FBR QUARTERLY REVIEW

Vol. 12, No.1, July-September 2012-13

A Review of Resource Mobilization Efforts of Federal Board of Revenue

FBR
PAKISTAN

Federal Board of Revenue
Government of Pakistan

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January, 2013

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Contents

Abbreviations

AOPs	Association of Persons
ATT	Air Travel Tax
BPR	Business Process Reengineering
CD	Customs Duties
CFY	Current Fiscal Year
CoD	Collection on Demand
DT	Direct Taxes
FBR	Federal Board of Revenue
FED	Federal Excise Duties
FY	Fiscal Year
GST	General Sales Tax
LTU	Large Tax Payers' Unit
MCC	Model Customs Collectorate
NTN	National Tax Number
PCT	Pakistan Customs Tariff
PAYE	Pay As you Earn
Q1CFY	Quarter 1 Current Fiscal Year
Q1PFY	Quarter 1 Previous Fiscal Year
RTO	Regional Tax Office
STARR	Sales Tax Automated Refund Repository
STD	Sales Tax Domestic
STM	Sales Tax Import
TARP	Tax Administration Reform Project
USAS	Universal Self-Assessment Scheme
VP	Voluntary Payments
VAT	Value Added Tax
WHT	Withholding Taxes

Foreword

It is encouraging to note that despite various economic challenges being faced by the economy, FBR has been able to collect Rs. 411 billion (net collections) during July-September 2012-13 as compared to Rs 381 billion (net) collected in the corresponding period last year. Thus an additional amount of Rs. 30 billion has been added over the actual realization during last year. However, FBR has been geared up to put in extra efforts in the remaining period of the year to collect more revenues for the government. Broadening of tax base, effective audit and enforcement initiatives are the focus for future course of action.

The current issue of FBR Quarterly Review presents a detailed analysis of revenue collection and sectoral performance. The publication includes two research articles on "Tax Reforms in Pakistan-Towards a Practical Approach" and "A Preliminary Study on Withholding Tax from Imports".

The efforts of the research team of the Strategic Planning and Reforms Wing are laudable. I hope this issue will also cater to the needs of a wide array of FBR stakeholders. We look forward to receiving comments and suggestions from the valued readers and stakeholders for improvement of the FBR Quarterly Reviews.

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

January, 2013

FBR Tax Collection:

Executive Summary

The slowdown in economy has made tax collection efforts less effective during the first quarter of CFY. The revenue target for FY: 2012-13 is higher by 26% over the collection of Rs. 1883 billion last year, which is definitely a challenging task. Nevertheless, it is encouraging to note that around 94% of the target set for the first quarter has been met. Despite genuine issues like economic slowdown, energy crises, and law & order situation FBR has been able to exceed the collection of previous year by Rs. 30 billion. It is clear that for the remaining quarters more concerted efforts would be required to collect the balance amount. In this regard expansion in the tax base, audit and enforcement can play a vital and effective role.

I. The Economy

The country's economy is showing resilience and improving slowly but surely. Exports of the country have exhibited a growth of 4.3 percent during the first quarter of CFY. The volume of export stood at $ 6.187 billion during first quarter of CFY as against $5.934 billion. Textile and clothing exports showed a double digit expansion. However, remarkable improvement has been witnessed in the export of jewelry which recorded export of $ 900 million as against $200 million last year. It is expected that the export of jewelry may touch $ 2.5 billion. This high growth trajectory is attributed to innovative designing and diversification of export market. At a time when exports of big neighbors like China and India are not growing at the rate seen last year, a substantial expansion in Pakistan's export earnings in the last month of the quarter has been a good omen for the country. Import decelerated due to weakening of the rupee against dollar and that had a favourable impact on the trade deficit in the first three months of the year.

Outlook of the real sector is also somewhat promising. Large Scale Manufacturing (LSM) has expanded 1.85 percent in the first quarter on the back of some easing in interest rates and rationalization of energy distribution amongst various segments of the economy. On the other hand sustained high growth in home remittances was also witnessed in the entire quarter ending in September. The quantum of foreign remittance was $ 3.599 billion during the first three months of CFY as against $ 3.297 billion during the corresponding period last year. As a result, the current account showed a surplus despite continuous decline in foreign investment. Inflation in September fell below nine per cent and average inflation of the first quarter remained slightly above this level, raising hopes for meeting the full fiscal year inflation target of 9.5 per cent.

The persistent economic slowdown has made tax collection efforts less effective during the first quarter of CFY. The tax collection depends on healthy economic activities; any downturn in major economic indicators hurts the government revenues as well. The overall target for FY: 2012-13 is Rs.2381 billion higher by 26% over the collection of Rs. 1883 billion last year, which is definitely a challenging task. Nevertheless, it is encouraging to note that according to provisional figures around 94% of the target set for the first quarter has been met. More efforts would be required in the remaining quarters to compensate the revenue loss faced in Quarter-1.

