchanges through visits of business delegations and seminars organized from time to time by the trade bodies of the two countries. Of late, the political leadership of the two countries has initiated efforts to sign a bilateral FTA to strengthen trade and economic relations between them. The business community of the two countries, too, has been showing keen interest in the planned FTA as means of expanding mutual trade. They believe that the FTA could be a stepping stone to achieve the goals of the recently established SAFTA, to which both these countries are deeply committed. There is a growing realization, at both official and private sector levels in the two countries, of the need to expand trade and investment between them.

Unfortunately, despite the presence of all these official and private forums, bilateral trade between these two countries is low. The total current trade volume between the two countries is about US$ one billion. Pakistan import over 100 commodities from Bangladesh, whereas export over 70 items to Bangladesh. However, few items such as raw jute, tea in bulk, jute manufactures, cut flowers and bamboo poles constitute more than 94% of import into Pakistan from Bangladesh. Similarly, Pakistan few export commodities to Bangladesh captured over 90% shares in total export to

Bangladesh. These items are: textile and textile articles, vegetable products, prepared food stuff and beverages, machinery and mechanical appliances, vehicles, vassals, and associated equipments etc. Thus the bulk of trade is concentrated in few major items.

Based on the above background, four sections have been developed to critical examine the Pakistan-Bangladesh relations: challenges, opportunities and prospects. Section-1 draws the back ground of Regional Trade Agreements that pave the way for bilateral trade between Pakistan-Bangladesh. Sections-2 dilates upon the analysis of bilateral trade between the two countries and Pakistan and Bangladesh relations in the economic and trade fields. Challenges and opportunities have been explained in Section-3 and prospects in Section-4. Finally conclusion and recommendations are given in Section-5.

## REGIONAL TRADE AGREEMENTS (RTAs)

Encouraged by the pace of adoption of WTO regime, Pakistan was in a position to proceed ahead with negotiating market access initiatives with partner countries on bilateral as well as on multilateral level. Pakistan and Bangladesh being member of WTO and other regional trade agreements has taken advantages of these available forums and enhanced bilateral trade which has reached to one billion dollar mark. The details are as under:-

### South Asian Free Trade Area

The South Asia comprising promising markets of India, Sri Lanka and Bangladesh have seen growing in scope for both traditional exports and new products. These three major SAARC members have a global trade volume hovering around 861.4 billion in 2011[7]. Apart from economic significance the region has political and strategic relevance. Restricted trade regime with India seriously reduced market size for a huge bordering SAARC member state. As for the remaining SAARC states including Bhutan, Nepal and Maldives the smaller size of the markets make them less attractive. Due to their closer proximity with India the domination by Indian trade renders Pakistan's exports uncompetitive. On the South West, Afghanistan as SAARC member has become a profitable market for traders as is evident from the export amounting to US$ 2336.7 million and imports in US$ 172 million[8].

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[7] WTO publications
[8] Ministry of Commerce

In pursuit of securing the vital economic interest in SAARC, Pakistan despite political tension with India and Afghanistan and geographic disadvantage with rest of the SAARC member states has retained its market presence. The establishment of SAARC in 1985 created an environment for regional trade expansion. This was initially formalized through SAARC Preferential Trading Agreement (SAPTA) entered into force on 7 December 1995. Pakistan could not implement SAPTA to avail tariff concessions in SAARC region. The concessions agreed under SAPTA were also not offered by Pakistan to India. However, India, Sri Lanka and Bangladesh partially implemented the concessions to improve competitiveness of their regional trade.

The lackluster market access under SAPTA necessitated a fresh initiative in the form of South Asian Free Trade Area (SAFTA) which is enforced since January 2006. Under the tariff reduction modalities the developing countries in South Asia i.e. India, Pakistan and Sri Lanka agreed to bring their duties in a phased manner. The least developed nations in South Asia (Nepal, Bangladesh, Bhutan, Afghanistan and Maldives) were allowed longer period for tariff reduction.

SAFTA's provisions envisaging removal of Non Tariff Barriers (NTBs) between member countries are crucial for Pakistan's trade expansion. These NTBs applied by India on import have impeded Pakistan's exports. In an effort to bring India to an understanding, Pakistan has been trading with India on positive list basis- a striking deviation from the principal of Most Favoured Nation  The successive Composite Dialogue in areas of trade achieved modest progress in elimination of NTBs by India. The concerns of Pakistan were also highlighted during SAARC Summits/Commerce Ministers meetings and private sector forums.

Pakistan's export under SAFTA reached US$ 1039.8 million mark while registered import exceeded US$ 1362.2 million in 2010. The regional potential is considerably substantial which needs to be capitalized by Pakistan to the maximum. Table 1 below indicates country wise trade in SAARC.

**Table 1 Pakistan's Trade with SAARC**

| Country/ Region | 2006-07 | | 2007-08 | | 2008-09 | | 2009-10 | |
|---|---|---|---|---|---|---|---|---|
| | Export | Import | Export | Import | Export | Import | Export | Import |
| SAARC | 810.8 | 1,437.9 | 1,959.7 | 1,925.2 | 2,287.0 | 1,432.8 | 2,611.3 | 1,501.5 |
| Bangladesh | 261.9 | 58.3 | 342.0 | 69.5 | 383.4 | 78.7 | 483.4 | 80.8 |
| Bhutan | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 |
| India | 342.9 | 1235.9 | 254.9 | 1,701.4 | 319.6 | 1,194.6 | 268.3 | 1,225.6 |
| Maldives | 3.6 | 0.0 | 4.5 | 0.0 | 5.6 | 0.0 | 4.3 | 0.2 |
| Nepal | 1.6 | 3.2 | 0.8 | 1.2 | 0.7 | 1.1 | 0.7 | 1..0 |
| Sri Lanka | 200.6 | 63.4 | 214 | 61.6 | 189.7 | 65.2 | 283.1 | 54.6 |
| Afghanistan | 753.9 | 76.3 | 1,143.7 | 91.4 | 1,395.5 | 93.0 | 1,571.5 | 139.3 |

The SAARC Agreement on Trade in Services signed by all the member states during 2010 expresses specific commitments for trade liberalization in services sector. The SAFTA process could not achieve progress for Pak- India differences mainly relating to NTBs. The need and scop of RTA between Bangladesh and Pakistan and has been explained in section 5 of this paper entitled "Opportunities"

**Other negotiations/MOUs to expand economic cooperation- early 20s**

**MOU between Pakistan Standards and Quality Control Authority (PSQCA) and Bangladesh Standards and Testing Institution (BSTI)**

Under this Memorandum of Understanding, the two countries would work to promote bilateral cooperation in the fields of standardization and quality assurance. Both Pakistan and Bangladesh would exchange information on standards, publication, manuals, information on industry level standards for harmonization of standard and also exchange information on quality management system certification. They agreed to study each others procedure for laboratory testing, and accreditation system besides exchanging information on testing facilities and training of their personnel and exchange of their experts.

**MOU on Tourism between the Government of Pakistan and the Government of Bangladesh.**

Under the MOU on tourism both the countries agreed to set up a Joint Working Group, which will meet at least once every two years to ensure proper implementation of the MOU. They will also invest in joint ventures in tourism and work on establishment of beach resort, heritage and amusement parks and hotels. They would also facilitate custom arrangements at the borders, arrange group tours to each other's countries and to third countries and exchange tourist information. The two countries would also arrange training in hotel management and the hospitality sector besides organizing exhibitions. Both the countries would also conduct familiarization tours for travel of writers, tourism professionals, academicians and print and electronic media personnel.

## **MOU between Export Promotion Bureaus of Pakistan and Bangladesh**

The MOU was between Pakistan and Bangladesh to seek cooperation between the Export Promotion Bureau's of the two countries that will strengthen their economic relations and ensure a structured and ongoing, mutually supportive programme to promote economic, commercial and business cooperation . The two sides would also facilitate investments on projects of mutual interest aiming at improving economic, commercial and business cooperation between companies of their respective countries, and go for joint ventures. The two sides would also exchange economic and commercial information, market research reports, trade directories, data and relevant information regarding foreign trade, existing facilities and procedures for the investors of the two countries. They would also arrange trade fairs and exhibitions and facilitate visa procedures for government officers and businessmen.

## **MOU between Pakistan Agriculture Research Council and Bangladeshi Agricultural Research Council**

Under the MOU between Pakistan Agriculture Research Council and Bangladeshi Agricultural Research Council the two sides would cooperate in agricultural science and technology, agricultural production including livestock, fisheries through Joint Ventures, exchange of scientific materials, information and personnel. They would also identify joint ventures in agri-business. The two research organizations would also undertake joint activities to exchange scientific information, expertise and research in the areas of tea production, germ plasma, technical assistance for mangoes, Bananas, watermelons, tropical fruits, saplings and seeds of good quality, high yielding varieties of oranges, grapes, mangoes and date palm, production technologies of wheat and cotton and pest management technologies. They would also exchange information and expertise in fisheries and livestock sector, lake and harbour management, fisheries, marine management, land and water use planning for aqua culture, fisheries and livestock management, planning, monitoring and evaluation, poultry and livestock development. Besides they would also cooperate in training in aqua culture (shrimp and fresh water fisheries), setting up of poultry and fish meal plants, establishment of milk and meat products, processing plants and animal quarantine stations with laboratory and training facilities.

## Overview of Economy of Pakistan and Bangladesh

GDP of Pakistan is US $ 211.1[9] billion (FY 2011), real GDP 2.9%, per capita income is US $ 1,254[10]. Net public debt as percentage of GDP is 49.3% in the country. Total exports US $ 26.37 billion (FY 2011) and total imports US $ 38.69 billion. Total trade volume is US $ 65.06 billion and trade balance is US $ - 12.32 billion. Similarly Pakistan world trade is US $ 28.143 billion which is 0.18% of the World trade. Agriculture continues to be the single largest sector, a dominant driving force for growth and the main source of livelihood for 66 percent of the country's population. It accounts for 20.9 percent of GDP and employs 45 percent of total work force. Manufacturing is the second largest sector of the economy accounting for 18.7 percent of GDP (Economic Survey 2010-11).

GDP of Bangladesh is US $ 115.2[11] billion (FY 2011), GDP per capita is US $ 690. Real GDP is 6.3%. Total exports is US $ 23.68 billion and total imports US $ 31.75 billion. Total trade volume is US $ 55.61 billion and trade balance is US $ - 7.89 billion. In contrast to Pakistan the economy of Bangladesh is mainly driven by the services sector which account for 52.9% in the overall GDP composition, followed by Industry which shared 27.8% in the GDP and agriculture is the third composition of GDP with share of 18.4%. Major industries of Bangladesh are cotton textiles, jute, garments, tea processing, paper newsprint, cement, chemical fertilizer, light engineering, and sugar.

Bangladesh export and import partners with trade volume is given below:

| **Export Partners:** | | **Import Partners** | |
|---|---|---|---|
| United States | 22.5% | China | 16.16% |
| Germany | 14.2% | India | 12.61% |
| United Kingdom | 9.6% | Singapore | 7.55% |
| France | 7.0% | Japan | 4.63% |
| Pakistan | 0.43% | Pakistan | 2.10% |

Source: International Trade Statistics 2011

[9] Source: IMF International Financial Statement, 2011
[10] Pakistan Economic Survey 2010-11
[11] Source: IMF International Financial Statement 2011

**Pakistan Export Profile**

Pakistan total export is around 21 billion US $. Major 10 commodities group constitute more than 80% of the total imports. Cotton, textile product and cereals are the major export item over the last five years. Table 2 below indicates the export trend during the last five years.

**Table 2: Profile of 10 major export of Pakistan**

*Million US $*

| S# | Commodities | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| 1 | Cotton | 3601.0 | 3439.5 | 3595.6 | 3203.8 | 4013.4 |
| 2 | Other made textile articles, Sets, worn clothing etc | 3243.5 | 3179.5 | 3145.5 | 2917.5 | 3284.5 |
| 3 | Cereals | 1152.3 | 1244.1 | 2507.9 | 1823.2 | 2279.5 |
| 4 | Articles of apparel, accessories, knit or crochet | 1902.2 | 1851.0 | 1888.5 | 1680.7 | 1982.4 |
| 5 | Articles of apparel, accessories, not knit or crochet | 1348.3 | 1371.0 | 1361.1 | 1206.5 | 1461.6 |
| 6 | Mineral fuels oils, distillation products etc | 841.2 | 994.4 | 1229.7 | 714.5 | 1202.6 |
| 7 | Articles of leather, animal gut, harness, travel goods | 680.3 | 691.6 | 766.8 | 577.9 | 618.8 |
| 8 | Pearls, precious stones, Metals, coins etc | 24.1 | 120.3 | 239.8 | 478.9 | 590.2 |
| 9 | Salt, sulphur, earth stone, lime and cement | 127.4 | 251.7 | 601.0 | 563.4 | 514.4 |
| 10 | Manmade staple fibers | 234.5 | 386.1 | 284.8 | 300.1 | 511.2 |

Source: WTO, International Trade Centre 2011

Pakistan's export has experienced ups and down during the last five years. The textile export is stagnant at around US $ 3 billion during the last five years. The less than satisfactory export performance of textile manufactures can be attributed to a variety of factors. First, it appears that Pakistan's textile exporter's could not compete with China, India and Bangladesh in the international market. Second, the discriminating and tied dumping duty of 5.8 percent on the bed linen export also affected Pakistan's competitiveness. Third, poor quality of cotton on account of contaminated cotton issue has also adversely affected the export of spinning industry. Fourth, the rise in Prima cotton price (a genetically modified version) which is imported from the USA is a critical input for producing higher quality bed wear and fabrics, has made these items less competitive in the international market.

## Bangladesh Trade profile

Bangladesh trade is mainly concentrated in few items, like Tobacco, textile products and fish. Table 3 below indicates the major 10 commodities exports during the last five years. Bangladesh being the less development country , enjoy trade concession in the European countries. Bangladesh major trade partners are the European countries.

**Table 3: Bangladesh Trade Profile**

*Million US $*

| S# | Commodities | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| 1 | Articles of apparel, accessories, knit or crochet | 4,072.10 | 4,734.70 | 7,476.90 | 7,789.70 | 8897.8 |
| 2 | Articles of apparel, accessories, not knit or crochet | 4,179.90 | 4,588.50 | 6,032.70 | 6,397.80 | 7038.1 |
| 3 | Other made textile articles, sets, worm clothing etc | 330.5 | 402.2 | 647.4 | 690.9 | 690.2 |
| 4 | Fish, crustaceans, mollusks, aquatic invertebrates nes | 538.1 | 694.6 | 567.2 | 483.1 | 517.1 |
| 5 | Vegetable textile fibers nes paper yarn, woven fabric | 379.1 | 475.1 | 434.5 | 396.5 | 507.4 |
| 6 | Footwear, gaiters and the like, parts thereof | 104.7 | 137.5 | 194.5 | 227.2 | 265.7 |
| 7 | Raw hides and skin( other than skins) and leather | 248.2 | 290.9 | 253.1 | 171.3 | 149.7 |
| 8 | Headgear and parts thereof | 62.3 | 67.4 | 121.7 | 98.4 | 118.1 |
| 9 | Mineral fuels, oils, distillation products, etc | 89.1 | 213.3 | 160.5 | 152.6 | 110.9 |
| 10 | Tobacco and manufactured tobacco substitutes | 18,420.0 | 23,696.0 | 30,873.0 | 49,746.0 | 71,786.0 |
| | Source: WTO, International Trade entre 2011 | | | | | |

**Commodity Pattern of Trade (Export, Import and Trade Balance)**

Pakistan’s export to Bangladesh is gradually increasing. In 2000-01 Pakistan export to Bangladesh was Us $ 95.22 million. The export has increased to US $ 908 million in 2010-11 ( Table 4 ).The export to Bangladesh is just 4.6 percent of Pakistan total exports. On the other hand Pakistan import from Bangladesh is very small. In 2000-01 Pakistan imported various commodities from Bangladesh amounting to US $ 32.08 million. However, the import reaches to US $ 76 million during FY: 2010-11. Bilateral trade between these two countries is not only very small but also has been growing very slowly over the past years . During the eleven-year period between 2000-01 and 2010-11, Pakistan export to Bangladesh grew at an average annual rate of 27.6 percent and imports from Bangladesh grew at the rate of 9.2 percent. The total value of trade (export plus import) between the two countries in 2010-11 was about $983 million.

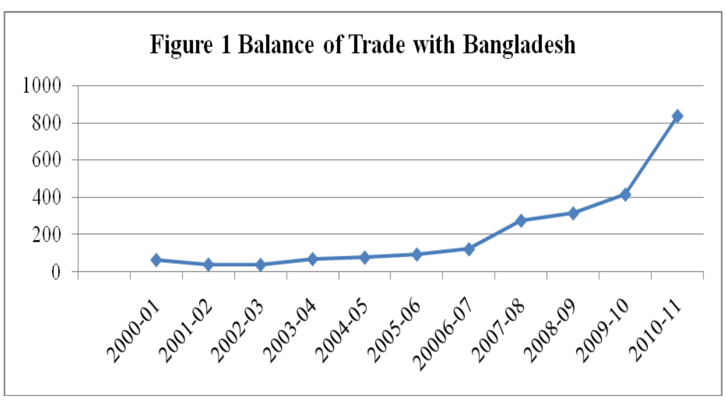
**Table 4: Trade Volume between Pakistan and Bangladesh**

Million US$

| Year | Export to Bangladesh | Import from Bangladesh | Trade Volume | Balance of Trade |
|---|---|---|---|---|
| 2000-01 | 95.22 | 32.08 | 127.30 | 63.14 |
| 2001-02 | 67.32 | 28.60 | 95.92 | 38.72 |
| 2002-03 | 68.68 | 31.50 | 100.18 | 37.18 |
| 2003-04 | 112.70 | 45.11 | 157.81 | 67.59 |
| 2004-05 | 138.92 | 63.12 | 202.04 | 75.80 |
| 2005-06 | 150.11 | 57.74 | 207.85 | 92.37 |
| 2006-07 | 181.40 | 61.06 | 242.46 | 120.34 |
| 2007-08 | 342.30 | 69.20 | 411.50 | 273.10 |
| 2008-09 | 383.10 | 70.71 | 453.81 | 312.39 |
| 2009-10 | 483.40 | 70.60 | 554.00 | 412.80 |
| 2010-11 | 908.00 | 75.00 | 983.00 | 833.00 |

Source: For imports, SBP Statistical Supplement 2010 and for exports, TDAP Statistics. There is slight variation between the figures of SBP and TDAP, which could be due to different source of information used by these two government agencies. Since commodities wise exports for FY: 2008-09 and 2009-10 were available with TDAP, therefore, that has been quoted. The variation is frictional.

It is also worth noting that Bangladesh has always had a deficit trade balance with Pakistan (Figure 1). The export from Pakistan has steadily increased over the last eleven years. There has been 27.6% average growth in export to Bangladesh. However, in the years 2003-04, 2007-08 and 2010-11 highest growth in export has been witnessed by 64.1%, 88.6% and 87.8% respectively. Bangladesh trade deficit size with Pakistan is although small, but it has been increasing every year. The deficit rose to $833 million in 2010-11 from $63.14 million in 2000-01.