II. FBR Tax Collection: An Analysis of Quarter 1: 12-13[1]

FBR Revenue Target for FY: 12-13

The revenue target for FY: 12-13 was budgeted at Rs. 2,381 billion that required 26.4% growth over last year's collection of Rs. 1883 billion (Table 1). The sales tax would be top contributor with 45.2% share in revenue target, followed by direct taxes with 39.1% share, customs (10.4%) and FED (5.2%) in FY: 2012-13.

Table 1: Baseline Collection FY: -11-12 viz-a-viz Projections for FY: 12-13

(Rs. Billion)

Tax Heads	Collection FY: 11-12	Projections FY: 12-13	Growth (%)	Share (%) 12-13
Direct Taxes	738.8	932.1	26.2	39.1
Sales Tax	804.8	1,076.6	33.8	45.2
Federal Excise	122.5	124.9	2.0	5.2
Customs Duties	216.9	247.4	14.1	10.4
All Taxes	1,883.0	2,381.0	26.4	100.0

FBR Revenue Position

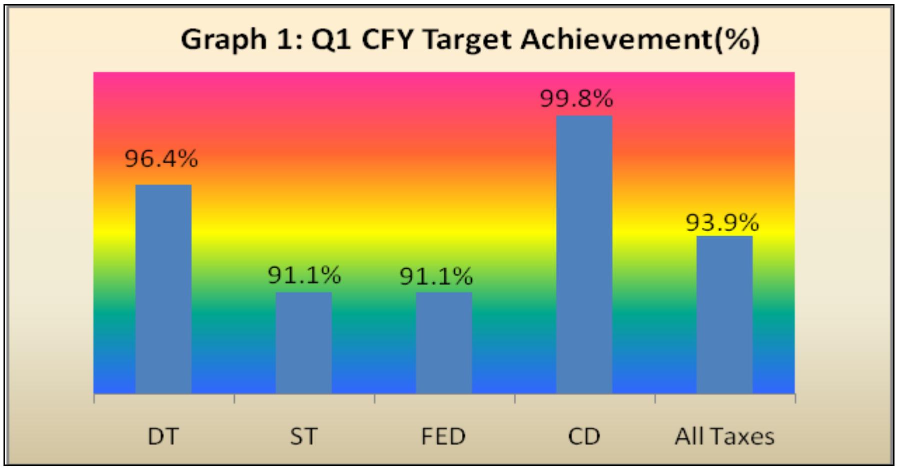
The target of the first quarter has been achieved to the extent of around 94%. The net collection during first quarter of FY: 2012-13 has been Rs.411 billion against Rs. 380.8 billion in the corresponding period of last year (Table 2). The collection grew by around 8% during Q1 of CFY. The collection of FED was lesser about Rs.6 billion because of shrinking base and lowering of rate of cement announced in budget 2012-13. The collection of customs duty has recorded healthy growth of more than 23% in first quarter of CFY. The growth in the major heads i.e. direct taxes and sales tax has been 11.4% and 6.6% respectively.

[1] The research team of the SPR&S wing has prepared this analysis. The figures related to economy has been taken from the reports of SBP and PBS accordingly.

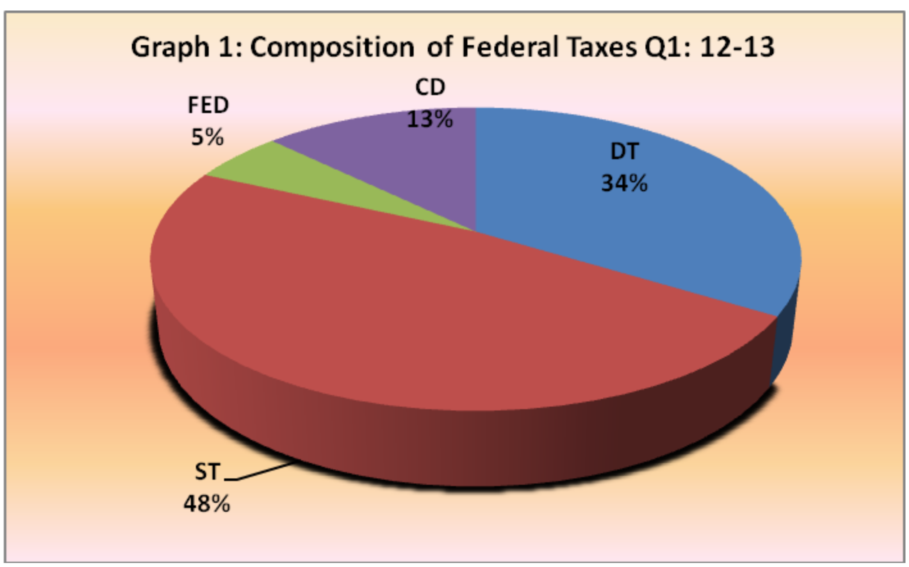
Table 2: Net Collection during Q1: 12-13 Vs. Q1: 11-12

(Rs. Billion)

Heads	Q1: 12-13	Q1: 11-12	Growth (Absolute)	Growth (Percent)
Direct Taxes	138.8	124.5	14.2	11.4
Sales Tax	197.5	185.3	12.2	6.6
Federal Excise	22.5	28.4	-5.9	-21.0
Customs Duties	52.3	42.5	9.8	23.0
All Taxes	**411.0**	**380.8**	**30.2**	**7.9**



However sales tax has become the major contributor in the federal tax receipts with 48.3% share in total collection followed by direct taxes (33.4%), customs (12.8%) and FED (5.5%) in the first quarter of CFY (Graph-1). The share of DT has slightly improved from 32.7% to 33.4%, whereas, share of FED has declined from 7.5% in PFY to 5.5% in CFY due to its shrinking base.



Analysis of Refunds/Rebates

During last few years FBR has focused on the payment of pending refunds and timely issuance of current claims. Resultantly, the major chunk of pending claims has been cleared and in CFY (Table 3).

Table 3: Comparative Position of Refunds/ Rebates Payments: Q1: 12-13 Vs. Q1: 11-12

(Rs. Billion)

	Refunds/ Rebates		Difference	
	Q1: 12-13	Q1: 11-12	Absolute	Growth (%)
Direct Taxes	9.5	47	-37.6	-79.9
Sales Tax	12.2	11.1	1.1	10.6
Federal Excise	0	0	0	0.0
Customs	2.5	3.1	-0.6	-19.4
All Taxes	**24.2**	**61.2**	**-36.9**	**-60.4**

Detailed Analysis of Individual Taxes

A detailed analysis of collection of individual taxes in relation to the economy is important for deeper understanding. This is also relevant because each year new budgetary measures are introduce to boost revenue, promote investment, and facilitate taxpayers for improved voluntary compliance and there is a need to review this position.

Direct Taxes:

The gross and net collection of direct taxes during the 1st quarter of CFY has been Rs. 148.2 billion and Rs.138.8 billion, against Rs. 171.5 billion and Rs. 124.5 billion respectively, in the comparable period of PFY, indicating a decline of 13.6% in gross and 11.4% increase in net term (Table 4). The assigned target of Rs. 144 billion fixed for 1st quarter of CFY has been missed by a margin of Rs. 7 billion.

Table 4: Direct Taxes Collection

(Rs. in Million)

Heads	Collection during Quarter-1		Growth (%)
	FY: 12-13	FY:11-12	
Gross	148.2	171.5	-13.6
Refund	9.4	46.9	-79.9
Net	138.8	124.5	11.4

Components of Income and Corporate Taxes:

Of three major components of direct taxes namely; collection on demand (CoD), voluntary payments (VP) and withholding taxes (WHT), 60.7% of gross income tax is contributed by the WHT, followed by VP having 36.8% share in total; and 6.8% is contributed by CoD. In general, the performance of these sources of revenue has been almost consistent with the overall state of the economy. The WHT has registered a negative growth of 0.5%, CoD has yielded a negative growth of 63.0%. The reason for decline in collection of WHT is due to abolishment of RWUs (Regional Withholding Units) for operational reasons. Resultantly monitoring of withholding taxes has been assigned to enforcement and collection division. The collection from CoD depends on the departmental efforts and the lesser collection invites the concerned quarters to review the causes of decline in collection. The voluntary payment has registered a healthy growth of 20.5% during the 1st quarter of CFY. On the other hand, the other component of voluntary compliance is payment with return, where substantial growth has been recorded. Similarly, other direct taxes have also registered a substantial growth during the period under review. A detailed analysis of three components is presented below.

Collection on Demand (CoD): The collection on account of demand creation has decreased during the 1st quarter by 63% during CFY. Of the two components of CoD, the collection under arrear demand has significantly increased by 99% over the PFY. This growth is mainly due to tax drive initiatives by the income tax department against tax defaulters and partially due to the disposal of the 'Brought Forward' cases. The second component, i.e., current demand has yielded a negative growth of 72% over the corresponding period of PFY. It is expected to receive a boost during the 2nd quarter of the year when initial assessment of the returns will be completed and cases will be ripe for audit/ assessment through random selection criteria.