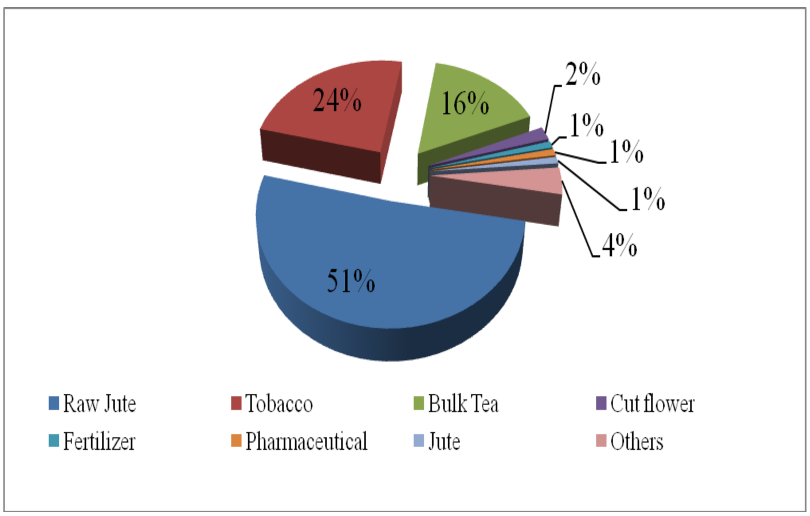



**Major Exports and Import of Bangladesh:**

Major exports of Bangladesh are raw jute, jute goods, tea, mats, crude vegetable material, jute machine spares, power cables, copper wires, finished leather, electrical goods, pineapples, readymade garments, betel leaves, sacks and bags of jute, jute Hessian cloth, text hast fiber. Bangladesh also exports other products such as cut flowers, shrimps, woven garments, furnace oil, frozen fish, carbon rod etc; but these account for very little foreign exchange earnings from Pakistan. Pakistan exports are raw cotton, cotton yarn, fabrics, railway couches, buses, trucks, agricultural equipment, road making machinery, power distribution equipment, container vessels, sugar and cement plant and various light engineering goods, petroleum products, pharmaceutical products, chilies, telecommunication equipment, vegetable and fruits, sugar cane refined, articles of apparel / cloth accessories and PVC unmixed substances.

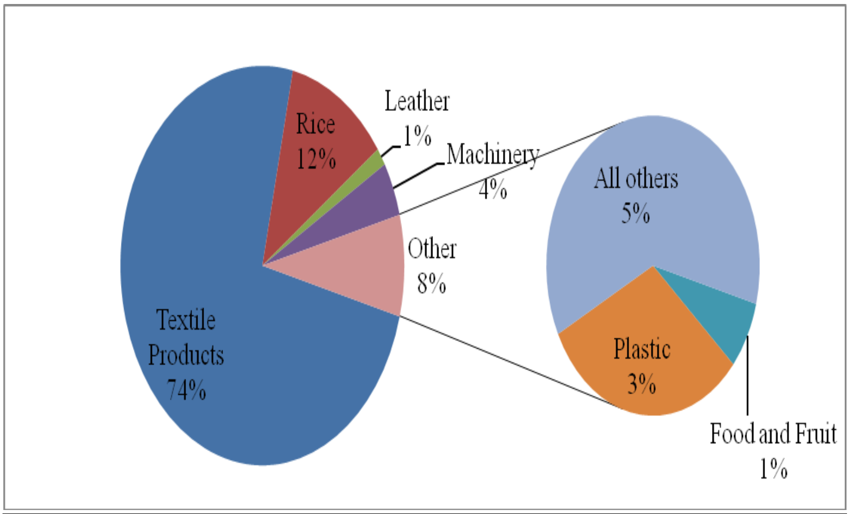
Besides all these commodities exported and imported by these two countries, trade is concentrated in few items. Pakistan import number of items from Bangladesh but few commodities like Raw jute, fertilizer and tea constitute about 90 percent of Bangladesh's exports to Pakistan (Figure 2).

**Figure 2 Pakistan Imports from Bangladesh**




As regards Pakistan export is concerned over 70 commodities is exported to Bangladesh, However, few items likes, cotton and manmade fibers and other textile products alone accounts for 75% of Bangladesh's total imports from Pakistan(Figure 3). Machinery, plastic products, rice, food and fruits and other minor products add another 25 percent to Bangladesh's total imports from that country

**Figure 3 Pakistan Exports to Bangladesh**




**Analysis of Trade Including Impediments and Expansion of Trade**

As is evident from table 3 above the balance of trade between Pakistan and Bangladesh during the last 7 years (from 2000 – 2001 to 2010-2011) has remained in favour of Pakistan from US$. 63.14 Million in 2000-2001, the trade balance increased to US$833 Million in 2010-2011. In contrast to Pakistan's export performance, imports from Bangladesh have increased at relatively slower pace. Pakistan's imports were US$32.08 in 2000-2001, which increased to US$. 75 Million in 2010-2011.

The major exports of Bangladesh to Pakistan are tea, Jute, Jute goods and other agro-products. The demand from Bangladesh that Pakistan should give duty free access to tea, Jute, Jute products was accepted when the then President of Pakistan paid three day visit to Dhaka in July 2002. In case the trade agreements and Memorandum of Understandings ( MOUs) singed between both the countries are implemented, this will enhance the trade between both the countries.

If we look at the export and import basket for both the countries, we will see that they have similar comparative advantage. Exports from both the nations are generally labour intensive manufactured goods such as clothing and textiles. These items account for more than two thirds of the export earnings for both Pakistan and Bangladesh. With almost similar export baskets, there is little opportunity for Bangladesh to export those products which are already being produced by Pakistan. Therefore, this has arisen the need for both the countries to diversify their products.

**Promotional Activities:**

The under-mention promotion activities undertaken by the government of Pakistan and the business community indicate the keeness to promote economic relations with the Bangladesh:

- Pakistan officially participate in annual Dhaka International Trade Fair (DITF).
- Pakistan participated in Bangladesh Textile Exposition (BATEXPO).
- Pakistan Date shows in Dhaka was held on 11-13 August, 2005.
- Our mission has also taken part in Chittagong Trade fair (CITF), Chittagong Women Exhibition etc;
- Pakistan High Commission participated in the Women Voluntary Association Mela with Pakistani products (annual event) on 04-02-2006;
- Pakistani exporters participated in Surgical Instrument Exhibition Meditex in April 2007;
- Private Sector of Pakistan has participated in annual Dhaka International Trade Fair (DITF) 2005, Textile Exhibitions in 2005-2006.

**There are following impediments[12] in the expansion of trade between the two countries. These are:-**

- Unlimited smuggling of Indian goods into Bangladesh;
- Transportation difficulties and high freight charges;
- Lack of purchasing power and availability of cheap Indian goods due to which it is difficult for Pakistan manufacturers to compete;
- Pakistan's major exports such as basmati rice, carpets / rugs, leather, readymade garments, fish and handicrafts are not in demand in Bangladesh.
- Out of nine major items of Bangladesh's import, namely raw cotton, yarn, cotton fabrics, sugar, wheat, fertilizer (non-urea based), ingots and billets, edible oil and transport equipment, only raw cotton, yarn and cotton fabrics are available for export from Pakistan.

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[12] Source: Ministry of Foreign Affairs publications 2005-2010

- Government agencies and state corporations handle bulk of commodity imports of Bangladesh, which generally import through international tenders. This is onerous because of protracted procedures and the requirement of submission of performance guarantee and bid bonds;
- Well established companies and export houses in Pakistan do not consider Bangladesh a lucrative market.
- Only small exporters and new companies have shown some interest but they only export their low quality products. Such exports are fraught with trade disputes with the result that those exporters either turn away from Bangladesh or are unable to sustain strong pressure in the market.
- Bangladesh requirements of Radiation Free Certificate for imported food items added cost to the consignments. Bangladesh side may be requested to do away with this requirement;
- Delivery of Pakistan consignments gets delayed due to absence of direct and regular shipping services. In order to offset the disadvantage, Pakistan proposed that opening of bonded warehouses may be allowed by Bangladesh so that stocks are readily available to the importers of Pakistani products;
- For pre-shipment inspection (PSI), Pakistan is currently included in the block of countries for which the authorized agent is the Dubai based Bureau verities. This discourages exporters and also results in shipment delays. Bangladesh may be requested to establish a full fledged office in Pakistan as soon as possible.
- For registration of drugs, Bangladesh requires our free sale certificate from one of the developed countries. As a result no new drugs are being registered and many Pakistani Cases have been lying pending with Bangladesh Drug Registration Authority. The matter was also discussed during the First Joint Business Council (JBC) meeting in August 2006. The Bangladesh side may be asked to waive-off this requirement.
- Non payment or late payments by Bangladesh Banks is also hampering the bilateral trade. Cases have also come where import documents have been released but goods not accepted. This issue was mentioned by the private sector delegation of Pakistan Bed Wear Association during their tour of Bangladesh in November 2005 again by Joint Business Council in August 2006. It was also proposed to request the banks to open branches in both the countries to facilitate trade. While Bangladesh has no bank here, Pakistan has three banks operating in Bangladesh.

The over view of economy of Pakistan and Bangladesh, the structure of exports and imports of Pakistan and volume of trade between Pakistan and Bangladesh have been explained above. Both private and public sectors of Pakistan are keen to promote trade relations with Bangladesh and are participating in annual Dhaka International Trade Fair, textile exhibitions etc. To broaden the areas of trade and commerce between the two countries, Bangladesh should take effective measures to control smuggling of Indian goods, open banks branches in Pakistan to facilitate the business community and industrialist, open pre-shipment offices in Pakistan and Bangladesh should do away with the requirements of Radiation Free Certificate for imported food items from Pakistan as it add cost to the consignments.

One of the reasons for low trade volume between Bangladesh and Pakistan is high transportation costs. In the absence of land routes for the transportation of goods, producers can not exploit economies of scale since goods have to be transferred by ships from Chittagong or Mongla port to the Karachi port via the Indian ocean. This is expensive and time consuming. Pakistan – Bangladesh Joint Economic Commission has already recommended to both the Governments to establish a direct shipping service between the two counties in order to promote commercial and trade links.

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**Challenges Confronting Economy of Both the Countries**

The main challenges confronting economy of both the countries are:-

- Small economic base,
- Undeveloped economies,
- Poverty and inflation,
- Smuggling,

- Non-tariff barriers, and
- High transportation cost.

Pakistan and Bangladesh have small economic base. Both the countries have un-developed economies. Half of the Bangladesh GDP is generated through the service sector, nearly two-thirds of Bangladesh are employed in the agriculture sector, with rice single most important crop. The major impediment to Bangladesh growth include frequent cyclones and floods, inefficient state-owned enterprises, inadequate port facilities, a rapidly growing labour force that can not be absorbed by agriculture, delays in exploring energy re-sources (Natural gas), insufficient power supplies and slow implementation of economic reforms. Poverty and inflation is another factor confronting economy of both the countries. Bangladesh 47% of the total population now lives below the poverty line as about 30 percent is affected by extreme poverty[13]. The unlimited smuggling of Indian goods into Bangladesh is adversely affecting economy of Bangladesh.

There exist non-tariff barriers that hinder[14] the trade between two nations. For instance, non-tariff barriers such as import restraints, technical requirements, in-consistent and lengthy customs procedures, and complicated documentation requirements are quite common to both countries that hampered smooth trade. In the absence of land routes for the transportation of goods, procedures cannot exploit economies of scale since goods have to be transported by ships from the Chittagong or Mongla Port to Karachi Port via the Indian ocean. This is expensive and time consuming. In additional to the cost of transporting goods across a longer route, exporters and importers are plagued with port inefficiencies that further push up the transaction costs. Lack of adequate equipment, inefficient operators and labourers and lengthy system of cargo releasing makes the cargo handling at the ports very slow. Due to lengthy process and burden of cargo, the turn-around time at Chittagong is mush higher than that of other ports in neighbouring countries.

[13] World Development Indicators 2010
[14] Saima Khan, "Trade Relations between Bangladesh and Pakistan", 22nd April, 2007.

**Pakistan - Bangladesh Joint Economic Commission (JEC) and Implementation of its Recommendations**

During 1979, both countries agreed to setup a Joint Ministerial Commission so as to provide an institutional framework for expanded technical and economic cooperation. Commenting on the formation of the Commission, Pakistan daily stated that it "should go a long way in paving the way for getting the two economies as closely inter-dependent as they were before." A real break-through in mutual trade can be achieved only when both sides develop mutually beneficial trade relations and allow the private sector to invest in different sectors of the economy. In the 8th Session of Joint Economic Commission held in Dhaka from September 12-13, 2005, it agreed to the following:-

- US$ 1 billon trade between[15] the two countries to be achieved by 2007,
- Consider entering into an Early Harvest programme to achieve the target,
- Encourage greater interaction between the private sectors of the two countries,
- Ensure participation in each others trade fairs and holding of single country exhibitions as well as specialized product fairs,
- Identify areas for joint ventures both in Bangladesh and Pakistan and also promote backward linkages in the textile sector,
- Establish a direct shipping service between the two countries in order to promote commercial and trade links, and
- The announcement that Pakistan would increase duty-free import of Bangladeshi tea from 10000-15000 metric tons.

The lesson which one learns after looking at the list of Pakistan – Bangladesh agreements, protocols and MOUs, it is evident that much progress has been made at the government level to expand bilateral relations in economic and trade relations. For a vibrant Pakistan-Bangladesh relationship, it is essential that meaningful people to people interaction is encouraged, and joint ventures, joint investment, educational and cultural exchanges at the non-official level also take place.

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[15] Source: www.mofa.gov.pk

**Tariff structure for SAARC under Free Trade Agreement- Bangladesh is a member country**

The South Asian Association for Regional Cooperation(SAARC) was established on December 8, 1985.The SAARC Charter was adopted by Governments of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka with a aim to accelerate the process of economic and social development in Member States. The Agreement on South Asian Free Trade Area(SAFTA) was signed at Islamabad during the Twelfth SAARC Summit on 6 January 2004[16]. The ratification of SAFTA by all the member countries is major achievement of SAARC mandate. SAARC Secretariat on 22 March 2006 has issued a Notification formally announcing the entry into force of SAFTA Agreement with effect from 1st January 2006.

The entry into force of the Agreement thus launches the South Asian Free Trade Area which would be completed by 1st January 2016. The first round of customs duty reduction would take place, as agreed by the Member States, in July/August 2006.

Under Article 7 of the Agreement tariff reduction Modality is defined as Trade Liberalization Programme (TLP) – in the first phase, India, Pakistan and Sri Lanka will bring down their customs tariff to 20% by 1st January 2008. As far as the LDC Member States i.e. Bangladesh, Bhutan, Maldives and Nepal are concerned, they would reduce their customs tariff to 30%. First tariff reduction would be effected on 1st July 2006 by all Member States with the exception of Nepal which would do so on 1st August 2006.

Article-7 of the Agreement contains modalities of tariff reduction under TLP, which are as follows:-

- No tariff reduction on items in the Sensitive List.
- Non-LDCs (Pakistan, India, Sri Lanka) shall reduce tariff to 0-5% for LDCs (Bangladesh, Bhutan, Nepal, Maldives) within three years (2009)
- Tariff Reduction by Non-LDCs for Non-LDCs **Reduction in two phases:**

[16] Ministry of Commerce website: www.commerece.gov.pk/trade agreement

***Phase-I(2006-2008)***

*Existing tariff rates above 20% to be reduced to 20% within two years*

*Tariff below 20% to be reduced on margin of preference basis of 10% per year.*

***Phase-II(2008-2013)***

*Tariff to be reduced to 0-5% within 5 years.*

Tariff Reduction by LDCs for all SAARC Members Reduction in two phases:

***Phase-I (2006-2008)***

Existing tariff rates above 30% to be reduced to 30% within two years tariff below 30% to be reduced on margin of preference basis of 5% per year.

***Phase-II(2008-2016)***

Tariff to be reduced to 0-5% within 8 years.

- No reduction of tariff on these tariff lines

***Summary of Sensitive Lists***

| **Countries** | **No of tariff lines** | **Percentage of total lines** |
|---|---|---|
| Bangladesh | **1254** | **24%** |
| Bhutan | **157** | **3%** |
| India | **884** | ***16.9%*** |
| Maldives | **671** | **12.8%** |
| Nepal | **1310** | **25.5%** |
| Pakistan | **1183** | **22.6%** |
| Sri Lanka | **1065** | **20.3%** |

**Tax collection**

Pakistan and Bangladesh are members of SAARC and working under the umbrella of SAFTA, therefore, tariff structure for trade with Bangladesh (non sensitive items) fall in the range of 0-5%, being LDC status of Bangladesh. However, Rs 1.8 billion has been collected under indirect taxes regime during the last four years. It may be highlighted that the trade between the two countries is aimed at boosting economic activities to generate more production, more employment opportunities that leads to more consumption and enhance tax collection. Tax collection under different heads is given in the following table 5

**Table 5 Tax revenue collection from Bangladesh imports to Pakistan**

Rs in Million

| Years | Customs Duty | Sales Tax | WHT | FED | Total |
|---|---|---|---|---|---|
| 2008-09 | 209 | 211 | 75 | 10 | 505 |
| 2009-10 | 312 | 294 | 123 | 18 | 747 |
| 2010-11 | 97 | 127 | 101 | 14 | 339 |
| 2011-12 | 69 | 104 | 77 | 8 | 258 |
| 4 years total | 687 | 736 | 376 | 50 | 1849 |

Source: PRAL data bank

## PROSPECTS

### Re-activation of The Joint Business Council

During July, 2002 two important steps were taken in the areas of bilateral cooperation between the two countries. These were:

- Institutional measures to enhance Pakistan – Bangladesh cooperation, and
- Pakistan unilaterally granted duty-free access to Bangladesh jute and tea to its markets.

In the area of Non-Governmental cooperation, the Federation of Pakistan Chambers of Commerce and Industries (FPCCI) and the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI) singed a memorandum of understanding (MOU) to establish a Bangladesh – Pakistan Joint Business Council to promote bilateral trade and investment through increased interaction between business people of the two countries. It will provide a regular and recognized platform for discussion on promotion of trade, investment, technology transfer, services and other industrial sectors between businessmen and industrialist of the two countries. The Joint Business Council agreement also marked the renewal of the agreement on economic and commercial cooperation, which were singed on 22 July 1992 in Dhaka between FPCCI and FBCCI. According to the details of the MOU, the Pakistan – Bangladesh Joint Business Council meetings will be organized in Pakistan and Bangladesh respectively for liaison and consultation between the two business circles. The Council will also exchange recommendations, receive businessmen and technical experts and conduct other activities useful in order to achieve the Joint Business Council purpose[17].

The First meeting of Joint Business Council[18] was held from 26th to 31st, August 2006. Both chambers agreed to cooperate on joint ventures in industrial sectors, exchange of trade delegations, establishment of a dispute resolution body and holding of single country trade fair. They also explored possibility of increased shipping and flight cargo facilities between the two countries and to pursue their Governments for early signing of Free Trade Agreement between Pakistan and Bangladesh.

**Free Trade Agreement (FTA)**

Growing intra-regional trade and Free Trade Agreement (FTA) is the mantra of every country. Trade within regional blocks constitutes nearly 50 percent of global trade, which is likely to increase further. The total volume of trade between Pakistan and Bangladesh stood around US$ one billion during the fiscal year 2010-2011. Pakistan exports to Bangladesh during the fiscal years 2010-2011 stood US$ 908 million while imports from Bangladesh were to the tune of US$ 75 million. Hence the trade tilts in favour of Pakistan. To give a boost to bilateral trade between Pakistan and Bangladesh both countries have decided to finalize a bilateral Free Trade Agreement. Bangladesh hopes to reduce trade gap through this agreement. The bilateral Free Trade Agreement (FTA) will allow increased access of Bangladeshi goods into Pakistani market.