Table 5: Head-wise Performance of Direct Taxes

(Rs. Million)

	2012-13	2011-12	Change (%)
Voluntary Payments	49,864	41,391	20.5
Collection on Demand	9,463	25,558	-63.0
Deductions at Source (WHT)	84,600	84,218	-0.5
Miscellaneous	1,128	19,366	-94.2
Income Tax (Gross)	**145,055**	**170,533**	**-14.9**
Refunds	**9,445**	**46,998**	**-79.9**
Income Tax (Net)	**135,610**	**123,535**	**9.8**
Total Net Direct Taxes	**138,758**	**124,542**	**11.4**

Voluntary Payments: VP comprises of payments with returns and advance tax payments on the basis of self-assessed expected income within the PAYE regime. On the whole Rs. 49.9 billions have been generated during the 1st quarter of CFY on account of

VP as compared to Rs. 41.4 billion in the corresponding period of last year. Thus, there has been a increase in growth by 20.5%. The obvious reason is the increased trust bond between taxpayer and the Department. Furthermore, self assessment scheme is bearing fruits which have been reflected in substantial increase of 20.5% from voluntary payments. On the other hand, the second component i.e., payment with returns has registered a healthy growth over PFY, partly reflecting confidence building of the taxpayers and also the date of filing of returns was extended to November in 2011.

Table 6: Collection of Income Tax by Voluntary Compliance

(Rs. Million)

	Collection 2012-13	Collection 2011-12	Change (%)
Voluntary Payments (A+B)	49,864	41,391	20.5
A) With Returns	6,021	327	1740.0
B) Advance Tax	43,843	41,064	6.8

Withholding Taxes: This component has been the major contributor of the income tax gross collection. As indicated, the share of WHT in gross collection has marginally declined by 0.5% in Q1: 12-13 mainly due to abolishment of Regional Withholding Units for administrative reasons. The collection is likely to increase in the next quarter by the administrative steps taken by FBR.

Within WHT, the major share in the collection has been from major sources, namely, contracts/supplies (26.0%), imports (25.7%), salary (11.9%), exports (5.8%) and bank interest/ securities (9.0%). Among these sources, significant growth of 45.1% in collection has been recorded in electricity bill, mainly due to increase in the electricity tariff and increase in consumption by the users. Similarly, more than 13.3% growth was recorded in WHT on imports due to increase in the volume of imports. Similarly, the decrease of 6.6% from salary can be attributed to upward revision of salary slabs due to which a large number of employees has gone out from the tax net. Growth of 10.3% in bank interest is due to the consistent good performance by the banking sector. The decrease in the collection of dividends is mainly due to non-declaration of dividend by the companies. The decrease of 6.9% from cash withdrawals is due to reduction in WHT rate during CFY.

Table 7: A comparative Position of Withholding Taxes

(Rs. Million)

Heads	2012-13	2011-12	Change (%)	Share (%)
Contracts	21,992	19,800	11.1	26.0
Imports	21556	19,025	13.3	25.5
Salary	9,989	10,700	-6.6	11.8
Exports	4,848	5,306	-8.6	5.7
Bank Interest	7,599	6,889	10.3	9.0
Cash Withdrawal	2,466	2,647	-6.9	2.9
Electricity	3,772	2,600	45.1	4.5
Dividend	2,566	3,320	-22.7	3
Telephone	1,915	6,274	-69.5	2.7
Sub-Total	***76,703***	***76,561***	**0.2**	**90.6**
Other WHT	7,897	7,657	**3.1**	9.4
Total WHT	**84,600**	**84,218**	**0.5**	**100**

Sales Tax: The sales tax is one of the leading sources of federal tax revenues by contributing about 45% of the total taxes. The gross and net collection of sales tax has been Rs.209.7 billion and Rs. 197.5 billion showing a growth of 6.6% in net collection over the corresponding period last year (Table 7). The collection has missed the target of Rs. 216.9 billion fixed for the first quarter of FY: 12-13 by 9%. It has two components (i) sales tax imports and (ii) sales tax domestic. The share of sales tax at import stage in the total sale tax collection has improved from 56% to 57% in Q1 of CFY as compared to corresponding period last year. The main reason for this has been the increase in the volume of imports and resultantly higher sales tax collection at import stage.

Graph 2: Share of STM and STD in total ST Q1: 12-13

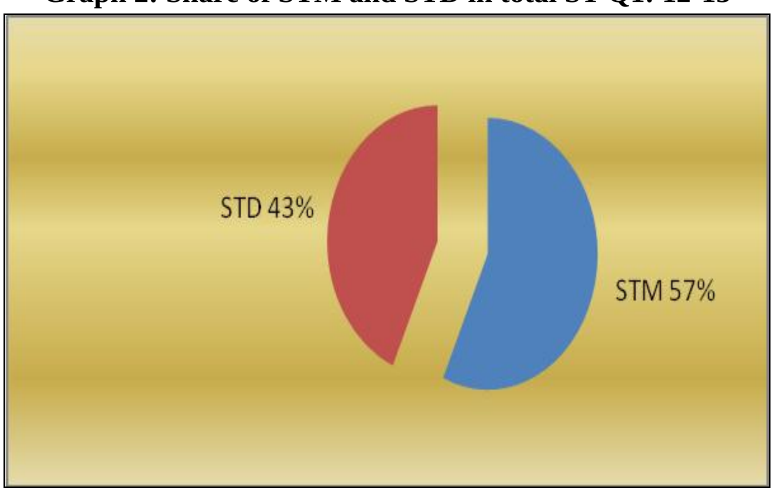


Table 8: Collection of Sales Tax during July-September: FY: 12-13

(Rs. Million)