During the visit of Prime Minister[19] of Bangladesh to Pakistan from 12-14 February, 2006, it was decided by leaders of two countries that Commerce Minister of Pakistan would visit Bangladesh to re-start negotiations on bilateral FTA. A bilateral meeting between the Commerce Minister's of the two countries was held on 19 April, 2006 on the sidelines of the First South Asian Free Trade Agreement (SAFTA) Ministerial Council (SMC) meeting at Dhaka. It was agreed that, bilateral FTA shall be a SAFTA plus initiative including

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[17] Moonis Ahmar, "Pakistan and Bangladesh: From conflict to cooperation", Pakistan Study Centre, University of Karachi, Karachi and Bangladesh Institute of International and Strategic Studies, Dhaka. 64-76

[18] Dr. Moonis Ahmar, "The Challenges of Cooperation in Pakistan-Bangladesh Relations", Institute of Regional Studies, Islamabad. 24

[19] Anand Kumar, "Pak-Bangladesh Relations in the Aftermath of Khaleda's visit", South Asian Analysis Group, dated 22-02-206 available at anandkrai@yahoo.com

shorter sensitive list, lesser phase out period and softer Rules of origin. Bangladesh has conveyed a list of 104 items for which it requested duty-free access to Pakistani market. It was decided that such issues could be discussed during the Free Trade Agreement (FTA) / Early Harvest Program (EHP). About Technical Level Negotiations on bilateral Free Trade Agreement, Bangladesh side has yet to respond. Pakistan and Bangladesh are already members of South Asian Free Trade Agreement (SAFTA). Free Trade Agreement with Bangladesh is supported on the grounds that it will provide maximum market share for Pakistani exports and will ensure level playing fields for Pakistani exporters viz-a-viz other competing exporters who have regional arrangement of free trades or preferential trade rights in the Bangladesh market.

**Cooperation in the Fields of Science and Technology and Information Technology**

Pakistan and Bangladesh have already signed an agreement for cooperation in the field of Sciences and Technology. Both the countries may look into the possibility of cooperation in the field of Information Technology and establishment of IT Parks in both the countries. An agreements on Scientific and Technological cooperation and exchange of plots for setting up of High Commissions in each other's countries were signed on the occasion of Bangladesh's Prime Minister Khaleda Zia's visit to Islamabad in August, 1992.

At the conclusion of two day Pakistan and Bangladesh Foreign Secretary level talks held at Dhaka in August, 2007, the two sides agreed to explore the potential areas of cooperation in different fields including scientific research. Progress has yet to be materialized.

**The Scope of Enhancing the Bilateral Cooperation**

Pakistan and Bangladesh are linked by common[20] faith and history and have similarity of perception on a wide range of regional and international issues. They are members of important regional and international organizations like, UN, SAARC, OIC, Common-wealth, NAM and D.8.

Pakistan and Bangladesh have unanimity of views on a number of issues, including the designation of the Indian Ocean as a zone of peace, withdrawal of Israel from the occupied Arab territories and the acceptance of the national rights of the Palestinians in their homeland, and the new international economic

[20] Source: Foreign office year book 2009-10

order[21]. The two sides reiterated commitment to their continued efforts to realize the objectives of OIC charter and to promote the cause of the Islamic ummah. They also exchanged views on the Middle East situation and expressed hope that to ensure peace and stability in the region all concerned would continue the process of dialogue and engagement. They expressed support for the inalienable rights of the Palestinian people.

Further Pakistan unilaterally granted duty free access to Bangladesh Jute and tea to its markets. The establishment of Joint Business Council is a right step toward promotion of bilateral trade and investment through increased interaction between business people of the two countries. Both the countries have decided to finalize Free Trade Agreement (FTA), the agreement will allow increase access of Bangladesh goods into Pakistani markets.

## CONCLUSION

Survival and prosperity of the region and particularly of Pakistan and Bangladesh depends upon reciprocal cooperation rather than conflict. The relationship between the two countries has witnessed many ups and downs during the last 41 years. Change of Governments in Pakistan and Bangladesh affect the level of relationship between them. It was during the reign of Begum Khaleda Zia when both countries through an agreement decided to take measures to control the declining trend in the two way trade and work for its balanced growth. Participation of private sector in trade and industry, trade fairs and exhibition in each others countries was encouraged. Joint Business Council was re-activated. Under the Memorandum of Understandings (MOUs) signed during the visit of former Prime Minister of Bangladesh Begun Khaleda Zia in Feb, 2006, both countries have agreed to cooperate in the fields of agriculture, tourism, to promote bilateral cooperation in the fields of standardization and quality assurance. Both private and public sector of Pakistan are keen to promote trade relations with Bangladesh and are participating in annual Dhaka International Trade Fairs, textile exhibitions etc. Pakistan has already allowed duty free import of tea, Jute and Jute products. To facilitate trade and business, Bangladesh may open bank branches in Pakistan, open pre- shipment inspection offices in Pakistan and Bangladesh should do away with the requirements of Radiation Free

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[21] Pakistan Horizon vol-06, Number 4 October 2007. Also available at www.mofa.gov.pk

Certificate for imported food items from Pakistan as it add cost to the consignments.

Bangladesh is a "least developing country" due to which it enjoys the duty free exports to European Union and other countries. This comparative advantage of enhanced international access could be availed by Pakistani industrialists if they set up factories in Bangladesh especially in engineering and textile sectors.

In the era of globalization, privatization and de-regulation both the countries should facilitate private sectors to enter into joint ventures in the fields of textile, engineering goods and agri-business. The Governments of Pakistan and Bangladesh should act as facilitator and regulator.

As stated above, there exist non-tariff barriers that hinder trade between two nations. For instance, non-tariff barriers such as import restriction, inconsistent and lengthy custom procedures and complicated documentation requirements are quite common in both the countries. These should be removed. Efforts may be made to remove irritants in the relationship.

One of the reasons for low trade volume between Bangladesh and Pakistan is high transportation costs. In the absence of land routes for the transportation of goods, producers can not exploit economies of scale since goods have to be transferred by ships from Chittagong or Mongla port to the Karachi port via the Indian Ocean. This is expensive and time consuming. Pakistan – Bangladesh Joint Economic Commission has already recommended to both the Governments to establish a direct shipping service between the two counties in order to promote commercial and trade links.

Pakistani textile products are low value added and are of poor quality, therefore, fetches low international price. The machinery installed in recent years is old in relation to Pakistan's competitors. These machines are power intensive, less productive and carry higher maintenance cost. Increase wastage of inputs also adds to their cost. Pakistan's labour is less productive because little or no efforts have been made to impart training or improving their skills. Pakistan's exporters spend little money on Research and Development. There are structural issues and must be addressed by the industry itself with government playing its role of a facilitator and providing temporary financial assistance to address short term issues mentioned above.

If we look at the export and import basket for both the countries, we will see that they have similar comparative advantage. Exports from both the nations are generally labour intensive manufactured goods such as clothing and textiles. These items account for more than two thirds of the export earnings for both Pakistan and Bangladesh. With almost similar export baskets, there is little opportunity for Bangladesh to export those products which are already being produced by Pakistan. Therefore, diversification of products is needed by both the countries.

In the nutshell, both countries have political will to work together to expand volume of trade and commerce. Establishment of ties in IT sector will boost the economy of both the countries.

## RECOMMENDATIONS

To further strengthen Pakistan-Bangladesh relations, the recommendations are given as under:

i. Both the countries should liberalize their market for each other and finalize the over due Free Trade Agreement at the earliest. FTA will definitely pave the way for opening trade opportunity and will help expansion of trade between the two countries. Bangladesh trade gap will be reduced with the help of this agreement. The Joint Economic Commission and Joint Business Council should be activated to perform important role and provide institutional support.

ii. Bangladesh fall under the category of 'Least Developing Country' therefore enjoy preferential treatment of duty free export to European Union and other countries. This is a competitive advantage for Bangladesh. This facility could be availed by the Pakistani industrialists if they set up factories in Bangladesh especially in the Engineering, Information Technology and textile sectors.

iii. Pakistan and Bangladesh have a bright future for promotion of bilateral trade provided the people to people contacts are rapidly increased which increases confidence among them. In the area of non-Governmental cooperation, close inter-action between the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and the Federation of

Bangladesh Chambers of Commerce and Industries (FBCCI) should be encouraged by both the Governments.

iv. Non-tariff barriers at both ends which hinder the trade between two nations should be removed by signing FTA.

v. Pakistani textile products are low value added and are of poor quality, therefore, fetches low international price. The machinery installed in recent years is old in relation to Pakistan's competitors. These machines are power intensive, less productive and carry higher maintenance cost. Increase wastage of inputs also adds to their cost. Pakistan's labour are less productive because little or no efforts have been made to impart training or improving their skills. Pakistan's exporters spend little money on research and development. There are structural issues and must be addressed by the industry itself with government playing its role of a facilitator and providing temporary financial assistance to address short term issues mentioned above.

vi. In the era of globalization, privatization and de-regulation both the countries should facilitate private sector to enter into joint ventures in the field of textile, Information Technology, engineering goods, Information Technology and agri-business. The Government of Pakistan and Bangladesh should act as facilitator and regulator.

vii. If we look at the export and import basket for both the countries, we will see that they have similar comparative advantage. Exports from both the nations are generally labour intensive manufactured goods such as clothing and textiles. These items account for more than two thirds of the export earnings for both Pakistan and Bangladesh. With almost similar export baskets, there is little opportunity for Bangladesh to export those products which are already being produced by Pakistan. Therefore, this has arisen the need for both the countries to diversify their products.

viii. One of the reasons for low trade volume between Bangladesh and Pakistan is high transportation costs. In the absence of land routes for the transportation of goods, producers can not exploit economies of scale since goods have to be transferred by ships from Chittagong or Mongla port to the Karachi port via the Indian ocean. This is expensive and time consuming. Pakistan – Bangladesh Joint Economic Commission has already recommended to both the Governments to establish a direct shipping service between the two counties in order to promote commercial and trade links. Bangladesh should allow Pakistan to set up warehouses in Bangladesh to stock products to meet the growing demand

ix. Joints working Group and Joint Business Council should follow up the effective implementation of agreements entered into by both the Governments.

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## IV. MONITORING OF WITHHOLDING TAXES: AN APPRAISAL


***By***

**Muhammad Imtiaz Khan[22]**


### Introduction

Major sources of Tax Revenue in the country are Federal Taxes comprising of Income Tax, Sales Tax, Custom duties and Federal Excise Duty. Out of total collection for previous financial year the share of Direct Taxes comes to around 39% of the taxes collected by FBR. Within total Direct Tax revenue, more than 56% comes from various withholding taxes which are characterized by their adjustable and presumptive nature.

The concept of withholding tax revolves around the "Payer" known as the 'Withholding Tax Agent' (WTA), the 'Payee' on whose account the tax is withheld at source, the 'Type of Income/Receipt/Economic Transaction' the 'The Rate ' the 'Time of deposit of Tax' in Government Treasury /SBP/NBP and the 'Filing of WHT Statements'. The key element in the whole concept of withholding taxes is the WTA who is legally obliged to perform the following functions.

i) Timely deduction/collection of tax at the prescribed rate of tax.

ii) Timely deposit of deducted/collected tax in the Government Treasury/SBP/NBP.

iii) Timely filing of the WHT statements on the prescribed form and in the prescribed mode (e-filing and manual filing) on monthly and annual basis.

### SIGNIFICANCE / RATIONALE OF WITHHOLDING TAXES:

Withholding is an act of deduction or collection of tax at source, which has generally been in the nature of an advance tax payment. It is an effective mechanism and important /timely source of revenue. It is transaction based taxation, the philosophy behind the Withholding Taxes is quite akin to pay-as you-earn philosophy of taxation. Since the withholding taxes are transaction related, they are easy to collect. The significance of the withholding tax can be

[22]The author is Secretary (Strategic Planning Research and Statistics) FBR. Material/data has been used from deferent reports and publications of FBR

gauged from the exponential growth from Rs.5 (b) in 1991 to Rs.357.8 (b) in 2011-2012 and consequential heavy reliance on withholding taxes in Pakistan.

For developing countries like Pakistan it is convenient to collect, keeping in view the inadequately documented economy and limited outreach of the department. The withholding Taxes solve the cash flow problem of the Government for its regularity as well as the taxpayers find it convenient as well as their annual tax burden is spread over the year, helping them discharge their tax liability in installments. It is an important tool of documentation and broadening of tax base. The withholding tax regime provides considerable documentation to the economy and effective control to the employees of the organization. These taxes prevent considerable escapement of income being all pervasive in the economy.

The withholding mechanism allows collecting tax prior to determination of the final tax collectible during the year. Tax collected is either final discharge of tax liability or adjustable. It is final in cases where it is difficult to trace the persons in whom name tax has been deducted. Whereas it is adjusted against the tax liability arrived at on the basis of total taxable annual income. This is in fact an advance tax to be counted in future.

Since the tax machinery suffers from inadequate technological tools to capture all the business transactions during the year, the legislator has placed responsibility on the withholding agents to collect so as to meet the ever increasing demand of the budget. This fact has resulted both in horizontal and vertical growth of withholding taxes.

**Background:** Under the repealed Act, 1922 tax was deducted from two main sources of income; salaries and interest on securities. Over the period of time, Withholding Tax net was extended by steadily introducing different Provisions in the Tax Laws. The repealed Income Tax Ordinance, 1979, brought in all the provisions of the Income Tax Act, 1922. However, in 1990s, withholding tax net was expanded extensively by providing for withholding taxes on a wider variety of transactions and making most of them presumptive. Provisions of the Income Tax ordinance, 2001**,** are more or less the same, except for a few changes and additions. Important withholding provisions relate to salary, imports, exports, commission and brokerage, dividend, contracts, profit on debt, utilities, vehicle tax, stock exchange transactions and non-residents, etc., with varying rates.

In the international context, withholding taxes provide a clear picture to the other economic partners and prospective investors about the taxation regime and serves as important source of policy initiatives of a country. In recent years, globalization has forced many countries to alter their economies to harmonize tax policies and alignment thereof with new trade and investment policies embodied in the free trade agreements.

The concept of "Hang Together" is more relevant today than ever before. Countries can neither close their borders nor their economies. Tax policies cannot be isolated from the international economies either. Tax competition is almost an un-alloyed evil, working as a constraint on government overreach. Countries, thereof, have to take positive steps to protect the integrity of their individual and corporate tax systems from the competition so engendered.

Withholding taxes are popular in almost all countries for various strategic reasons such as the Withholding tax provisions are part of all developed tax systems and in fact, are, treated as a parameter of voluntary compliance of tax laws by the taxpaying community. On account of above benefits and many other factors, withholding taxes form part of all developed tax systems of the world albeit the difference in the treatment given to them by different systems may vary whether it is an Advance or a Presumptive/Final tax.

Except very few developing countries, the withholding concept of taxes is internationally in practice with different nomenclature and mechanism i.e. "VAT system of taxation". In its ultimate gains, VAT or value added tax is also kind of extra tax that is levied other than the regular taxation. VAT being the ultimate refined version of withholding tax and now universally levied in all advance countries is likely to replace withholding taxes with passage of time in Pakistan as well[23].

## LEGAL FRAME WORK AND ADMINISTRATION OF WHT

The authority of the Directorate –General of Withholding taxes was created through an order (Income Tax) C.No. 1(20) IT-Jud/2007 dated 4th January, 2008

[23] The ideas have been extracted from SOP of withholding taxes by Sardar Amin-ullah Khan available at www.fbr.gov.pk accessed 5.7.2012

to specify functions, jurisdiction and powers of the Director General Withholding Tax in respect of persons of classes of persons or areas, which are falling under the jurisdictions of large Taxpayers' Units and Regional Tax offices all over Pakistan[24]. Later on through Finance Act 2008 section 23A was inserted in the Income Tax Ordinance 2001. Similar legal framework needs to be provided under the Sales Tax Act, 1990 and an Order (Sales Tax) needs to be issued to specify functions, jurisdiction and powers of the Director General, Withholding Taxes for the purposes of withholding of Sales tax at source[25].

The assignment assumed by Directorate General of Withholding Tax mainly comprises of the following two components.

i) To liaise and coordinate with field offices for effective monitoring of withholding taxes

ii) Strengthen Withholding Tax collection

**Withholding Tax Regimes**

The regimes of withholding taxes in Income Tax cover a wide range of areas of income earning activities and other economic activities. The Withholding tax provisions of Income Tax Ordinance cover the following income earning and economic activities[26].

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[24]Federal Board of Revenue Secretary (Income Tax Judicial) order vide C.No.1(20)IT-Jud/2007. Dated 4th January, 2008

[25]Shahid Azam Khan "Action Plan for Monitoring of Withholding Taxes". Federal Board of Revenue, Directorate General of Withholding Taxes Islamabad (26th September, 2009) P/4.

[26]Action Plan P/6

| SECTIONS | ECONOMIC ACTIVITES | WTAs |
|---|---|---|
| 148 | Imports | Collector of Customs |
| 149 | Salary | Employer |
| 150 | Dividends | Companies |
| 151 | Profit on Debt | National Saving, Post Office, Banks Financial Institutions Finance Societies, Companies Fed/Prov/Local Govts |
| 152 | Payments to Non-Residents | Every person |
| 153 | *Payments for goods & Services* | Federal Govt, Provincial Govt Companies AOPs |
| 153A | Payments to Non-Resident Media Person | Every Person |
| 154 | Exports | Banks Authorized dealer of Foreign Exchange EPZ Authority Collector of Customs |
| 155 | Income form Property | Federal Govt, Provincial Govts, Local Govts ,Companies NPOs |
| 156 | Prizes and Winnings | Every person SBP, Companies. |
| 156A | Petroleum Products | Sellers of petroleum products to petrol pumps |
| 156B | Withdrawal from pension funds | Pension Fund Manager |
| 231A | Cash Withdrawal from Banks | Banks |
| 231AA | Cash Withdrawal from Banks | Banks |
| 231B | Purchase of Motor Cars and Jeeps | Motor Registration Authority |
| 233 | Brokerage and Commission | Fed/Prov/Local Govts Companies, AOPs |
| 233A | Collection of Tax on shares Trading etc | Stock Exchanges |
| 234 | Tax on Motor Vehicles | Motor Registration Authority |
| 235 | Electricity Consumption | Electricity Supplying Companies |
| 236 | Telephone Users | Telephone Companies Calling card Sellers |
| 236A | Auctions | Every person making sale by public auction. |
| 236B | Purchase of Air Ticket | The person preparing Air Tickets |

**Withholding Tax Statement**

There is only monthly statement to be filed within 20 days from the end of each month i.e. by 20th of each succeeding month for the following withholding tax regimes.

Imports, Salary, Dividend, Profit on Debt, Payments to Non-residents, Contracts & Supplies, Exports, Prize Bonds, Petroleum Products, Cash withdrawals from bank accounts, Purchase of new cars, Brokerage & Commission, shares trading on Stock Exchanges, Tax on Motor Vehicles, CNG Stations, Electricity, Telephones,

**The Challenges**

Despite their usefulness and universal character, the withholding tax regime has created many problems in Pakistan for the taxpayers and the department alike. The important one are summarized as under[27].

**a. <u>Tax Payers problems:</u>**

During discussion of matters relating to different withholding provisions and their implementation in letter and spirit, with the representatives stakeholders, usual complaints are the following:

**The Cost of the responsibility as Withholding Tax Agents:**

The ever-expanding withholding tax regime overburdens corporate sector, who in order to fulfil their responsibilities and multiple obligations, induct extra staff. This not only adds to their cost of compliance but also cause duplication of same work and that too without many incentives. Rather for non-compliance of withholding provisions, the Agents face punitive measures.

**The Regulation:** Regulations regarding deduction payment and filing of statements are complicated and time consuming. Some recent initiating on this score still needs to be consolidated.

**System of Reporting:** The reporting of challans is defective. Filing of individual challans is problematic in view of multiple clientele of the Agents. In most cases the Agents do not include NTN's and ST Number on Withholding

[27] The idea has been extracted from Proposal for Rationalization of Administrative Structure of Withholding Taxes by Sardar Aminullah Khan, Chief(IMS Wing /Project Director (TMS-I) Central Board of Revenue October 2007 pages 21-25.

statements & challans. This causes credit problems in case of multiple challans and the out-station challans which are more cumbersome & tedious.

**Filing requirement:** The requirement for periodic filing of the statement causes hassle and need review. Documentation issues are beyond the control of the withholding agents.

**Education / Online support:** Due to lack of adequate tax education, small taxpayers find it difficult to meet their tax obligations in this regard.

**b. <u>Departmental Problems:</u>**

**The Processes:** The manual process causes inefficiency and enforcement problems; rather it is the stumbling block to an organized monitoring. Besides, examination of statements as to accuracy etc. in manually filed statements is very difficult.

**Recording:** Recording and reporting of collection is defective. NTNs' of Withholding Agents (taxpayers and non-taxpayers) and of payees, type or payment i.e exact withholding tax sections are merely indicated or, the same are not indicated deliberately or genuinely for want of information.

**Jurisdictional issues:** It is complained that in addition to facing jurisdictional problems, large companies at times decline to furnish complete information and statements. According to them, clear instructions of higher authorities are required as responsibility for monitoring of withholding taxes although assigned, at the place of jurisdiction of the withholding Agents but in practice they are not in a position to carry out this function. As a result of this, not only the monitoring work has reportedly suffered but concerned officials have lost their interest in this important task. No dispute resolution mechanism is in place to solve related issues that may be normal or concurrent.

**The Tax Deposit:** The challans present many problems namely: The multiple challans are with and without lists of payees, recording systems of National Bank of Pakistan is not perfect, the scroll sent with challans at times differ with each other, which are corrected in pointing out by the DPC and last but not the least, the out stations challans where deductions are made elsewhere, sent by DPU to DPC/RTO very late. The Collection Automation Project is run on a computer application developed by NBP without realizing the user's requirements and aligning it with the existing system. The CAP is reportedly not user-friendly and based on primitive design principles. The Withholding Agents, particularly those transacting in Bulk Data face problem in deposit of tax timely & efficient manner.

**Enforcement Problems:** The regular follow up and organized monitoring does not take place. There is no system support – eg. Scrutiny of deposit of tax deducted through a system is not in place, audit parameters have not been determined and the selection criteria (for audit) are not available.

USAS environment & Tax reforms have created mind set problems, causing low compliance levels:

**Accounting Problems:** Due to the variety of challans in respect of different payments, different persons, different stations and eligibility of different RTOs for receiving and reporting the collection, proper accounting procedure is not applied. This is a major problem connected with the present system of recording/reporting of withholding taxes. Although it is being solved in coordination with the NBP, CGA &SBP but need to be streamlined and expedited. With some of the organizations, the old system of book adjustments is still in vogue, which needs to be changed to cash collection. It is an inter-ministerial issue and Board may take up the same with the concerned agencies i.e. Controllers Naval, Air Force and Military Accounts to improve this procedure.

**Enforcement Problems:** Some of the problems faced in effective monitoring of withholding taxes related to major policy issues such as: automation of processes, proper registration of withholding Agents, linkages between various departments of FBR and the other Government Departments, facilitation of tax payers and their proper education to enable them to meet their tax obligations regarding withholding taxes. Documentation of the economy, absence of essential data regarding withholding taxes, documentation of the economy as a whole, their real tax potential vis-a-vis deductions made at macro level and other related issues do not create congenial environment for recording of transactions and monitoring of collection their against. Such issues need to be redressed immediately in an equitable manner to catch up with reform process. The field officers look, and rightly so, towards FBR for a comprehensive plan in this regard. The patch work can hardly succeed.

**Strategic Management of Withholding taxes:** The above discussion guides us to essentially introduce an elaborate system or strategic management of withholding taxes. It may include the following.

- Enlistment or withholding agents-taxpayers and non-tax paying organizations, under a well designed scheme.
- Preparation of permanent Registers.
- Educational campaign regarding withholding obligations in public and private sector for promoting voluntarily compliance.
- Regular & effective monitoring of statements under section 165.
- Capacity building to study periodic statements and defining the parameters for monitoring & field audit.
- Developing a system of field audit indicating selection criteria, scope of audit, audit schedule, thing to be seen before and during audit and furnishing of field visit reports by the Taxation Officers/Auditors.
- Development of a computerized M.I.S for Withholding Taxes.
- Clean Data Base Development and proper linkages with sales tax, NBP and SBP.
- Capacity building programs.
- Comprehensive Field Audit strategy.
- Development of Audit parameters.
- Sectoral studies – Manufacturers and Vendors / WH Agents for ascertaining true potential of WHT. Truly Web based system of Filing / reporting.
- Improvement in the system of Recording and Reporting of collection.
- Processes Re-engineering and automation for computerization of withholding regime.
- Rationalization of presumptive Tax Regime-Rates in the long run.
- The above tasks are to be performed with a phased approach by drawing short and Long terms strategies.

**Pre-Monitoring Analysis[28]:** Basically, monitoring of withholding taxes is analysis of filed Statement and enforcement from non-filers. Formal selection of case for monitoring of Withholding Taxes may not be required. Yet, there are

[28] The ideas have been extracted from SOP of withholding taxes by Sardar Amin-ullah Khan available at www.fbr.gov.pk accessed 5.7.2012

numerous aspects that can be considered for initiating the monitoring work as outlined in the SOP. The following factors are important in this regard:-

I. Incomplete or Sloppy Statement;
II. Habitual non-filers / short filers;
III. Missing part of the Statement (where tax was not deducted);
IV. Incorrect Statement / mathematical errors;
V. Exempt cases like Non-residents etc;
VI. Matching of information from various documents / sources;
VII. Discrepancies in Income Tax; Sales Tax Statement and Returns;
VIII. Statistical analysis for policy formulation and sectoral studies;
IX. Un-desirable activities like continuous under reporting etc;
X. Monitoring on the basis of case studies and research works;
XI. Statistical information collected to update the data sources;
XII. Selection on random basis either electronically or manually;
XIII. Discrepancy in Withholding Taxes Statements and Annual Statements of Accounts;
XIV. Monitoring consequential to special enquiries, reports and judgments, etc;
XV. Selection of specific cases e.g. large taxpayers and or other revenue potential Withholding Taxes Agents likely to yield substantial revenue for the Government;
XVI. Risk based analysis of statements and other economic information;
XVII. Issue based monitoring;
XVIII. Any other method or selection as decided by the concerned Commissioner in the individual cases or by the Board about specific classes;

**Pre-Audit Analysis[29]:** If a pre-monitoring analysis is conducted by the officers, they will be in a position to ascertain the true potential of specific cases, sectors and their overall impact on the revenue generating activities of the department. For this purpose, they should examine:

- Nature and extent of business entities;
- Past compliance behaviour, tax fraud activities;
- Group activities as to compliance of tax laws;

[29] ideas have been extracted from SOP of withholding taxes by Sardar Amin-ullah Khan available at www.fbr.gov.pk accessed 5.7.2012

- Results of previous monitoring and tax audits by the Income Tax and the Sales Tax department;
- Overall declarations and amended Returns, etc, penalties, refunds and corporate status can give a good guidance for selection or otherwise of a case for detailed monitoring of withholding taxes;
- Past information abut surveys and special / Sectoral studies can also be helpful;
- Taxpayer's complete particulars are important for follow-up;
- Cases should be assigned on the basis of skill and experience of the officers.

**(a) <u>GAPS TO BE FILED</u>**

There are various issues involved in the monitoring of withholding taxes. Broadly speaking there are two types of gaps to be filled in Monitoring of Withholding Taxes[30].

1. **Monthly Statements:** Mechanism to detect current Financial Year's defaults in tax deduction/collection of withholding taxes and deposit thereof in the Government Treasury / NBP/SBP.
   a. Non-filers.
   b. Late-filers

2. **Deduction / Collection & Deposit of WHT:**
   a. Non-deduction / collection of tax.
   b. Short-deduction / collection of tax
   c. Short deposit of tax.
   d. Delayed deposit of tax.
   e. Tax deducted / collected but not deposited

**(b) <u>PRESENT PRACTICE</u>:**

Presently the examination and evaluation is performed by Regional Withholding Units in RTOs and LTUs according to their respective jurisdictions[31].

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[30]Action Plan P/9.

[31]Action Plan P/10

**Examination:**

**Filing of Statements**

I. No. of Withholding Tax Agents on record.

II. No. of filers of Monthly/Annual Statement**s.**

a) **Electronically (Coys & AOPs).**

b) **Manually.**

III. No. of Non-filers.

**Deduction/Collection of Tax**

I. No. of WTAs not deducting/collecting tax

II. No. of WTAs deducting/collecting short amount of tax

III. No. of WTAs collecting/deducting tax but not depositing it.

IV. No. of WTAs depositing tax after due date late depositors of tax.

In case of default the concerned RTO/LTU takes action and Impose penalty u/s.182 on Non-Filers and recovery thereof.

**Desk Audit:**

I. No. of desk audit carried out.

II. No of cases where discrepancies found.

III. No. of cases where action u/s.161/205 completed.

IV. Amount of tax demand created (principal amount & Additional Tax).

V. Amount of tax recovered.

**(c) PROPOSED MONITORING STRATEGY:**

In the light of above mentioned issues and difficulties following measures are proposed for effective monitoring of withholding taxes.

**Registration of WHT Agents**

I. Registration of companies already existing on Master Index.

II. Tax challans of WHT deposited by persons not existing on Master Index.

III. Tax chalans deposited by exempt entities

IV. Registration of WHT from the third party information.

**Current Year's Collection:**

Monthly WHT Statements: Enforcement of filing of monthly WHT statements and matching thereof with collection received in the preceding month to detect non-deduction/collection and non-payment of tax in the Government Treasury/NBP/SBP.

**Recovery Procedure of Defaulted Amount:**
In case of defaulted tax amount, proceedings shall be initiated u/s 161 or 162 to recover the defaulted tax amount along with default surcharge u/s 205 of the Income Tax Ordinance, 2001. Application of Penal Provisions: In case of default in filing of the monthly WHT statement, proceedings shall be initiated u/s 182 of the Income Tax Ordinance, 2001.

- **Audit of selected cases / provisions**
- **Broadening of Tax Base:**
  - I. Allotment of National Tax Number to persons depositing WHT but not existing on Master Index.
  - II. Allotment of NTN to taxable WHT agents registered from the third party information.
  - III. Allotment of NTN (by PRAL) to new potential taxpayers detected through examination of WHT statements (both monthly and annual).

**CONCLUSIONS:**
The aforesaid discussion leads us to the following conclusions[32]

i) It is generally felt that there is a need to divert more resources and concentrate more on the monitoring of withholding taxes, as these taxes have the potential to offset any possible dip in revenue for any reason. In case of contraction of the economy in the midterm and on account of adverse impact of international economic scenario, which is beyond the control of GOP, much fiscal space can be provided by WH Taxes.

ii) Following grounds realities and system deficiencies also support the requirement of serious administrative review of the present withholding regime:-

- The taxpayers as well as withholding Agents are not fully meeting their withholding obligations.
- Given the existing low compliance level in the country at large, there is a dire need to improve voluntary compliance of tax laws

[32] The idea has been extracted from Proposal for Rationalization of Administrative Structure of Withholding Taxes by Sardar Aminullah Khan, Chief(IMS Wing /Project Director (TMS-I) Central Board of Revenue October 2007 pages 25-31.

particularly those pertaining to withholding taxes. This needs concentrated efforts.

- Glaring instances of violation of withholding provisions by the Taxpayer/Withholding Agents have been noted time and again. Their repetition needs to be stopped.
- There are ample instances where tax deducted by withholding agents is not timely deposited in Government treasury but the defaulters go unpunished. Such trends are to be discouraged.
- Desk- bound audit, presently in vogue, is not a "real time" check on the business transactions/evasion and timely deposit of the tax deducted by the withholding agents. An effective system of withholding Audit is required.
- The field formations of the Department and the taxpayers suffer from major capacity constraints, regarding their obligations. Hence, there is a need for capacity building of the both.
- After U.S.A.S., emphasis is to be laid on Withholding Taxes & Tax payers Audit. Monitoring and Audit parameters are therefore required to be prescribed and their observance by both is to be ensured. The tax collectors are expected to make the process of monitoring and Audit more transparent and less discretionary.
- The reform process initiated by the Government provides an opportunity to the Department to visualize the Short Term and Long Term strategy for more effective monitoring of withholding taxes. Timely re-engineering and re-designing of withholding process is necessary as they form a significant part of overall system.
- Defining the parameters for monitoring and audit of withholding taxes have become all the more important considering the policy thrust of the Government on increased facilitation and better education of the taxpayers to promote voluntary compliance of the tax policy of the government. Withholding regime provides ample opportunity to implement such policy on account of their involvement in ordinary business activity of tax payers.

iii) Withholding regime is inflationary and is adversely affecting the poor the most, thus defeating the equity principle. The regime thus needs to be rationalized. A study is needed for the same to gauge the real impact and to devise ways and means to market it equitably.

iv) Sectoral contribution to tax vis-a-vis the economy does not commensurate with each other. A comprehensive Gap Analysis is required at FBR level in collaboration with renowned institutions/individuals. Withholding regime can provide the basis for such analysis.

v) Due to trade compulsions, progress in financial liberalization and internationalization, it is inevitable to timely take the necessary measures in various fields of national and international taxation. Tax treaties between the countries also come into play. Major areas requiring reforms include the Taxes on the capital, interest, dividends, and royalties, capital gains from stock transfers, securities transactions and dealings with the non-residents.

Under the present scheme of things, most of the dealings with non-residents and the cross border transaction fall in the ambit of withholding taxes. Income Tax provides adequate mechanism for such dealings, as contained in various provisions of the income Tax Ordinance, 2001 regarding the legal basis of taxation, determination and payment of taxes, refunds and solution of tax disputes. While the taxation of non-resident and cross border transactions is certainly based on certain economic policy goals, yet a need is felt to review the inadequacies in the system, more so, in withholding taxes on account of their substantive contribution, outreach and heavy reliance on them, both in the national as well as the international context.

vi) The reforms strategy of the FBR has special focus on use of I.T, improvement in delivery of service to the taxpayers and efficient processing of the information. There is a need to avail the huge opportunities provided by revolution in the information and communication technology for making the system more coordinated and integrated. For this purpose, most of the business processes still need to be automated and computerized for ultimate integration of ultimate integration of the systems operating under the Income Tax and the sales Tax Regimes. In this regard, the integrated approach adopted by the other developed tax systems of the world needs to be studied and followed after necessary customization as per national needs. For this purpose, there is a need for re-orientation of both the departments on account of assignment of responsibility on functional lines. The present processes, despite being different, are complementary and heavily dependent on the inputs from each other for being more effective and futuristic.

The present process of developing the common business processes after their necessary re-engineering, needs to be supplemented with an effective and forceful strategy and operational planning. The major problems which are likely to be confronted by the Board in the near future, in addition to the mind set problems of both the Services regarding reaction to the changes, would be the strategic planning process, the dedication of resources for integrated automation and computerization of the systems, regional level coordination, the cross tax training process, utilization of available resources, removal of the snags in the integrated systems and much higher level of commitment at all levels towards the reforms goals in important fields like withholding taxes. This requires special efforts.

vii) Withholding taxes are the backbone of direct tax revenues. While the taxpayer, on whose behalf adjustable withholding taxes are collected by a Withholding Agent, is interested in timely deposit of such taxes in the treasury, it may not be so in case of presumptive taxes. In any case, FBR expects that wherever due, the Withholding Agent collect/withhold such taxes at the prescribed rates and deposits in the treasury well within the prescribed time. Hence, there is a need to ensure that there is in place the right environment / mechanism for identification and data base of the Withholding Agents: their awareness of the withholding obligations, system audit of taxes collected under withholding regime and the subsequent field audit on a selective basis, to cover the gaps, particularly where deficiencies are observed and non-compliance is reported. Besides, it is also necessary that the department extends full services and facilitates to the Agents in meeting their obligations conveniently so as to promote voluntary compliance in tax laws, without there being any need to invariable resort to enforcement provisions.

viii) Monitoring of withholding taxes is a complicated and time-consuming process, involving both the taxpaying community and non-taxpaying withholding agent on one hand and the department on the other. Considering their revenue potential, hassle for the taxpayers in meeting obligations and various problems faced by the Department, it is imperative to the purpose to not only highlight the issues involved but also to offer a solution to the issues. Related actors needs to be identified and plan prepared for effective enforcement.

ix) Any reform to the tax system should aim at making it more acceptable to the people by moderating its severity in the face of inflation, improving its equity through structural changes and through better, more even handed enforcement of the tax laws and by bringing about procedural changes designed to minimize inconvenience and harassment to the taxpayers. Involvement of corporate tax payers in this Withholding process demands concerted efforts.

xi) The challenges on the withholding front need to be examined in terms of short terms goals, long term strategy and an integrated approach which is considered as the way forward. For this purpose, streamlining the mechanism of collection and reporting of withholding taxes, developing a system of field audit, setting the scope of audit in the I.T. environment, organized enlistment of Withholding Agents, building their accurate & reliable Databases, analyzing the tax implication of e-commerce, trade liberalization & focused capacity enhancement programmes, coordination with other departments, development of strategic model for automation and ultimately drawing a strategy for integration of the systems coupled with the future organizational set up for the purpose has been discussed and suitable recommendations made for appropriate consideration by the Board.

xii) Despite huge potential substantial audit activities have not been undertaken in the field of Withholding taxes. The present state of affairs, as stated above, warrants an impartial and patient review of the present withholding tax regime in the country. The purpose is to make the tax system consistent with the universal principles of taxation and to put the same in step with the current trends in taxation and smooth implementation thereof. The ultimate goal is adequate operating revenue for meeting expenditure requirements of the government, on basis of a rational Withholding Tax Regime providing stable and conductive environment for the private sector to thrive in the age of high international competition and extension of better services to the taxpayers to help meet tax obligations.

xiv) The share of withholding taxes has increased tremendously over time. However, a systematic and organized approach has not been developed worth its share. In fact organizational design has not been responsive to the design. Although functional set up has been introduced as part in the reforms yet the lack luster attitude in the field towards to the withholding provisions provision still exits and allied challenges could not he redressed.

The above stated situation is in utter disregard to the present day realities being faced by the department namely (i) there is Universal Self Assessment Scheme, (ii) there are not regular assessment orders to see the compliance of withholding taxes as a part of the system and the process (iii) very few cases are subjected to audit with a limited scope, and (iv) there is huge revenue potential in the withholding taxes, which has not been fully exploited by the Department so far.

**UPSHOT OF ANALYSIS**

- Monitoring work needs to be streamlined
- Enforcement of all WHT statements across-the-board – all non filers should be compelled to file their statement on time.
- Timely Deposit of tax by all WHAs to be ensured
- Desk audit to be carried out of every filed statement
- Audit with the help of IT for:
    - Pointing out correct withholding
    - Delayed deposit

**WAY FORWARD**

- Drawing of Specific strategies for each Unit
- Development Projects need special attention-PSDP, Banking, Defense, (sensitive issue-no details)
- Stocktaking of Withholding Agents
- Utilization of information of e-filed Statements by providing connectivity of tax deposit information to e-portals for direct capturing of CAP data
- Automation of processes: **Software for**
    - Monitoring & Enforcement of WHT statement by all WHAs
    - Deposit of tax by all WHAs
    - Monitoring of non-filers
    - Enforcement from non-filers
    - Audit of the Statements for:
        - Pointing out correct withholding
        - Delayed deposit
- Monitoring in Selected cases - Top 50/100 cases
- Monitoring of selected provisions

**V**

## Pak-China Free Trade Agreement: Prospects and Challenges

*By*

**Naeem Ahmed** [33]

### I. Introduction

Free Trade Agreements (FTAs) among nations have gained more popularity during last two decades. Along with bilateral trade agreements the Regional Trade Agreements (RTAs) have also become a prominent feature of the Multilateral Trading System (MTS). The surge in RTAs has continued unabated since the early 1990s. [34] Pakistan initiated bilateral trade agreements in the recent past to promote trade relations and to safeguard wider economic interests of the country. In this regard Pakistan has joined several bilateral and regional trade agreements in recent years, like South Asia Free Trade Agreement (SAFTA), the Framework Agreement on the Trade Preferential System among OIC Member States, Developing-8 group of countries (D-8) and Economic Cooperation Organization (ECO) or ECO Trade Agreement (ECOTA). Currently bilateral free-trade agreements (FTAs) are in operation with China, Sri Lanka and Malaysia.[35] Nonetheless, Pakistan's FTA with China has greater significance in many respects. The strategic direction through which the economic ties between Pakistan and China can be strengthened in the coming decades lie in deeper trade, investment and transfer of technology, this route is feasible as it creates win-win situation for both countries. Pakistan-China FTA would facilitate trade and would further consolidate bilateral trade relations (Xu Changwen) [36]. In 1963 both countries had signed a trade agreement, according to which they granted Most Favoured Nation (MFN) status to each other. However, substantive trade relations could not develop due to various reasons. Nonetheless, in 2003 a Preferential Trade Agreement was signed and it became operational in 2004. Pakistan and China signed Free Trade Agreement (FTA) in 2006 and became operational in January 2007.