Tax-Head	Q 1: 2012-13			Q 1: 2011-12			Growth (%) Net
	Gross	Refund	Net	Gross	Refund	Net	
Sales Tax (M)	111.9	0	111.9	104.1	0	104.1	7.4
Sales Tax (D)	97.8	12.2	85.6	92.3	11.1	81.2	5.5
Total	**209.7**	**12.2**	**197.5**	**196.4**	**11.1**	**185.3**	**6.6**

Sales Tax (Domestic) Collection: The gross collection of sales tax (domestic) has been Rs. 97.8 billion and net at Rs. 85.6 billion respectively during July-September, 2012 showing growth of 5.6% in net collection.

The sales tax collection from ten major commodities continued to contribute a major proportion i.e. 79.2%, in overall sales tax domestic collection. These include petroleum, telecommunication, natural gas, sugar, fertilizers, cigarettes, beverages, cement and motor cars.

Sectoral Analysis: The collection from petroleum products has recorded a growth of 2.7% as compared to collection of same period last year (Table 8). The telecommunication sector recorded a negative growth of 35.2%. This decline is attributable to the shifting of telecom services to Punjab in CFY. The collection from natural gas has exhibited a robust growth of 56.6% due to increased taxable sales by 8% and nil refund payment during July-September, 2012 against Rs. 1.3 billion during corresponding period last year. The collection from cement grew by 37.2% due to growth in taxable sales of cement by 20%. A decline of 4.3% in collection from cigarettes is attributable to decline in production of cigarettes by 3.4%. The collection from services (other than telecom) indicated a decline as Punjab province has started collection from its services. The beverages industry has manifested a growth of 9.3% in the collection due to 23% growth in its production. As far as the collection of sales tax from sugar is concerned, its collection has reduced by 1.6% due to 9.3% growth in input adjustment. The collection of tea has decreased by around 30% due to increased input/output ratio and increased exempt sale.

Table 9: Sector-Wise Net Collection of Sales Tax Domestic

(Rs. Million)

SNo.	Sectors	July-September		
		FY:12-13	FY:11-12	Growth (%)
1	POL Products	37,751	36,746	2.7
2	Natural Gas	8,522	5,442	56.6
3	Telecom	6,415	9,899	-35.2
4	Fertilizers	4,256	4,776	-10.9
5	Sugar	3,169	3,221	-1.6
6	Beverages	2,729	2,495	9.3
7	Cigarettes	2,053	2,146	-4.3
8	Cement	1,770	1,290	37.2
9	Services	1,491	3,960	-62.3
10	Tea	1,171	1,664	-29.6
	Sub Total	**69,371**	**71,639**	**-3.2**
	Other	16,263	9,556	70.2
	Grand Total	**85,634**	**81,195**	**5.5**

Sales Tax Collection at Import Stage

The net collection from sales tax imports has recorded a growth of 7.5% when compared with same period last year. The net collection of sales tax imports has been Rs. 111.9 billion in July-September, FY: 12-13 against Rs.104.1 billion in the corresponding period last year. The collection from top 10 commodities groups has been presented in Table 9. Almost 81% of the sales tax collection at imports has been generated by these major commodities groups. The collection from edible oil has also registered a decline of 10.2% due to reduction in its import value of 2.6%, due to decline in value of import of crude palm oil by 71%.

The sectoral analysis indicates that POL products have been the leading revenue source of sales tax during July-September 2012 by contributing 39% in total collection of sales tax at import stage. Its collection has increased by 19% due to 13% growth in the value of imports during Q1 CFY as compared to Q1 PFY.

On the other hand, the collection of customs from automobile sector has improved by 15% due to 8.3% growth in its imports during July-September, 2012-13. Similarly, the collection from plastic products has decreased by 32.2% mainly due to 9.3% decline in imports. The collection from mechanical and electrical machinery has also declined by 30.9% and 17.9% respectively, due to decline in the collection from engines, pumps, construction machinery, telephone etc. Rest of the major revenue spinners has recorded negative growth due to decline in their value of imports.