This study analyses various aspects of Pak-China FTA with major focus on international taxes, trade creation and trade diversion and overall significance of

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[33] The Author is Second Secretary( FRS), FBR and the views expressed in this article are those of the author and do not necessarily represent FBR or FBR policy.

[34] For details see WTO website

[35] WTO/Government of Pakistan (2006g), pp. 9-10.

[36] A trade researcher at the Chinese Academy of International Trade and Economic Co-operation, a think-tank under the Chinese Ministry of Commerce

the said FTA, prospects and challenges[37]. The study also includes the discussion on political economy of the said FTA and issues.

**Significance of Free Trade:**

Why do nations trade? How does it benefit the trading nations? Usually it is believed that the free trade agreements bring prosperity and welfare, but it may not be true in all cases and there may be some negative impacts. In the literature we find different views on the riddle of free trade. In the early fifties and sixties it was believed that the policy of Import Substituting Industrialization (ISI) or protectionism was best for developing countries, however this view changed to reliance on more exports for growth (Krugman and Obstfeld: 2000, p.266). According to Todaro (2000, p.468), "diverse preferences as well as varied physical and financial endowments open up the possibility of profitable trade". Resultantly countries try to specialize in the production of goods in which they find comparative advantage. The globalists believe that the free trade is beneficial for the world, while on the other hand some leading economists are skeptical about the benefits of free trade. Dollar and Kraay (2000) favor the free trade and say that "the openness to foreign trade benefits the poor to the same extent that it benefits the whole economy". Whereas, according to Ravallion (2004), the increased openness can lead to a rise in the demand for relatively skilled labor, which can harm a vast majority of poor population. Sachs and Warner (1995), asserts that the countries that were more open grew faster compared to the countries which were less open. According to Bhagwati (1996, p/10), "in case of free trade between poor and rich countries, if the poor countries have more unskilled labor, lower standards of labor and environment then the free trade can be harmful to them". Nonetheless, despite some demerits of free trade the importance of free trade is increasing rapidly. Data confirms that the volume of international trade has increased significantly; particularly in the free trade zones in the recent times.

## II. Political Economy of Pak-China FTA

The FTA with any country is important, nevertheless, keeping in view the historical background of Sino-Pakistani all weather strategic partnership and the regional and global political situation, the Pak-China FTA has greater significance in all respects. Along with economic benefits, the promotion of

[37] In 2007-08 a study was conducted and published in FBR Quarterly Review. Now after five years of the implementation of FTA the impact of FTA has been analyzed again.

overall cooperative partnership between Pakistan and China will exert significant influence on maintaining the stability and regional safety and boosting the traditional friendly relations between other Muslim countries and China[38].

The trade among nations not only brings economic benefits and welfare, but in most cases it also boosts bilateral and regional political stability and peace. According to Spero (1990) the start of cold war at the end of 1940s led to more economic cooperation for the rebuilding of western economies and also to provide political and military security. The integration among European states had not only brought economic welfare in the region but also established political stability and peace among the hostile and warring nations. The European Union (EU) has affected the world trade and political scenario. Qualitative analyses divulged that free trade enhances economic interdependence among the nations and leads them to peace[39], as it happened in the case of EU.

Other trade blocs also played an important role not only for the promotion of trade but also for political stability in the region. The ASEAN, which started its journey in 1967 for regional security, turned to preferential trade arrangement and in 1993 with a timetable to shape ASEAN free trade area (AFTA) (Low: 2004). Keeping in view the current and future economic and political scenario of the region Pak-China FTA is the desirable and appropriate step in the right direction bearing great economic and political impact in the coming decades. It is a reality that Pakistan is one of the largest Muslim countries, a nuclear power and, moreover, its key geographical location magnifies its importance on the world map. China is interested to promote its economic relations with Gulf and African countries to have access to oil reserves in Gulf countries (GCC), a place of 20 million consumers and a lucrative region for foreign investors[40]. However, the promotion of Sino-GCC trade relations will largely depend on Pakistan due to its geographical location, which will facilitate China to en-route its shipments through sea of Pakistan, particularly the newly built Gawadar Port, to GCC/Arab countries and other parts of the world as well.

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[38] Further details on the pros and cons and the interests of China behind this FTA can be seen form http://english.people.com.cn/200504/05/eng20050405_179598.html.

[39] http://en.wikipedia.org/wiki/free_trade#Economic_arguments_for_free_trade

[40] Asia Pulse , www.asiapulse.com

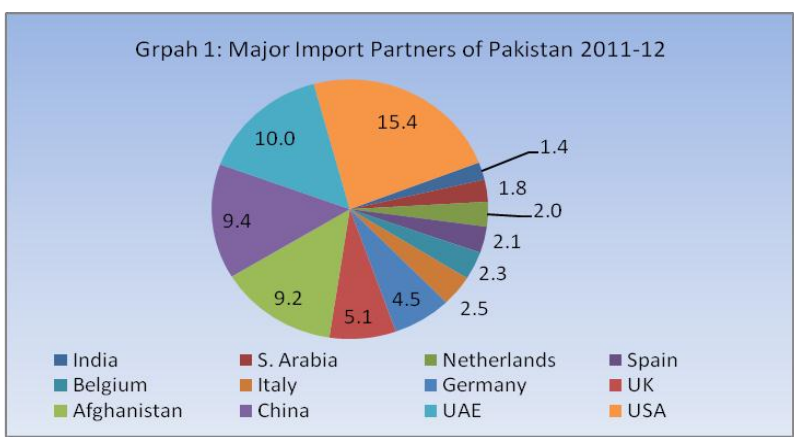
Pakistan needs China's technical, economic and political support. In addition to this China's unprecedented economic growth, a role model for developing countries can lead Pakistan to economic development and welfare through trade, investment and transfer of technology. The Sino-Pakistan close political relations will also promote regional security and peace, which is quite essential for the economic development in the region. Therefore, it would not be wrong to say that peace is a necessary condition for development. The regions and countries engrossed in political crisis and conflict find it difficult to exploit their resources for growth and development. Contrary to this the countries and regions with stable and strong political culture are able to grow faster like European Union, ASEAN etc.

It is therefore, highly essential to obtain the benefits of Pak-China FTA in all respects. After the successful enforcement of FTA between two nations, the possibility of expansion of this cooperation in the region would always be there. A regional block comprised of countries; Pakistan, China, Bangladesh, Iran, Afghanistan, Indonesia, Central Asian States can become a hub of world economic resources and activities. It will pave the way for regional peace, stability and economic development benefiting directly to more than 2 and ½ billion people living in the region.

### III. Impact on Trade:

**Trade Patterns of Pakistan:**

Pakistan's international trade is not much diversified and major chunk of imports (60%) and exports (67%) are carried out with few countries. Major import partners are UAE, China, Saudi Arabia, India, USA and Germany, whereas, major export destinations include; USA, UAE, China, Afghanistan, UK and Germany (Graph 1).




During last four years trade patterns have changed. Pakistan's imports from Iran have declined by 50% and USA by 11% in 2011-12 as compared to 2007-08. On the other hand very significant growth i.e. 243% in imports from Afghanistan has been noted. Similarly, a substantial growth in imports has been witnessed from China (109%), UAE (221%) and India (34%) Table1.

**Table 1: Country-wise Imports of Pakistan (Rs. Million)**

| Countries | 2011-12 | 2007-08 | Growth % |
|---|---|---|---|
| Spain | 12,558 | 7,192 | 75 |
| Iran | 16,766 | 33,715 | -50 |
| Afghanistan | 17,266 | 5,029 | 243 |
| Netherlands | 21,566 | 21,854 | -1 |
| Belgium | 24,739 | 14,802 | 67 |
| Oman | 29,777 | 5,931 | 402 |
| Italy | 49,684 | 34,527 | 44 |
| UK | 51,322 | 48,028 | 7 |
| Germany | 101,675 | 79,206 | 28 |
| USA | 138,148 | 154,863 | -11 |
| India | 143,370 | 106,850 | 34 |
| S. Arabia | 448,320 | 336,204 | 33 |
| **China** | 610,298 | 292,662 | 109 |
| UAE | 687,932 | 214,591 | 221 |
| Others | 1,658,778 | 1,157,549 | 43 |
| **TOTAL** | **3,999,640** | **2,505,811** | 60 |

On the exports side some healthy changes have been noticed like Pakistan's exports to China and Afghanistan have increased by 357% and 188% respectively during the period 2007-08 to 2011-12 (Table 2).

**Table 2: Country-wise Exports of Pakistan (Rs. Million)**

| Countries | 2011-12 | 2007-08 | Growth % |
|---|---|---|---|
| Iran | 13,207 | 13,192 | 0.1 |
| Oman | 14,551 | 14,371 | 1 |
| India | 30,541 | 15,948 | 92 |
| S. Arabia | 38,243 | 23,939 | 60 |
| Netherlands | 43,071 | 32,077 | 34 |
| Spain | 45,606 | 33,699 | 35 |
| Belgium | 48,654 | 25,673 | 90 |
| Italy | 53,505 | 45,269 | 18 |
| Germany | 96,125 | 50,706 | 90 |
| UK | 109,426 | 64,416 | 70 |
| Afghanistan | 195,349 | 67,793 | 188 |
| **China** | 199,386 | 43,631 | 357 |
| UAE | 212,501 | 127,419 | 67 |
| USA | 327,586 | 231,647 | 41 |
| Others | 701,422 | 428,922 | 64 |
| **TOTAL** | **2,129,174** | **1,218,702** | 75 |

**Pak-China Trade Balance:**

The volume of trade between two countries has increased significantly. During 2007-08 to 2011-12 the imports have gone up from Rs.292 billion to Rs.610 billion and exports from Rs.44 billion to Rs.199 billion.

**Imports:** Import statistics reveal that China is the second largest import partner of Pakistan after UAE. Its share in Pakistan's imports was just 2% in 2004-05 which has jumped to 21% in 2011-12 (Graph 3).

A gradual increase both in imports and exports is evident from graph-3. However, as compared to imports the exports to China have not risen with same pace.

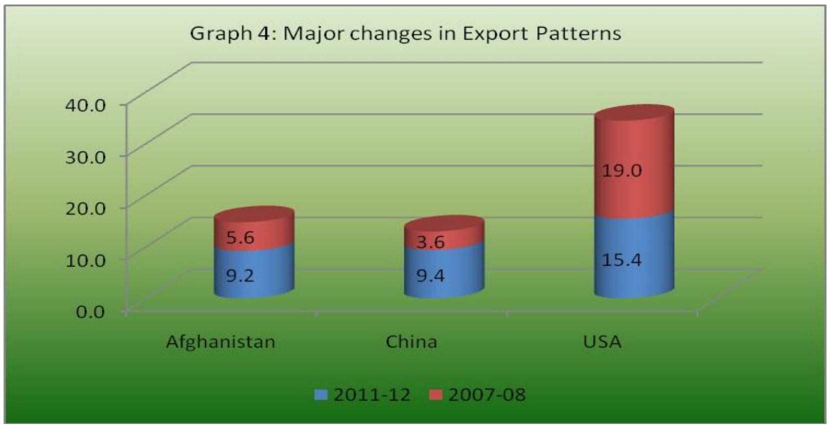
**Item-wise details:** The item-wise data indicate that imports in terms of value of 25 items have increased significantly during FY: 04-05 and FY: 11-12 (Table 3). It includes electrical machinery, fertilizers, iron and steel & articles of iron and steel, man-made filaments & staple fibres, vegetables and paper & paperboard. The import of these items as raw materials are important both for industrial and agriculture sectors of Pakistan.

**Table 3: Chapter-wise Imports from China (Rs. Million)**

| Description | CH | Value of Imports | | | Share in Imp. Value | |
|---|---|---|---|---|---|---|
| | | 2011-12 | 2004-05 | % Growth | 2011-12 | 2004-05 |
| Electrical machinery | 85 | 143,774 | 21,211 | 578 | 23.8 | 18.2 |
| Mechanical appliances | 84 | 71,410 | 28,748 | 148 | 11.8 | 24.7 |
| Man-made staple fibers | 55 | 19,744 | 492 | 3,913 | 3.3 | 0.4 |
| Man-made filaments | 54 | 39,911 | 2,874 | 1,289 | 6.6 | 2.5 |
| Organic chemicals | 29 | 36,454 | 6,412 | 469 | 6.0 | 5.5 |
| Iron and steel. | 72 | 28,712 | 2,210 | 1,199 | 4.8 | 1.9 |
| Plastics | 39 | 19,282 | 2,883 | 569 | 3.2 | 2.5 |
| Rubber | 40 | 15,450 | 3,675 | 320 | 2.6 | 3.2 |
| Articles of iron or steel | 73 | 15,254 | 2,042 | 647 | 2.5 | 1.8 |
| Vehicles | 87 | 15,410 | 3,336 | 362 | 2.6 | 2.9 |
| Miscell. chemical products | 38 | 11,761 | 4,785 | 146 | 1.9 | 4.1 |
| Fertilizers | 31 | 24,990 | 611 | 3,990 | 4.1 | 0.5 |
| vegetables, certain roots etc | 7 | 6,576 | 1,997 | 229 | 1.1 | 1.7 |
| Inorganic chemicals | 28 | 9,278 | 2,631 | 253 | 1.5 | 2.3 |
| Tanning/ dyeing extracts etc | 32 | 8,512 | 2,176 | 291 | 1.4 | 1.9 |
| Paper and paperboard; | 48 | 8,654 | 804 | 976 | 1.4 | 0.7 |
| Clocks and watches | 90 | 7,226 | 1,850 | 291 | 1.2 | 1.6 |
| Footwear, gaiters etc | 64 | 5,903 | 1,276 | 363 | 1.0 | 1.1 |
| textile fabrics, textile articles | 59 | 4,832 | 461 | 948 | 0.8 | 0.4 |
| Ceramic products. | 69 | 6,717 | 3,051 | 120 | 1.1 | 2.6 |
| Special classification | 99 | 5,401 | 2,563 | 111 | 0.9 | 2.2 |
| Glass and glassware. | 70 | 5,524 | 1,944 | 184 | 0.9 | 1.7 |
| Coffee, tea, mate,spices. | 9 | 3,577 | 1,391 | 157 | 0.6 | 1.2 |
| Sub-total | | 514,353 | 109,460 | 370 | 85.2 | 94.1 |
| Total | | 603,703 | 116,270 | 419 | 100.0 | 100.0 |

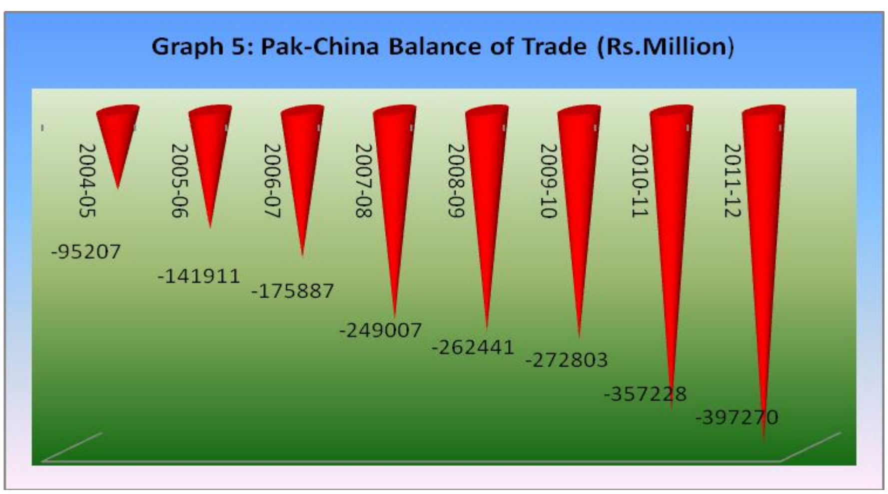
Source: PRAL and DRS (FBR)

**Exports:** Pak-China FTA has been helpful to change the geographical composition of Pakistani exports. Earlier in 2007-08 Pakistan's major export destination was USA with more than 17% share, followed by UAE (9.5%), Afghanistan (5.2%), UK (4.8%), Germany (3.8%) and China (3.3%) at number seven. In 2011-12 the share of China has increased to 9.4% and share of USA has declined to around 15% during the same period. Another desired change is the rising share of exports to Afghanistan i.e. 9.2% from just 0.1% in 2004-05. More exports to neighboring countries not only reduce the transportation costs, but also help to strengthen economic and political ties in the region.




Source: Pakistan Economic Survey and PRAL (FBR)

Pak-China trade data reveals that terms of trade with china have been deteriorating continuously. The trade balance, during the same, period has worsened from Rs. -95 billion to Rs. -397 billion (Graph ). Is it the issue of limited capacity of our exporters or the preferences of exporters? The concerned quarters need to find out the answers.




*Source: Graph made on the basis of data received from PRAL*

**Volume of Free trade:**

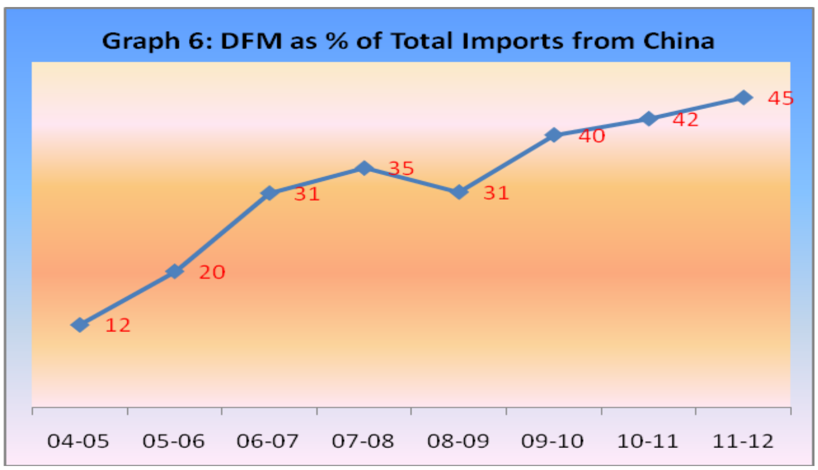
The volume of free trade which was only 12% in 2004-05 has gradually reached to 45% in 2011-12 (Graph 6). In rupee terms the volume of free trade increased from Rs.14 Billion in 2004-05 to Rs. 271.4 billion in 2011-12.