Table 10: Chapter-Wise Grass Collection of Sales Tax on Imports

(Rs Million)

PCT	Description	Q1: 12-13	Q1: 11-12	Growth (%)
27	POL Products	43,968	36,959	19.0
15	Edible Oils & Waxes	8,771	9,764	-10.2
87	Vehicles	7,138	6,208	15.0
39	Plastic & Articles	4,665	6,878	-32.2
84	Mechanical Machinery	4,650	6,728	-30.9
72	Iron & Steel	4,117	5,216	-21.1
31	Fertilizers	3,748	4,782	-21.6
85	Electrical Machinery	2,972	3,618	-17.9
29	Organic Chemicals	2,028	2,308	-12.1
28	Organic /Inorganic Chemicals	1,751	1,812	-3.4
	Sub-total	**83,808**	**84,273**	-0.6
	Others	28044	19,851	41.3
	Grand Total	**111,852**	**104,124**	**7.4**

Customs Duty:

The net collection of customs duty stood at Rs. 52.3 billion during July-September 2012, as against the target of Rs. 42.5 billion in Q1 PFY (Table 10). The target has been achieved to the extent of around 100%.

Table 11: Collection of Customs Duties and Refund/Rebate during Q1: 12-13

(Rs. Billion)

Heads	Q1: 12-13	Q1: 11-12	Difference	
			Absolute	Percent
Gross	54.8	45.6	9.2	20.2
Refund/Rebate	2.5	3.1	-0.6	-19.4
Net	52.3	42.5	9.8	23.1

Major Sectors of Revenue Generation

It is evident from the Table 12 that around 56% of the gross customs duty has been realized from only 10 commodities grouped in PCT Chapters.

Table 12: Sector-Wise Gross Collection of Customs Duties

(Rs. Million)

Ch.	Description	CD Collection July-September		
		FY:12-13	FY:11-12	Growth (%)
87	Vehicles	11,093	8,917	24.4
15	Edible Oils & Waxes	5,119	4,787	6.9
84	Mechanical Machinery	2,609	2,594	0.6
85	Electrical Machinery	2,576	2,283	12.8
27	POL Products	2,567	2,733	-6.1
39	Plastic & Articles	2,046	2,283	-10.4
72	Iron & Steel	1,540	1,970	-21.8
48	Paper & Paperboards	1,037	1,614	-35.7
29	Organic Chemicals	878	972	-9.7
54	Textile Materials	808	1337	-39.6
	Sub Total	**30,273**	**29,490**	**2.7**
	Other	24,510	16,089	**52.3**
	Grand Total	**54,783**	**45,579**	**20.2**

Automobile has been the top revenue generation source of customs duty during the current fiscal year. It has contributed around 21% of the total collection of customs duty during July-September, 2012-13. Dutiable imports of vehicles have increased by more than 15% and collection jumped by 24.4%. The collection from edible oils has increased by 6.9%, due to increase in the collection of palm oil and palm olien. The collection of machinery has posted positive growth mainly due to increased dutiable imports. Rest of the major spinners has registered negative growths mainly due to reduced dutiable imports during the period.

Federal Excise Duties: The net collection of FED has dropped by 21% in Q1 of CFY as compared to Q1 of PFY. The net collection stood at Rs. 22.5 billion during July-September 2012 as against Rs. 28.4 billion collected in the corresponding period of last year. The assigned target of Rs. 24.6 billion fixed for the period has been missed by about 8%.

More than 90% of FED collection is being generated by top six revenue spinners, namely; cigarettes, cement, natural gas, POL products, beverages and services. The performance of these major revenue spinners is depicted in Table 13.

Table 13: Share (%) of Major Commodities

Commodities	2012-13	2011-12
Cigarettes	45.9	32.1
Natural Gas	13.3	10.3
Cement	10.4	10.6
Services	6.8	9.5
Beverages	12.7	9.4
POL Products	0.4	6.7
Sub- Total	96.4	82.4
All Other	3.6	17.6
Gross	100.0	100.0

The share of cigarettes has increased from 32% to around 46% in CFY as compared to corresponding period last year. Share of natural gas and beverages have also increased during the same period. On the other hand, share of POL products and services has declined.

Concluding Observations

Despite genuine issues like economic slowdown, energy crises, and law & order situation FBR has been able to exceed the collection of previous year by Rs. 28.1 billion. The target set for the first quarter has been achieved to the extent of around 94%. Nonetheless, it is clear that for the remaining quarters more concerted efforts would be required to collect the balance amount. In this regard expansion in the tax base, audit and enforcement can play a vital and effective role.

II.

"Tax Reforms in Pakistan----Towards a Practical Approach"

By Sardar Aminullah Khan[2]

Executive Summary

A Tax Reform framework has been attempted in this paper in the light of typical tax reform theory, latest global trends in tax reforms and the recent efforts made in Pakistan and the other countries. The framework then analyzes the design and structure & system of taxation in Pakistan and major issues of taxation in the country in the present context. Achievements made in past have also been analyzed with special reference to major reform initiatives of the past under the aegis of international financial institutions and through other bilateral and multilateral efforts.