**Table 4: Pak-Imports from China: Volume of Free Trade**

*Rs. Million*

| Years | Import Value | Dutiable Imports | Duty Free Imports |
|---|---|---|---|
| 2004-05 | 116,270 | 102,255 | 14,015 |
| 2005-06 | 168,869 | 135,435 | 33,433 |
| 2006-07 | 168,869 | 158,691 | 52,565 |
| 2007-08 | 292,664 | 190,964 | 101,700 |
| 2008-09 | 317,944 | 218,487 | 99,457 |
| 2009-10 | 372,020 | 224,902 | 147,118 |
| 2010-11 | 498,402 | 289,590 | 208,811 |
| 2011-12 | 603,703 | 332,277 | 271,425 |

Source: PRAL (FBR)




The increasing volume of free trade is the natural outcome of FTA. The overall higher growth in imports would offset the customs revenue loss and the same has been proved from the import data of last few years.

**Trade Creation/Diversion:**

The trade creation and diversion is the desired outcome of the FTAs. In case of Pak-China FTA a mixed response has been witnessed in respect of trade creation and diversion. The overall trade volume has increased significantly. During 2004-05 and 2007-08 the share of 17 commodities (80% of total exports) had declined by around 5% in case of Rest of World (RoW), whereas in case of China this share had gone up from 15% to 39%, or 23% higher. The chapters 26, 16, 72, 74 are the major areas where trade has been created and diverted from RoW to China. During last four years i.e. 08-09 to 11-12 trade creation or higher exports has been witnessed in edible vegetables, lead, edible preparations, residues and waste from the food industries; prepared animal fodder, glasses and earthenware, knitted fabrics, clothing accessories, and toys, games and sports requisites (Table 5). On the other hand the export of some items like vegetable plaiting materials; vegetable products, special woven fabrics; tufted textile fabrics; lace; tapestries, trimmings; embroidery and articles of iron and steel have declined during the period 2007-08 to 2011-12.

**Table 5: Chapter-wise Exports of Pakistan to China** *(Rs. Million)*

| Ch. | Headings | 11-12 | 10-11 | 09-10 | 08-09 | 07-08 | Growth % |
|---|---|---|---|---|---|---|---|
| 3 | **Fish** | 2,634 | 2,894 | 1,609 | 1,758 | 1,461 | 80 |
| **7** | **Edible vegetables, roots** | **466** | **7** | **8** | **-** | **-** | |
| **8** | **Edible fruits and nuts** | **571** | **578** | **257** | **93** | **35** | **1,531** |
| 12 | Oil seeds, oleaginous fruit, grains, etc. | 640 | 379 | 132 | 302 | 528 | 21 |
| 13 | Lac; gums, resins and other vegetable saps and extracts. | 4,412 | 876 | 504 | 461 | 480 | 819 |
| **14** | **Vegetable plaiting materials** | **61** | **322** | **229** | **22** | **150** | **(59)** |
| 16 | Preparations of meat, of fish or of crustaceans | 1,363 | 3,038 | 3,099 | 1,680 | 1,169 | 17 |
| **23** | **Residues and waste from the food industries; prepared animal fodder.** | **1,851** | **2,090** | **2,036** | **152** | **92** | **1,912** |
| 25 | Fabrics of wool, flax etc. | 3,480 | 2,912 | 1,336 | 558 | 454 | 667 |
| 26 | Ores, slag and ash. | 11,246 | 10,651 | 13,106 | 6,356 | 9,320 | 21 |
| **29** | **Organic chemicals** | **1,812** | **1,513** | **619** | **840** | **36** | **4,933** |
| 39 | Plastic resins etc | 3,155 | 4,317 | 1,471 | 1,435 | 824 | 283 |
| 41 | Raw hides, skins, and leather. | 5,348 | 4,120 | 3,527 | 2,762 | 2,596 | 106 |
| 51 | Wool and fabrics. | 69 | 29 | 63,721 | 39 | 45 | 53 |
| 52 | Cotton | 139,972 | 96,385 | 63,720 | 35,159 | 22,747 | 515 |
| 54 | Textile materials | 12 | 24 | 581 | 112 | 16 | (25) |
| 55 | Staple fibres | 889 | 476 | 490 | 192 | 227 | 292 |
| **58** | **Special woven fabrics;** | **5** | **18** | **18** | **35,159** | **19** | **(74)** |
| **60** | **Knitted fabrics** | **46** | **108** | **8** | **22** | **5** | **820** |
| **61** | **Clothing accessories** | **300** | **119** | **119** | **19** | **14** | **2,043** |
| 63 | Other made up textile articles; sets; worn clothing and worn textile articles; rags. | 2,826 | 2,006 | 1,138 | 596 | 709 | 299 |
| 68 | Articles of Stone, plaster, cement | 764 | 719 | 460 | 129 | 110 | 595 |
| 72 | Iron and steel. | 1,414 | 1,677 | 692 | 408 | 1,143 | 24 |
| **73** | **Articles of iron and steel** | **29** | **41** | **22** | **121** | **81** | **(64)** |
| 74 | Copper and articles thereof. | 3,082 | 2,565 | 2,250 | 966 | 518 | 495 |
| **78** | **Lead and articles thereof.** | **16** | **4** | **-** | **-** | **3** | **433** |
| 84 | Nuclear and mechanical appliances | 332 | 110 | 17 | 357 | 107 | 210 |
| 85 | Electrical machinery | 39 | 13 | 3 | 1 | 32 | 22 |
| **87** | **Vehicles (non-railways)** | **1** | **3** | **80** | **1** | **2** | **(75)** |
| 90 | Optical, photographic, cinematographic, medical or surgical | 463 | 272 | 545 | 264 | 99 | 368 |
| **95** | **Toys, games and sports requisites** | **152** | **48** | **40** | **34** | **56** | **171** |
| | Sub-total | 183,779 | 134,835 | 159,963 | 88,147 | 41,582 | 342 |
| | **Total** | 206,433 | 141,174 | 99,217 | 55,503 | 43,657 | 373 |

Source: PRAL(FBR)

Similarly, there are some areas where trade had not existed before FTA, however after the enforcement of FTA the export has started to China. If this trend continues hopefully FTA shall produce the desired outcome in the shape of increased demand of Pakistani products in China.

**Impact on Trade Tax Revenues:**

The loss or gain of revenue depends on the factors like level of reduction in rates, number of items and trade volume of imported items. The nominal loss in revenue, if any, is not the real loss as normally it is compensated by the investment by the partner country, enhanced demand of local goods, thus higher exports. Particularly, trade creation generates the demand of local goods in partner country, which leads to increase in employment; demand for raw materials, thus benefiting downstream and upstream local industries and creating the opportunities of more domestic tax revenues. Under FTA, the custom duty rates are reduced or eliminated and other taxes like sales tax, WHT, excise duties remain intact. Same arrangement has been made in respect of Pak-China FTA. With the passage of time over the period of last five years the volume of imports from China have increased significantly i.e. from Rs.74 billion in 2003-04 to Rs.603.7 billion in 2011-12, reflecting a growth of 718%. The analysis of tax revenue has been categorized into two parts; the period under Early Harvest Program (05-06 and 06-07) and enforcement of FTA (1st July 2007 to onwards).

If pre-EHP custom revenues are compared with EHP period (05-06 and 06-07) revenues, the customs duty increased by around 19% in first year and 10% in second year. It indicates that the reduction in rates of selected items had not only compensated the expected loss but also generated more revenues due to higher volume of trade. The share of customs duty collected from Chinese imports was 12.6% and 14.4% at the time of EHP in 2005-06 and 2006-07 respectively.

**FTA Implementation Period:** After the enforcement of FTA, the expected loss due to reduction in rates of customs duty has largely been compensated by the increase in the volume of trade. It is evident from the table 6, Rs. 17.5 billion were collected under the head of customs duty in 2006-07, whereas this collection grew to Rs. 36.5 billion in 2011-12. Similarly, other taxes like sales tax and withholding have also risen during the same period. The collection of sales tax has increased from Rs.12.8 billion in 2004-05 to Rs. 51.6 billion in 2011-12 and withholding taxes rose from merely Rs. 97 million to Rs. 20.4 billion.

**Table 6: International taxes from Chinese Imports**

*(Rs. Million)*

| Year | Customs duty | Sales Tax | WH Tax | F.E.D | Total |
|---|---|---|---|---|---|
| 04-05 | 13,450 | 12,818 | 97 | 22 | 26,387 |
| 05-06 | 15,947 | 14,497 | 1,470 | 55 | 31,969 |
| 06-07 | 17,536 | 15,596 | 4,660 | 66 | 37,858 |
| 07-08 | 20,740 | 18,885 | 4,952 | 45 | 44,622 |
| 08-09 | 21,599 | 18,131 | 4,195 | 35 | 43,960 |
| 09-10 | 23,969 | 22,501 | 8,481 | 94 | 55,045 |
| 10-11 | 32,963 | 33,889 | 14,570 | 452 | 81,874 |
| 11-12 | 36,463 | 51,618 | 20,382 | 426 | 108,889 |
| *Percentage Share in Total Taxes Collected at Import Stage* | | | | | |
| Year | Customs duty | Sales Tax | Withholding Tax | F.E.D | Total |
| 04-05 | 11.7 | 8.8 | 0.4 | 0.7 | 9.2 |
| 05-06 | 11.5 | 8.5 | 5.5 | 1.4 | 9.4 |
| 06-07 | 13.3 | 8.9 | 18.1 | 1.4 | 11.2 |
| 07-08 | 13.8 | 9.6 | 17.9 | 0.3 | 11.5 |
| 08-09 | 14.6 | 8.9 | 13.9 | 0.2 | 11.1 |
| 09-10 | 15.0 | 9.1 | 16.9 | 0.7 | 11.7 |
| 10-11 | 17.8 | 11.0 | 21.6 | 2.3 | 14.1 |
| 11-12 | 16.7 | 11.9 | 26.1 | 4.8 | 14.7 |

Source: PRAL (FBR)/DRS

So far the impact of free trade on revenue, due to trade creation or trade diversion is positive, which is of course encouraging sign. Therefore, it is projected if this trend of higher trade volume continues; there will be no revenue loss in future. Nonetheless, if there is any loss on revenue front it will be compensated through other gains in shape of more exports, cheaper imports, investments, job creation in local labor market etc.

**Issues and Concerns:**

The preliminary assessment reveals that there are various issues involved in the Pak-China FTA. As a whole the volume of trade between two countries has increased significantly. China has become the second largest import destination and third largest export partner of Pakistan during last five years after the implementation FTA. Trade creation and trade diversion has also been witnessed. Moreover, due to the increased imports from China the tax revenue has also grown substantially.

However, on the other hand there are various issues involved making FTA less effective as it should have been. It is a fact that there is a huge gap between the size of the two economies, level of industrial development and infrastructure.

The economies of scale of Pakistan and China are unmatchable given the structure of industrial production of the two countries. Pakistani exports are mainly raw materials, whereas its imports are comprised of value added manufactured commodities. Up to now the trade between two countries is tilted in the favor of China. China's exports to Pakistan constitute more than 20% of its imports; Pakistan's exports to China constitute only 0.13% of Chinese imports[41]. The under-invoicing is another grey area causing loss to the exchequer along with other threats to the economy. There is a huge discrepancy, amounting to billions of rupees, between the data on Pak-China trade provided by the International Trade Center and local sources[42]. There is a need to immediately review the existing systems and technologies used for clearance at the ports. The strengthening of audit and a better risk management system can also be helpful.

**Low Investment:** Pakistan has a comprehensive Free Trade Agreement with China covering Trade in Goods, **Investments** and Trade in Services. Country like Pakistan needs foreign investment to boost up the economy. Major challenge faced by the Pakistan economy is the declining FDI. In this regard the Pak-China FTA should have been an opportunity to attract investors from China, but unfortunately the level of investment from China also remained low. Whereas, it is believed that investments in the industrial sector could help reduce the growing trade imbalance. Pakistan attempted to persuade the Chinese side, from both public and private spheres, to bring in investments along with their goods to make the trade partnership sustainable and create a win-win situation[43]. But it looks that Pakistan could not attract much the private or public investment, one possible reason may be the law & order situation in the country.

**Table 7: FDI Inflows from China ($ Million)**

| | 02-03 | 03-04 | 04-05 | 05-06 | 06-07 | 07-08 | 08-09 | 09-10 | 10-11 |
|---|---|---|---|---|---|---|---|---|---|
| China | 3 | 14.3 | 0.4 | 1.7 | 712 | 13.7 | -101.4 | -3.6 | 47.4 |
| Share in total | 0.4% | 1.5% | 0.03% | 0.05% | 13.9% | 0.3% | -2.7% | -0.2% | 3.0% |

Source: basic data has been taken from BOI website

The common perception in the Pakistani business community is that the Chinese private and public sectors are not interested in investing in areas that could

[41] See Fazalur Rehamn
[42] http://dawn.com/2011/09/26/comment-and-analysis-under-invoicing-in-imports/
[43] Ibid

enable Pakistan to create an export surplus for Chinese markets as well as other destinations (Fazul-ur-Rehman, 2011). Rather, they contend, Chinese entrepreneurs simply want to sell products and make quick profits while based in China and do not seem to be interested in generating profits from Pakistan through joint ventures of private foreign ownerships. If this perception is correct then there is a need to find out the causes and to remove them for wider benefits.

**Widening Trade Deficit:** One of the major challenges is the widening trade deficit and deteriorating terms of trade. During last five years bilateral trade has expanded, but the balance of trade remained in favor of China. The possible reasons could be the lower potential of our export oriented sectors, low quality (not meeting the international standards), sever energy crisis and high cost of production. Pakistan economy largely depends on exports and particularly textile related exports, which is more than 60% of total exports. Competition for exports is very tough in global market and Pakistani exporters face difficulties in finding sustainable markets particularly in Europe. Moreover, it is costly to trade with countries located faraway. Hence Pak-China FTA is a good opportunity for Pakistani exporters; they should concentrate Chinese market for finished products and also for import of cheap machinery.

**Lack of product and geographical diversification:** Pakistan's export base is very narrow and skewed towards few items and destinations for long time. Major share of exports are originated from cotton, rice, leather and sports goods, moreover, around 60% its exports are textile related items. As far diversification by country is concerned, major share of exports are also limited to few destinations only. Time has come to review the existing policies and to explore the potential of other sectors and items for broader export base of country.

**Comparatively Too low Tariff Lines Coverage:** The coverage of FTA is low. A study by the Trade Development Authority of Pakistan highlights that one of the causes of the FTA's ineffectiveness is that it has too low Tariff Lines Coverage and elimination of Tariff under FTA Elimination[44]. The coverage is very low as tariff elimination is only on 35.5% of 7550 tariff lines. In other words maximum concession is provided to 35.5% of a total of tariff lines covered under the FTA. According to the findings of the same study this is

[44] see Annex-I for data

too narrow a coverage of bilateral trade and too low tariff lines if China's FTAs compared with other countries. China has signed a FTA with eight countries and regions, including ASEAN, which became operational from January 1, 2010 and ASEAN countries at present are enjoying a trade surplus with China. Under this FTA, China has given enormous concessions and tariff elimination covers 90% of goods traded. On comparing China's FTA with Pakistan and ASEAN, one would find that the items covered under China-ASEAN FTA at zero percent duty put ASEAN at an advantage since there are duties on export of the same items from Pakistan, thus rendering Pakistan's products less attractive for Chinese buyers.

**Economic integration, Regional political stability/ welfare:** It has been discussed in detail that usually the bilateral and multilateral free trade among nations leads to economic integration, welfare, peace and stability in the region. Unfortunately, political instability in the Asian sub-continent has prevailed for long time and resultantly political harmony has been lacking in the region which has marred the process of economic development. It is established fact that the peace and political harmony are necessary conditions for economic development. The creation of European Union after World War II and its unprecedented economic growth and development in the recent decades is the role model. It is therefore, would not be wrong to expect that Pak-China FTA can be a foundation stone for regional political harmony, peace and economic cooperation among major players like China, Pakistan, India, Bangladesh, Afghanistan etc. The extended cooperation among these nations can convert the region to a powerful economic block, leading towards welfare and prosperity of billions of people living in the region.

The Pak-China FTA can be an opportunity if all the stakeholders including M/O Commerce, Textile Industry, TDAP and exporters make appropriate plans, revisit their priorities, have better coordination and remove the hurdles faced by the exporters and importers. Similarly, among the non-tariff barriers issues relating to visa for Pakistani businessmen needs proper attention for smooth, swift and unhindered trade between two nations.

Following measures are suggested to maximize the benefits of FTA;

- Create environment to attract more investment from China in industrial, agriculture and energy sectors.
- Pakistan should focus to take in modern techniques for better quality and higher yields in agriculture sector.
- Make plan to diversify exports
- Ensure quality, efficiency and cost minimization particularly in textile sector.
- Construction of Rail track from China to Gawadar Port would be beneficial in all respects.

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**Web Sources:** wto.org, pecc.org, chinadaily.com.cn, fbr.gov.pk, aptma.or.pk, commerce.gov.pk

## Annexure-I

**Phase-I.** Tariff Reduction Modality of **China** within five years after entry into force of this agreement:

| Click to Download | Category No. | Track | No. of Tariff Lines | % of Tariff lines at 8 digit |
|---|---|---|---|---|
| | I | Elimination of tariff (Three years) | 2681 | 35.5% |
| | II | 0-5% ( five years ) | 2604 | 34.5% |
| | III | Reduction on Margin of Preference of 50%( five years ) | 604 | 8% |
| | IV | Reduction on Margin of Preference from 20% (five years) | 529 | 7% |
| | V | No Concession | 1132 | 15% |

**Phase-I** Tariff Reduction Modality of **Pakistan** within five years after entry into force of this agreement

| Click to Download | Category No. | Track | No. of Tariff Lines | % of Tariff lines at 8 digit |
|---|---|---|---|---|
| | I | Elimination of tariff (Three years) | 2423 | 35.6% |
| | II | 0-5% ( five years) | 1338 | 19.9% |
| | III | Reduction on Margin of Preference from 50%( five years) | 157 | 2.0% |
| | IV | Reduction on Margin of Preference from 20%( five years) | 1768 | 26.1% |
| | V | No Concession | 1025 | 15.0% |
| | VI | Exclusion | 92 | 1.4% |

http://www.commerce.gov.pk/PCFTA.asp

# STATISTICAL APPENDIX

Comparative Statements of

Month – to – Month and Progressive

Collection for the period 2011-12 & 2010-11

## Total Taxes

(Rs. in million )

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Goss | Reb/Ref | Net | Goss | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 162,084 | 49,808 | 112,276 | 87,371 | 10,223 | 77,148 | 74,713 | 39,585 | 35,128 | 85.5 | 387.2 | 45.5 |
| AUGUST | M | 125,424 | 4,918 | 120,506 | 105,935 | 5,995 | 99,940 | 19,489 | -1,077 | 20,566 | 18.4 | -18.0 | 20.6 |
| | **P** | **287,508** | **54,726** | **232,782** | **193,306** | **16,218** | **177,088** | **94,202** | **38,508** | **55,694** | **48.7** | **237.4** | **31.4** |
| SEPTEMBER | M | 154,421 | 6,398 | 148,023 | 123,005 | 6,598 | 116,407 | 31,416 | -200 | 31,616 | 25.5 | -3.0 | 27.2 |
| **1st Quarter** | | **441,929** | **61,124** | **380,805** | **316,311** | **22,816** | **293,495** | **125,618** | **38,308** | **87,310** | **39.7** | **167.9** | **29.7** |
| OCTOBER | M | 132,591 | 6,183 | 126,408 | 114,354 | 10,807 | 103,547 | 18,237 | -4,624 | 22,861 | 15.9 | -42.8 | 22.1 |
| | **P** | **574,520** | **67,307** | **507,213** | **430,665** | **33,623** | **397,042** | **143,855** | **33,684** | **110,171** | **33.4** | **100.2** | **27.7** |
| NOVEMBER | M | 139,028 | 7,180 | 131,848 | 110,108 | 7,076 | 103,032 | 28,920 | 104 | 28,816 | 26.3 | 1.5 | 28.0 |
| | **P** | **713,548** | **74,487** | **639,061** | **540,773** | **40,699** | **500,074** | **172,775** | **33,788** | **138,987** | **31.9** | **83.0** | **27.8** |
| DECEMBER | M | 213,805 | 12,129 | 201,676 | 168,462 | 6,882 | 161,580 | 45,343 | 5,247 | 40,096 | 26.9 | 76.2 | 24.8 |
| **2nd Quarter** | | **485,424** | **25,492** | **459,932** | **392,924** | **24,765** | **368,159** | **92,500** | **727** | **91,773** | **23.5** | **2.9** | **24.9** |
| **Upto 2nd Qtr** | | **927,353** | **86,616** | **840,737** | **709,235** | **47,581** | **661,654** | **218,118** | **39,035** | **179,083** | **30.8** | **82.0** | **27.1** |
| JANUARY | M | 150,311 | 14,308 | 136,003 | 120,054 | 11,641 | 108,413 | 30,257 | 2,667 | 27,590 | 25.2 | 22.9 | 25.4 |
| | **P** | **1,077,664** | **100,924** | **976,740** | **829,289** | **59,222** | **770,067** | **248,375** | **41,702** | **206,673** | **30.0** | **70.4** | **26.8** |
| FEBRUARY | M | 143,362 | 9,974 | 133,388 | 113,662 | 7,752 | 105,910 | 29,700 | 2,222 | 27,478 | 26.1 | 28.7 | 25.9 |
| | **P** | **1,221,026** | **110,898** | **1,110,128** | **942,951** | **66,974** | **875,977** | **278,075** | **43,924** | **234,151** | **29.5** | **65.6** | **26.7** |
| MARCH | M | 178,473 | 8,204 | 170,269 | 149,372 | 5,200 | 144,172 | 29,101 | 3,004 | 26,097 | 19.5 | 57.8 | 18.1 |
| **3rd Quarter** | | **472,146** | **32,486** | **439,660** | **383,088** | **24,593** | **358,495** | **89,058** | **7,893** | **81,165** | **23.2** | **32.1** | **22.6** |
| **Upto 3rd Qtr** | | **1,399,499** | **119,102** | **1,280,397** | **1,092,323** | **72,174** | **1,020,149** | **307,176** | **46,928** | **260,248** | **28.1** | **65.0** | **25.5** |
| APRIL | M | 151,843 | 6,048 | 145,795 | 137,143 | 7,457 | 129,686 | 14,700 | -1,409 | 16,109 | 10.7 | -18.9 | 12.4 |
| | **P** | **1,551,342** | **125,150** | **1,426,192** | **1,229,466** | **79,631** | **1,149,835** | **321,876** | **45,519** | **276,357** | **26.2** | **57.2** | **24.0** |
| MAY | M | 191,457 | 9,692 | 181,765 | 172,890 | 13,267 | 159,623 | 18,567 | -3,575 | 22,142 | 10.7 | -26.9 | 13.9 |
| | **P** | **1,742,799** | **134,842** | **1,607,957** | **1,402,356** | **92,898** | **1,309,458** | **340,443** | **41,944** | **298,499** | **24.3** | **45.2** | **22.8** |
| JUNE | M | 285,781 | 10,712 | 275,069 | 261,699 | 13,143 | 248,556 | 24,082 | -2,431 | 26,513 | 9.2 | -18.5 | 10.7 |
| **4th Quarter** | | **629,081** | **26,452** | **602,629** | **571,732** | **33,867** | **537,865** | **57,349** | **-7,415** | **64,764** | **10.0** | **-21.9** | **12.0** |
| **Annual** | | **2,028,582** | **145,556** | **1,883,026** | **1,664,057** | **106,043** | **1,558,014** | **364,525** | **39,513** | **325,012** | **21.9** | **37.3** | **20.9** |

**(*) M- Monthly, P-Progressive**

**DIRECT TAXES**

Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 72,547 | 43,581 | 28,966 | 25,297 | 7,195 | 18,102 | 47,250 | 36,386 | 10,864 | 186.8 | 505.7 | 60.0 |
| AUGUST | M | 33,730 | 1,661 | 32,069 | 28,490 | 2,484 | 26,006 | 5,240 | -823 | 6,063 | 18.4 | -33.1 | 23.3 |
| | **P** | **106,277** | **45,242** | **61,035** | **53,787** | **9,679** | **44,108** | **52,490** | **35,563** | **16,927** | **97.6** | **367.4** | **38.4** |
| SEPTEMBER | M | 65,262 | 1,755 | 63,507 | 53,223 | 1,613 | 51,610 | 12,039 | 142 | 11,897 | 22.6 | 8.8 | 23.1 |
| **1st Quarter** | | **171,539** | **46,997** | **124,542** | **107,010** | **11,292** | **95,718** | **64,529** | **35,705** | **28,824** | **60.3** | **316.2** | **30.1** |
| OCTOBER | M | 42,296 | 2,637 | 39,659 | 36,995 | 2,777 | 34,218 | 5,301 | -140 | 5,441 | 14.3 | -5.0 | 15.9 |
| | **P** | **213,835** | **49,634** | **164,201** | **144,005** | **14,069** | **129,936** | **69,830** | **35,565** | **34,265** | **48.5** | **252.8** | **26.4** |
| NOVEMBER | M | 47,395 | 1,974 | 45,421 | 35,283 | 2,615 | 32,668 | 12,112 | -641 | 12,753 | 34.3 | -24.5 | 39.0 |
| | **P** | **261,230** | **51,608** | **209,622** | **179,288** | **16,684** | **162,604** | **81,942** | **34,924** | **47,018** | **45.7** | **209.3** | **28.9** |
| DECEMBER | M | 110,200 | 7,255 | 102,945 | 81,481 | 3,208 | 78,273 | 28,719 | 4,047 | 24,672 | 35.2 | 126.2 | 31.5 |
| **2nd Quarter** | | **199,891** | **11,866** | **188,025** | **153,759** | **8,600** | **145,159** | **46,132** | **3,266** | **42,866** | **30.0** | **38.0** | **29.5** |
| **Upto 2nd Qtr** | | **371,430** | **58,863** | **312,567** | **260,769** | **19,892** | **240,877** | **110,661** | **38,971** | **71,690** | **42.4** | **195.9** | **29.8** |
| JANUARY | M | 49,664 | 8,084 | 41,580 | 42,074 | 5,214 | 36,860 | 7,590 | 2,870 | 4,720 | 18.0 | 55.0 | 12.8 |
| | **P** | **421,094** | **66,947** | **354,147** | **302,843** | **25,106** | **277,737** | **118,251** | **41,841** | **76,410** | **39.0** | **166.7** | **27.5** |
| FEBRUARY | M | 56,885 | 5,650 | 51,235 | 40,049 | 2,843 | 37,206 | 16,836 | 2,807 | 14,029 | 42.0 | 98.7 | 37.7 |
| | **P** | **477,979** | **72,597** | **405,382** | **342,892** | **27,949** | **314,943** | **135,087** | **44,648** | **90,439** | **39.4** | **159.7** | **28.7** |
| MARCH | M | 76,833 | 3,554 | 73,279 | 68,183 | 1,509 | 66,674 | 8,650 | 2,045 | 6,605 | 12.7 | 135.5 | 9.9 |
| **3rd Quarter** | | **183,382** | **17,288** | **166,094** | **150,306** | **9,566** | **140,740** | **33,076** | **7,722** | **25,354** | **22.0** | **80.7** | **18.0** |
| **Upto 3rd Qtr** | | **554,812** | **76,151** | **478,661** | **411,075** | **29,458** | **381,617** | **143,737** | **46,693** | **97,044** | **35.0** | **158.5** | **25.4** |
| APRIL | M | 53,001 | 2,763 | 50,238 | 51,866 | 2,231 | 49,635 | 1,135 | 532 | 603 | 2.2 | 23.8 | 1.2 |
| | **P** | **607,813** | **78,914** | **528,899** | **462,941** | **31,689** | **431,252** | **144,872** | **47,225** | **97,647** | **31.3** | **149.0** | **22.6** |
| MAY | M | 77,595 | 5,474 | 72,121 | 54,240 | 7,245 | 46,995 | 23,355 | -1,771 | 25,126 | 43.1 | -24.4 | 53.5 |
| | **P** | **685,408** | **84,388** | **601,020** | **517,181** | **38,934** | **478,247** | **168,227** | **45,454** | **122,773** | **32.5** | **116.7** | **25.7** |
| JUNE | M | 144,975 | 7,173 | 137,802 | 131,948 | 7,744 | 124,204 | 13,027 | -571 | 13,598 | 9.9 | -7.4 | 10.9 |
| **4th Quarter** | | **275,571** | **15,410** | **260,161** | **238,054** | **17,220** | **220,834** | **37,517** | **-1,810** | **39,327** | **15.8** | **-10.5** | **17.8** |
| **Annual** | | **830,383** | **91,561** | **738,822** | **649,129** | **46,678** | **602,451** | **181,254** | **44,883** | **136,371** | **27.9** | **96.2** | **22.6** |

## INDIRECT TAXES

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 89,537 | 6,227 | 83,310 | 62,074 | 3,028 | 59,046 | 27,463 | 3,199 | 24,264 | 44.2 | 105.6 | 41.1 |
| AUGUST | M | 91,694 | 3,257 | 88,437 | 77,445 | 3,511 | 73,934 | 14,249 | -254 | 14,503 | 18.4 | -7.2 | 19.6 |
| | **P** | **181,231** | **9,484** | **171,747** | **139,519** | **6,539** | **132,980** | **41,712** | **2,945** | **38,767** | **29.9** | **45.0** | **29.2** |
| SEPTEMBER | M | 89,159 | 4,643 | 84,516 | 69,782 | 4,985 | 64,797 | 19,377 | -342 | 19,719 | 27.8 | -6.9 | 30.4 |
| **1st Quarter** | | **270,390** | **14,127** | **256,263** | **209,301** | **11,524** | **197,777** | **61,089** | **2,603** | **58,486** | **29.2** | **22.6** | **29.6** |
| OCTOBER | M | 90,295 | 3,546 | 86,749 | 77,359 | 8,030 | 69,329 | 12,936 | -4,484 | 17,420 | 16.7 | -55.8 | 25.1 |
| | **P** | **360,685** | **17,673** | **343,012** | **286,660** | **19,554** | **267,106** | **74,025** | **-1,881** | **75,906** | **25.8** | **-9.6** | **28.4** |
| NOVEMBER | M | 91,633 | 5,206 | 86,427 | 74,825 | 4,461 | 70,364 | 16,808 | 745 | 16,063 | 22.5 | 16.7 | 22.8 |
| | **P** | **452,318** | **22,879** | **429,439** | **361,485** | **24,015** | **337,470** | **90,833** | **-1,136** | **91,969** | **25.1** | **-4.7** | **27.3** |
| DECEMBER | M | 103,605 | 4,874 | 98,731 | 86,981 | 3,674 | 83,307 | 16,624 | 1,200 | 15,424 | 19.1 | 32.7 | 18.5 |
| **2nd Quarter** | | **285,533** | **13,626** | **271,907** | **239,165** | **16,165** | **223,000** | **46,368** | **-2,539** | **48,907** | **19.4** | **-15.7** | **21.9** |
| **Upto 2nd Qtr** | | **555,923** | **27,753** | **528,170** | **448,466** | **27,689** | **420,777** | **107,457** | **64** | **107,393** | **24.0** | **0.2** | **25.5** |
| JANUARY | M | 100,647 | 6,224 | 94,423 | 77,981 | 6,428 | 71,553 | 22,666 | -204 | 22,870 | 29.1 | -3.2 | 32.0 |
| | **P** | **656,570** | **33,977** | **622,593** | **526,447** | **34,117** | **492,330** | **130,123** | **-140** | **130,263** | **24.7** | **-0.4** | **26.5** |
| FEBRUARY | M | 86,477 | 4,324 | 82,153 | 73,613 | 4,909 | 68,704 | 12,864 | -585 | 13,449 | 17.5 | -11.9 | 19.6 |
| | **P** | **743,047** | **38,301** | **704,746** | **600,060** | **39,026** | **561,034** | **142,987** | **-725** | **143,712** | **23.8** | **-1.9** | **25.6** |
| MARCH | M | 101,640 | 4,650 | 96,990 | 81,189 | 3,691 | 77,498 | 20,451 | 959 | 19,492 | 25.2 | 26.0 | 25.2 |
| **3rd Quarter** | | **288,764** | **15,198** | **273,566** | **232,783** | **15,028** | **217,755** | **55,981** | **170** | **55,811** | **24.0** | **1.1** | **25.6** |
| **Upto 3rd Qtr** | | **844,687** | **42,951** | **801,736** | **681,249** | **42,717** | **638,532** | **163,438** | **234** | **163,204** | **24.0** | **0.5** | **25.6** |
| APRIL | M | 98,843 | 3,286 | 95,557 | 85,278 | 5,227 | 80,051 | 13,565 | -1,941 | 15,506 | 15.9 | -37.1 | 19.4 |
| | **P** | **943,530** | **46,237** | **897,293** | **766,527** | **47,944** | **718,583** | **177,003** | **-1,707** | **178,710** | **23.1** | **-3.6** | **24.9** |
| MAY | M | 113,862 | 4,218 | 109,644 | 118,650 | 6,022 | 112,628 | -4,788 | -1,804 | -2,984 | -4.0 | -30.0 | -2.6 |
| | **P** | **1,057,392** | **50,455** | **1,006,937** | **885,177** | **53,966** | **831,211** | **172,215** | **-3,511** | **175,726** | **19.5** | **-6.5** | **21.1** |
| JUNE | M | 140,806 | 3,539 | 137,267 | 129,751 | 5,399 | 124,352 | 11,055 | -1,860 | 12,915 | 8.5 | -34.5 | 10.4 |
| **4th Quarter** | | **353,511** | **11,043** | **342,468** | **333,679** | **16,648** | **317,031** | **19,832** | **-5,605** | **25,437** | **5.9** | **-33.7** | **8.0** |
| **Annual** | | **1,198,198** | **53,994** | **1,144,204** | **1,014,928** | **59,365** | **955,563** | **183,270** | **-5,371** | **188,641** | **18.1** | **-9.0** | **19.7** |

## SALES TAX (TOTAL)

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 66,668 | 4,994 | 61,674 | 42,902 | 2,102 | 40,800 | 23,766 | 2,892 | 20,874 | 55.4 | 137.6 | 51.2 |
| AUGUST | M | 66,572 | 2,177 | 64,395 | 54,163 | 2,595 | 51,568 | 12,409 | -418 | 12,827 | 22.9 | -16.1 | 24.9 |
| | **P** | **133,240** | **7,171** | **126,069** | **97,065** | **4,697** | **92,368** | **36,175** | **2,474** | **33,701** | **37.3** | **52.7** | **36.5** |
| SEPTEMBER | M | 63,134 | 3,886 | 59,248 | 45,409 | 4,076 | 41,333 | 17,725 | -190 | 17,915 | 39.0 | -4.7 | 43.3 |
| **1st Quarter** | | **196,374** | **11,057** | **185,317** | **142,474** | **8,773** | **133,701** | **53,900** | **2,284** | **51,616** | **37.8** | **26.0** | **38.6** |
| OCTOBER | M | 66,333 | 2,607 | 63,726 | 54,011 | 7,227 | 46,784 | 12,322 | -4,620 | 16,942 | 22.8 | -63.9 | 36.2 |
| | **P** | **262,707** | **13,664** | **249,043** | **196,485** | **16,000** | **180,485** | **66,222** | **-2,336** | **68,558** | **33.7** | **-14.6** | **38.0** |
| NOVEMBER | M | 65,285 | 4,279 | 61,006 | 49,826 | 3,619 | 46,207 | 15,459 | 660 | 14,799 | 31.0 | 18.2 | 32.0 |
| | **P** | **327,992** | **17,943** | **310,049** | **246,311** | **19,619** | **226,692** | **81,681** | **-1,676** | **83,357** | **33.2** | **-8.5** | **36.8** |
| DECEMBER | M | 75,115 | 4,158 | 70,957 | 58,907 | 2,996 | 55,911 | 16,208 | 1,162 | 15,046 | 27.5 | 38.8 | 26.9 |
| **2nd Quarter** | | **206,733** | **11,044** | **195,689** | **162,744** | **13,842** | **148,902** | **43,989** | **-2,798** | **46,787** | **27.0** | **-20.2** | **31.4** |
| **Upto 2nd Qtr** | | **403,107** | **22,101** | **381,006** | **305,218** | **22,615** | **282,603** | **97,889** | **-514** | **98,403** | **32.1** | **-2.3** | **34.8** |
| JANUARY | M | 70,839 | 5,261 | 65,578 | 52,349 | 5,770 | 46,579 | 18,490 | -509 | 18,999 | 35.3 | -8.8 | 40.8 |
| | **P** | **473,946** | **27,362** | **446,584** | **357,567** | **28,385** | **329,182** | **116,379** | **-1,023** | **117,402** | **32.5** | **-3.6** | **35.7** |
| FEBRUARY | M | 60,631 | 3,565 | 57,066 | 49,201 | 4,207 | 44,994 | 11,430 | -642 | 12,072 | 23.2 | -15.3 | 26.8 |
| | **P** | **534,577** | **30,927** | **503,650** | **406,768** | **32,592** | **374,176** | **127,809** | **-1,665** | **129,474** | **31.4** | **-5.1** | **34.6** |
| MARCH | M | 68,745 | 4,011 | 64,734 | 51,940 | 3,445 | 48,495 | 16,805 | 566 | 16,239 | 32.4 | 16.4 | 33.5 |
| **3rd Quarter** | | **200,215** | **12,837** | **187,378** | **153,490** | **13,422** | **140,068** | **46,725** | **-585** | **47,310** | **30.4** | **-4.4** | **33.8** |
| **Upto 3rd Qtr** | | **603,322** | **34,938** | **568,384** | **458,708** | **36,037** | **422,671** | **144,614** | **-1,099** | **145,713** | **31.5** | **-3.0** | **34.5** |
| APRIL | M | 69,840 | 2,975 | 66,865 | 56,595 | 4,295 | 52,300 | 13,245 | -1,320 | 14,565 | 23.4 | -30.7 | 27.8 |
| | **P** | **673,162** | **37,913** | **635,249** | **515,303** | **40,332** | **474,971** | **157,859** | **-2,419** | **160,278** | **30.6** | **-6.0** | **33.7** |
| MAY | M | 79,672 | 3,938 | 75,734 | 83,971 | 5,290 | 78,681 | -4,299 | -1,352 | -2,947 | -5.1 | -25.6 | -3.7 |
| | **P** | **752,834** | **41,851** | **710,983** | **599,274** | **45,622** | **553,652** | **153,560** | **-3,771** | **157,331** | **25.6** | **-8.3** | **28.4** |
| JUNE | M | 97,314 | 3,451 | 93,863 | 84,918 | 5,213 | 79,705 | 12,396 | -1,762 | 14,158 | 14.6 | -33.8 | 17.8 |
| **4th Quarter** | | **246,826** | **10,364** | **236,462** | **225,484** | **14,798** | **210,686** | **21,342** | **-4,434** | **25,776** | **9.5** | **-30.0** | **12.2** |
| **Annual** | | **850,148** | **45,302** | **804,846** | **684,192** | **50,835** | **633,357** | **165,956** | **-5,533** | **171,489** | **24.3** | **-10.9** | **27.1** |