An attempt has been made to explain as to how the income and consumption taxes are being collected in Pakistan in utter contrast of their basic tenets, leading to distortions in the system and increase in the regressive nature thereof, exerting unbearable burden on rich and poor alike. Position of customs duty and federal excise duty too finds their place in the analysis.

Growing globalization of the world economy, especially after creation of WTO and huge impetus to free trade, and investment and taxation agreements of bilateral and regional nature, required to be signed or amendment of existing ones'. States are now forced to respect the tax systems of other countries more so on account of ICT revolution, cross border movement of men, materials and capital rather more conveniently, increasing tax planning, new types of tax havens/corporate nationalism and other related efforts & given strategic objectives of economic policy. Tax reforms need to encompass such elements also.

Narrow tax base, higher rates of income & sales tax, inequities in the system due to lop-sided tax policy involving tax credits, remissions, exemptions and deductions beyond justifiable limits, large scale tax evasion & huge non-filing due to choices available to them and offering potential rewards, that has been accentuated by the way the taxes were administered has made the system move beyond reasonable tolerable limits, warranting review of fundamental tax structure.

Modernization of the tax administration has never been an easy and convenient segment of any tax reform initiative across the world & Pakistan is no exception.

[2] Member (®), Federal Board of Revenue

The peculiar and key issues of the economy of Pakistan such as documentation of economic transactions, up-coming inter-government fiscal relations after the 18^{th} amendment in the constitution & globalization/economic regionalism, Free Trade Agreements and bilateral investment and tax treaties for avoidance of double taxation and evasion of taxes and their impact on the economy in general and taxation in particular that impact tax reforms have briefly been explained in the paper.

These elements have strong bearing on implementation of tax reforms in the country. They have to be addressed in the near future in order to consolidate tax reforms. Partial reforms of the past implemented in piece-meal manner are hardly desirable now as they could not achieve the given objectives despite repeated efforts for reformation of the system. There is a need to affect necessary changes in the structure of taxation in the country without any compromise. Partial success in properly developing a computer systems for management of major tax matters/core processes such as well linked registration, Returns and Statement filing, tax deposit, reporting & performance evaluation system is not enough and much needs to be done for real automation and computerization and establishment of forward/backward linkages with the systems of other related stakeholders.

Tax reforms of 90s brought about improvement in the tax service and simpler laws as part of fiscal reforms. These efforts resulted in subsequent (some) increase in Tax-to-GDP ratio too but that could not be sustained. TARP initiatives although demonstrated success in some areas but overall picture of holistic tax reforms in the country remained bleak. Frequent reversals of the tax administration reforms by certain elements in terms of avoiding a fully functional system played important role in bringing about genuine tax reforms. Therefore, dire requirement of transformation of the FBR to a modern and responsive organization, capable of the meeting the minimum requirements of the taxpayers of the country in terms of providing the tax related services and coming up to the expectations of the government for raising such amount of tax revenue that could meet the ever increasing expenditure requirements still exist in view of not-so-satisfactory performance in the field of tax reforms in the past.

Tax reforms are important policy initiatives of the governments that directly affect the economy. Therefore, generic problems that require immediate solution and our specific tax related issues are also to be solved. Besides mobilization of resources to finance government expenditure, promoting savings and investment; inducing savings in particular forms to facilitate the process of channeling the funds into potential investment & its direction towards other desirable national activities, encouraging the use of production techniques that could stimulate domestic industrialization, removal of distortion for bringing about greater equity in the tax system for redressal of regional, *sectoral and income inequalities are all important initiatives that can hardly be deferred any more.*

It goes beyond saying that all this is more simply said than done. Support of all stake holders is required. There is a need for political mandate for overhauling the tax structure in Pakistan. It requires general preparedness of general public and tax administration, willingness of the government and a carefully drawn implementation and transition strategy for success. It also requires more tax-friendly and unified parliament for replacing the extortive tax system and for ensuring adequate revenue and lesser deficit through improved stability, transparency and equity of the tax system. Although no one develop modern infrastructure of tax collection of developed world overnight but minimum that we can do is to get to the standard of our neighbor India, Srilanka and even Bangladesh where tax to GDP ratio is more than 15%.

Introduction

Central Board of Revenue, now Federal Board of Revenue, having been established in 1922 through CBR Act, is celebrating the 60^{th} anniversary as prime revenue generation agency of the government of Pakistan. Throughout these years, like tax agencies of other countries, it had been undergoing the changes and reforms process in various ways. The effort had been fundamental and structural of late. So many may be interested in knowing the historic journey of FBR since 1922.