**SALES TAX (IMPORTS)**

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 37,311 | 1 | 37,310 | 20,670 | 3 | 20,667 | 16,641 | -2 | 16,643 | 80.5 | -66.7 | 80.5 |
| AUGUST | M | 34,150 | 1 | 34,149 | 22,820 | 0 | 22,820 | 11,330 | 1 | 11,329 | 49.6 | #DIV/0! | 49.6 |
| | **P** | **71,461** | **2** | **71,459** | **43,490** | **3** | **43,487** | **27,971** | **-1** | **27,972** | **64.3** | **-33.3** | **64.3** |
| SEPTEMBER | M | 32,663 | | 32,663 | 20,470 | 0 | 20,470 | 12,193 | 0 | 12,193 | 59.6 | #DIV/0! | 59.6 |
| **1st Quarter** | | **104,124** | **2** | **104,122** | **63,960** | **3** | **63,957** | **40,164** | **-1** | **40,165** | **62.8** | **-33.3** | **62.8** |
| OCTOBER | M | 33,833 | 0 | 33,833 | 25,136 | 0 | 25,136 | 8,697 | 0 | 8,697 | 34.6 | #DIV/0! | 34.6 |
| | **P** | **137,957** | **2** | **137,955** | **89,096** | **3** | **89,093** | **48,861** | **-1** | **48,862** | **54.8** | **-33.3** | **54.8** |
| NOVEMBER | M | 34,903 | 1 | 34,902 | 22,197 | 0 | 22,197 | 12,706 | 1 | 12,705 | 57.2 | #DIV/0! | 57.2 |
| | **P** | **172,860** | **3** | **172,857** | **111,293** | **3** | **111,290** | **61,567** | **0** | **61,567** | **55.3** | **0.0** | **55.3** |
| DECEMBER | M | 38,696 | 1 | 38,695 | 30,774 | 13 | 30,761 | 7,922 | -12 | 7,934 | 25.7 | -92.3 | 25.8 |
| **2nd Quarter** | | **107,432** | **2** | **107,430** | **78,107** | **13** | **78,094** | **29,325** | **-11** | **29,336** | **37.5** | **-84.6** | **37.6** |
| **Upto 2nd Qtr** | | **211,556** | **4** | **211,552** | **142,067** | **16** | **142,051** | **69,489** | **-12** | **69,501** | **48.9** | **-75.0** | **48.9** |
| JANUARY | M | 36,331 | 1 | 36,330 | 25,610 | 0 | 25,610 | 10,721 | 1 | 10,720 | 41.9 | #DIV/0! | 41.9 |
| | **P** | **247,887** | **5** | **247,882** | **167,677** | **16** | **167,661** | **80,210** | **-11** | **80,221** | **47.8** | **-68.8** | **47.8** |
| FEBRUARY | M | 31,323 | 0 | 31,323 | 20,839 | 23 | 20,816 | 10,484 | -23 | 10,507 | 50.3 | -100.0 | 50.5 |
| | **P** | **279,210** | **5** | **279,205** | **188,516** | **39** | **188,477** | **90,694** | **-34** | **90,728** | **48.1** | **-87.2** | **48.1** |
| MARCH | M | 33,695 | | 33,695 | 23,508 | 5 | 23,503 | 10,187 | -5 | 10,192 | 43.3 | -100.0 | 43.4 |
| **3rd Quarter** | | **101,349** | **1** | **101,348** | **69,957** | **28** | **69,929** | **31,392** | **-27** | **31,419** | **44.9** | **-96.4** | **44.9** |
| **Upto 3rd Qtr** | | **312,905** | **5** | **312,900** | **212,024** | **44** | **211,980** | **100,881** | **-39** | **100,920** | **47.6** | **-88.6** | **47.6** |
| APRIL | M | 37,487 | 1 | 37,486 | 25,338 | 1 | 25,337 | 12,149 | 0 | 12,149 | 47.9 | 0.0 | 47.9 |
| | **P** | **350,392** | **6** | **350,386** | **237,362** | **45** | **237,317** | **113,030** | **-39** | **113,069** | **47.6** | **-86.7** | **47.6** |
| MAY | M | 38,815 | 1 | 38,814 | 38,311 | 0 | 38,311 | 504 | 1 | 503 | 1.3 | #DIV/0! | 1.3 |
| | **P** | **389,207** | **7** | **389,200** | **275,673** | **45** | **275,628** | **113,534** | **-38** | **113,572** | **41.2** | **-84.4** | **41.2** |
| JUNE | M | 41,203 | 0 | 41,203 | 33,021 | 1 | 33,020 | 8,182 | -1 | 8,183 | 24.8 | -100.0 | 24.8 |
| **4th Quarter** | | **117,505** | **2** | **117,503** | **96,670** | **2** | **96,668** | **20,835** | **0** | **20,835** | **21.6** | **0.0** | **21.6** |
| **Annual** | | **430,410** | **7** | **430,403** | **308,694** | **46** | **308,648** | **121,716** | **-39** | **121,755** | **39.4** | **-84.8** | **39.4** |

## SALES TAX (DOMESTIC)

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 29,357 | 4,993 | 24,364 | 22,232 | 2,099 | 20,133 | 7,125 | 2,894 | 4,231 | 32.0 | 137.9 | 21.0 |
| AUGUST | M | 32,422 | 2,176 | 30,246 | 31,343 | 2,595 | 28,748 | 1,079 | -419 | 1,498 | 3.4 | -16.1 | 5.2 |
| | **P** | **61,779** | **7,169** | **54,610** | **53,575** | **4,694** | **48,881** | **8,204** | **2,475** | **5,729** | **15.3** | **52.7** | **11.7** |
| SEPTEMBER | M | 30,471 | 3,886 | 26,585 | 24,939 | 4,076 | 20,863 | 5,532 | -190 | 5,722 | 22.2 | -4.7 | 27.4 |
| **1st Quarter** | | **92,250** | **11,055** | **81,195** | **78,514** | **8,770** | **69,744** | **13,736** | **2,285** | **11,451** | **17.5** | **26.1** | **16.4** |
| OCTOBER | M | 32,500 | 2,607 | 29,893 | 28,875 | 7,227 | 21,648 | 3,625 | -4,620 | 8,245 | 12.6 | -63.9 | 38.1 |
| | **P** | **124,750** | **13,662** | **111,088** | **107,389** | **15,997** | **91,392** | **17,361** | **-2,335** | **19,696** | **16.2** | **-14.6** | **21.6** |
| NOVEMBER | M | 30,382 | 4,278 | 26,104 | 27,629 | 3,619 | 24,010 | 2,753 | 659 | 2,094 | 10.0 | 18.2 | 8.7 |
| | **P** | **155,132** | **17,940** | **137,192** | **135,018** | **19,616** | **115,402** | **20,114** | **-1,676** | **21,790** | **14.9** | **-8.5** | **18.9** |
| DECEMBER | M | 36,419 | 4,157 | 32,262 | 28,133 | 2,983 | 25,150 | 8,286 | 1,174 | 7,112 | 29.5 | 39.4 | 28.3 |
| **2nd Quarter** | | **99,301** | **11,042** | **88,259** | **84,637** | **13,829** | **70,808** | **14,664** | **-2,787** | **17,451** | **17.3** | **-20.2** | **24.6** |
| **Upto 2nd Qtr** | | **191,551** | **22,097** | **169,454** | **163,151** | **22,599** | **140,552** | **28,400** | **-502** | **28,902** | **17.4** | **-2.2** | **20.6** |
| JANUARY | M | 34,508 | 5,260 | 29,248 | 26,739 | 5,770 | 20,969 | 7,769 | -510 | 8,279 | 29.1 | -8.8 | 39.5 |
| | **P** | **226,059** | **27,357** | **198,702** | **189,890** | **28,369** | **161,521** | **36,169** | **-1,012** | **37,181** | **19.0** | **-3.6** | **23.0** |
| FEBRUARY | M | 29,308 | 3,565 | 25,743 | 28,362 | 4,184 | 24,178 | 946 | -619 | 1,565 | 3.3 | -14.8 | 6.5 |
| | **P** | **255,367** | **30,922** | **224,445** | **218,252** | **32,553** | **185,699** | **37,115** | **-1,631** | **38,746** | **17.0** | **-5.0** | **20.9** |
| MARCH | M | 35,050 | 4,011 | 31,039 | 28,432 | 3,440 | 24,992 | 6,618 | 571 | 6,047 | 23.3 | 16.6 | 24.2 |
| **3rd Quarter** | | **98,866** | **12,836** | **86,030** | **83,533** | **13,394** | **70,139** | **15,333** | **-558** | **15,891** | **18.4** | **-4.2** | **22.7** |
| **Upto 3rd Qtr** | | **290,417** | **34,933** | **255,484** | **246,684** | **35,993** | **210,691** | **43,733** | **-1,060** | **44,793** | **17.7** | **-2.9** | **21.3** |
| APRIL | M | 32,353 | 2,974 | 29,379 | 31,257 | 4,294 | 26,963 | 1,096 | -1,320 | 2,416 | 3.5 | -30.7 | 9.0 |
| | **P** | **322,770** | **37,907** | **284,863** | **277,941** | **40,287** | **237,654** | **44,829** | **-2,380** | **47,209** | **16.1** | **-5.9** | **19.9** |
| MAY | M | 40,857 | 3,937 | 36,920 | 45,660 | 5,290 | 40,370 | -4,803 | -1,353 | -3,450 | -10.5 | -25.6 | -8.5 |
| | **P** | **363,627** | **41,844** | **321,783** | **323,601** | **45,577** | **278,024** | **40,026** | **-3,733** | **43,759** | **12.4** | **-8.2** | **15.7** |
| JUNE | M | 56,111 | 3,451 | 52,660 | 51,897 | 5,212 | 46,685 | 4,214 | -1,761 | 5,975 | 8.1 | -33.8 | 12.8 |
| **4th Quarter** | | **129,321** | **10,362** | **118,959** | **128,814** | **14,796** | **114,018** | **507** | **-4,434** | **4,941** | **0.4** | **-30.0** | **4.3** |
| **Annual** | | **419,738** | **45,295** | **374,443** | **375,498** | **50,789** | **324,709** | **44,240** | **-5,494** | **49,734** | **11.8** | **-10.8** | **15.3** |

## FEDERAL EXCISE

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 9,668 | | 9,668 | 7,293 | | 7,293 | 2,375 | 0 | 2,375 | 32.6 | - | 32.6 |
| AUGUST | M | 9,867 | | 9,867 | 10,322 | | 10,322 | -455 | 0 | -455 | -4.4 | - | -4.4 |
| | **P** | **19,535** | **0** | **19,535** | **17,615** | **0** | **17,615** | **1,920** | **0** | **1,920** | **10.9** | **-** | **10.9** |
| SEPTEMBER | M | 8,900 | 0 | 8,900 | 9,296 | 0 | 9,296 | -396 | 0 | -396 | -4.3 | #DIV/0! | -4.3 |
| **1st Quarter** | | **28,435** | **0** | **28,435** | **26,911** | **0** | **26,911** | **1,524** | **0** | **1,524** | **5.7** | **#DIV/0!** | **5.7** |
| OCTOBER | M | 8,507 | 0 | 8,507 | 10,242 | 0 | 10,242 | -1,735 | 0 | -1,735 | -16.9 | - | -16.9 |
| | **P** | **36,942** | **0** | **36,942** | **37,153** | **0** | **37,153** | **-211** | **0** | **-211** | **-0.6** | **-** | **-0.6** |
| NOVEMBER | M | 9,596 | 0 | 9,596 | 10,779 | 0 | 10,779 | -1,183 | 0 | -1,183 | -11.0 | - | -11.0 |
| | **P** | **46,538** | **0** | **46,538** | **47,932** | **0** | **47,932** | **-1,394** | **0** | **-1,394** | **-2.9** | **-** | **-2.9** |
| DECEMBER | M | 6,914 | 1 | 6,913 | 10,216 | 1 | 10,215 | -3,302 | 0 | -3,302 | -32.3 | 0.0 | -32.3 |
| **2nd Quarter** | | **25,017** | **1** | **25,016** | **31,237** | **1** | **31,236** | **-6,220** | **0** | **-6,220** | **-19.9** | **0.0** | **-19.9** |
| **Upto 2nd Qtr** | | **53,452** | **1** | **53,451** | **58,148** | **1** | **58,147** | **-4,696** | **0** | **-4,696** | **-8.1** | **0.0** | **-8.1** |
| JANUARY | M | 11,859 | 219 | 11,640 | 10,564 | 0 | 10,564 | 1,295 | 219 | 1,076 | 12.3 | - | 10.2 |
| | **P** | **65,311** | **220** | **65,091** | **68,712** | **1** | **68,711** | **-3,401** | **219** | **-3,620** | **-4.9** | **-** | **-5.3** |
| FEBRUARY | M | 8,453 | 0 | 8,453 | 9,761 | 0 | 9,761 | -1,308 | 0 | -1,308 | -13.4 | - | -13.4 |
| | **P** | **73,764** | **220** | **73,544** | **78,473** | **1** | **78,472** | **-4,709** | **219** | **-4,928** | **-6.0** | **-** | **-6.3** |
| MARCH | M | 11,261 | 0 | 11,261 | 10,616 | 0 | 10,616 | 645 | 0 | 645 | 6.1 | #DIV/0! | 6.1 |
| **3rd Quarter** | | **31,573** | **219** | **31,354** | **30,941** | **0** | **30,941** | **632** | **219** | **413** | **2.0** | **#DIV/0!** | **1.3** |
| **Upto 3rd Qtr** | | **85,025** | **220** | **84,805** | **89,089** | **1** | **89,088** | **-4,064** | **219** | **-4,283** | **-4.6** | **21,900.0** | **-4.8** |
| APRIL | M | 10,752 | 0 | 10,752 | 13,088 | 0 | 13,088 | -2,336 | 0 | -2,336 | -17.8 | #DIV/0! | -17.8 |
| | **P** | **95,777** | **220** | **95,557** | **102,177** | **1** | **102,176** | **-6,400** | **219** | **-6,619** | **-6.3** | **21,900.0** | **-6.5** |
| MAY | M | 13,411 | 18 | 13,393 | 16,248 | 2 | 16,246 | -2,837 | 16 | -2,853 | -17.5 | 800.0 | -17.6 |
| | **P** | **109,188** | **238** | **108,950** | **118,425** | **3** | **118,422** | **-9,237** | **235** | **-9,472** | **-7.8** | **7,833.3** | **-8.0** |
| JUNE | M | 13,511 | 1 | 13,510 | 18,931 | 0 | 18,931 | -5,420 | 1 | -5,421 | -28.6 | #DIV/0! | -28.6 |
| **4th Quarter** | | **37,674** | **19** | **37,655** | **48,267** | **2** | **48,265** | **-10,593** | **17** | **-10,610** | **-21.9** | **850.0** | **-22.0** |
| **Annual** | | **122,699** | **239** | **122,460** | **137,356** | **3** | **137,353** | **-14,657** | **236** | **-14,893** | **-10.7** | **7,866.7** | **-10.8** |

## C U S T O M S

(Rs Million)

| MONTHS | M/P | Collection | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY 2011-12 | | | FY 2010-11 | | | COMPARISON | | | Growth (%) | | |
| | | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net | Gross | Reb/Ref | Net |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| JULY | M | 13,201 | 1,233 | 11,968 | 11,879 | 926 | 10,953 | 1,322 | 307 | 1,015 | 11.1 | 33.2 | 9.3 |
| AUGUST | M | 15,255 | 1,080 | 14,175 | 12,960 | 916 | 12,044 | 2,295 | 164 | 2,131 | 17.7 | 17.9 | 17.7 |
| | **P** | **28,456** | **2,313** | **26,143** | **24,839** | **1,842** | **22,997** | **3,617** | **471** | **3,146** | **14.6** | **25.6** | **13.7** |
| SEPTEMBER | M | 17,125 | 757 | 16,368 | 15,077 | 909 | 14,168 | 2,048 | -152 | 2,200 | 13.6 | -16.7 | 15.5 |
| **1st Quarter** | | **45,581** | **3,070** | **42,511** | **39,916** | **2,751** | **37,165** | **5,665** | **319** | **5,346** | **14.2** | **11.6** | **14.4** |
| OCTOBER | M | 15,455 | 939 | 14,516 | 13,106 | 803 | 12,303 | 2,349 | 136 | 2,213 | 17.9 | 16.9 | 18.0 |
| | **P** | **61,036** | **4,009** | **57,027** | **53,022** | **3,554** | **49,468** | **8,014** | **455** | **7,559** | **15.1** | **12.8** | **15.3** |
| NOVEMBER | M | 16,752 | 927 | 15,825 | 14,220 | 842 | 13,378 | 2,532 | 85 | 2,447 | 17.8 | 10.1 | 18.3 |
| | **P** | **77,788** | **4,936** | **72,852** | **67,242** | **4,396** | **62,846** | **10,546** | **540** | **10,006** | **15.7** | **12.3** | **15.9** |
| DECEMBER | M | 21,576 | 715 | 20,861 | 17,858 | 677 | 17,181 | 3,718 | 38 | 3,680 | 20.8 | 5.6 | 21.4 |
| **2nd Quarter** | | **53,783** | **2,581** | **51,202** | **45,184** | **2,322** | **42,862** | **8,599** | **259** | **8,340** | **19.0** | **11.2** | **19.5** |
| **Upto 2nd Qtr** | | **99,364** | **5,651** | **93,713** | **85,100** | **5,073** | **80,027** | **14,264** | **578** | **13,686** | **16.8** | **11.4** | **17.1** |
| JANUARY | M | 17,949 | 744 | 17,205 | 15,068 | 658 | 14,410 | 2,881 | 86 | 2,795 | 19.1 | 13.1 | 19.4 |
| | **P** | **117,313** | **6,395** | **110,918** | **100,168** | **5,731** | **94,437** | **17,145** | **664** | **16,481** | **17.1** | **11.6** | **17.5** |
| FEBRUARY | M | 17,393 | 759 | 16,634 | 14,651 | 702 | 13,949 | 2,742 | 57 | 2,685 | 18.7 | 8.1 | 19.2 |
| | **P** | **134,706** | **7,154** | **127,552** | **114,819** | **6,433** | **108,386** | **19,887** | **721** | **19,166** | **17.3** | **11.2** | **17.7** |
| MARCH | M | 21,634 | 639 | 20,995 | 18,633 | 246 | 18,387 | 3,001 | 393 | 2,608 | 16.1 | 159.8 | 14.2 |
| **3rd Quarter** | | **56,976** | **2,142** | **54,834** | **48,352** | **1,606** | **46,746** | **8,624** | **536** | **8,088** | **17.8** | **33.4** | **17.3** |
| **Upto 3rd Qtr** | | **156,340** | **7,793** | **148,547** | **133,452** | **6,679** | **126,773** | **22,888** | **1,114** | **21,774** | **17.2** | **16.7** | **17.2** |
| APRIL | M | 18,251 | 311 | 17,940 | 15,595 | 932 | 14,663 | 2,656 | -621 | 3,277 | 17.0 | -66.6 | 22.3 |
| | **P** | **174,591** | **8,104** | **166,487** | **149,047** | **7,611** | **141,436** | **25,544** | **493** | **25,051** | **17.1** | **6.5** | **17.7** |
| MAY | M | 20,779 | 262 | 20,517 | 18,431 | 730 | 17,701 | 2,348 | -468 | 2,816 | 12.7 | -64.1 | 15.9 |
| | **P** | **195,370** | **8,366** | **187,004** | **167,478** | **8,341** | **159,137** | **27,892** | **25** | **27,867** | **16.7** | **0.3** | **17.5** |
| JUNE | M | 29,981 | 87 | 29,894 | 25,902 | 186 | 25,716 | 4,079 | -99 | 4,178 | 15.7 | -53.2 | 16.2 |
| **4th Quarter** | | **69,011** | **660** | **68,351** | **59,928** | **1,848** | **58,080** | **9,083** | **-1,188** | **10,271** | **15.2** | **-64.3** | **17.7** |
| **Annual** | | **225,351** | **8,453** | **216,898** | **193,380** | **8,527** | **184,853** | **31,971** | **-74** | **32,045** | **16.5** | **-0.9** | **17.3** |