Attempting an article on the subject of tax reforms in Pakistan in the is a unique opportunity as it not only provides an historic perspective but also states the ultimate importance and dire requirement of transformation of the FBR to a modern and responsive organization, capable of the meeting the minimum requirements of the taxpayers of the country in terms of providing the tax related services and coming up to the expectations of the government for raising such amount of tax revenue that could meet the ever increasing expenditure requirements. This paper is although primarily meant for the departmental officers but may be useful for the other stakeholders too[3]. It explains latest global trends in tax reforms and the recent efforts made in Pakistan and other countries. The framework then analyzes the design and structure & system of taxation in Pakistan and major issues of taxation in the country in the present context. Achievements made in past have also been stated with special reference to major initiatives of the past.

[3] The article will ultimately find place on my personal blog shortly for seeking the comments of the readers and proper contextualizing the tax reforms for the guidance of those involved in the process of reform initiatives in the country whether in policy making or implementation thereof. I, as part of the FBR family and a student of tax reforms in Pakistan, take pride in this attempt that needs to set in motion a new wave of rather more practical tax reforms as an essential requirement.

The peculiar and key issues of the economy of Pakistan such as documentation of economic transactions, up-coming inter-government fiscal relations after the 18th amendment in the constitution & globalization/economic regionalism, Free Trade Agreements and bilateral investment and tax treaties for avoidance of double taxation and evasion of taxes, coordination among Custom agencies and their impact on the economy in general and taxation in particular have briefly been explained in the paper. These elements have strong bearing on implementation of tax reforms in the country. They have to be addressed in the near future in order to consolidate tax reforms. Few recommendations have been made towards the concluding part of the paper.

Trends in Tax Reforms

Economic reforms were undertaken around the globe since the last two decades of the last century. Tax reforms formed an integral part of these reforms. While many countries started the reforms with difference in the degree, the impetus was provided by a number of domestic and external factors (ADB, 1993). In China 1994 was considered as year of tax reforms as reported by Tsang Shu Ki in Asian Survey. In 1980s, there were radical tax reforms in New Zealand (Fiscal Studies (1993) Volume 14 pp 45-63) that achieved dramatic success than elsewhere (Kay & King 1990). These reforms were characterized by implementation of single rate VAT, base broadening, low rates, and closure of loopholes and removal of distortions.

Tax reforms are important policy initiative of the governments that directly affect the economy. In USA, 1986 reforms are still considered as important step of President Reagan for turning around the economy. In Australia, tax reforms remained on high political agenda and a mixed tax bag of reforms entailing reduction in tax rate. In Indonesia, as part of its comprehensive 1984 tax reform, carried out in two stages, the government overhauled property tax system, followed by a major revision of the legal structure during which seven land-related taxes were replaced with a single Land and Building Tax in 1986.(Property Tax Reforms in Indonesia: Applying A Collection-Led Implementation Strategy. By Roy Kelly pages 85-104)

The second stage involved a major restructuring of the tax administration and its procedures. In addition to reorganizing the tax department, the government adopted a collection-led implementation strategy for its reform activities and introduced a number of innovative procedures for property tax collection and enforcement, property information collection and management, and property valuation and assessment. Tax reforms of 90s brought about by bringing in more cooperative tax service and simpler laws as part of fiscal reforms. These efforts resulted in subsequent increase in Tax-to-GDP ratio (Malcolm Gillis-fiscal

Reforms in Developing Countries).

Jamaica introduced phased approach in tax reforms touching personal income taxes first, followed by corporate taxation and then a new VAT started from large retailers. Singapore also started GST from large volume businesses at a very low rate in 1994 followed by other initiatives on direct tax side to facilitate implementation of GST. Korea and Slovakia adopted a unique approach of bringing about tax reforms each year to avoid any major risk to the system and the revenue.

In Turkey, substantial tax reform in the fields of tax policy and administration were introduced. A medium-term tax reform strategy was put in place based on a review carried out jointly with the World Bank in 2002. The main objective of the strategy was to improve the stability, transparency and equity of the tax system through measures that minimize tax distortions, broaden the tax base and improve the efficiency of the tax administration. Turkish reforms are treated as one of the success stories, culminating in strong tax agency with exponential increase in the tax base and collection and automation of core processes.

Similar efforts were made by bulk of developing countries too by realizing glaring inadequacies, inequities and inefficiencies in the ax systems that caused high rates and restricted base, complex legislations and presence of wealth tax administration (Bird chapter-9) albeit with varying degree of success.

In Pakistan, in addition to ever expanding revenue requirements to meet the government expenditure, equitable tax policy, efficient tax administration, improved Tax-to- GDP Ratio, facilitation of taxpayers in meeting their tax obligations, improvement of IT infrastructure for bringing in efficiency in the tax system by introducing ICT technology, policy constraints of attaining the fair and equitable tax policy objectives, poor state of compliance of tax laws as depicted by far too low number of persons filing the Income Tax/Sales Tax Returns and Statements of withholding taxes, restricted tax base, huge Parallel Undocumented economy, unsatisfactory level of voluntary tax payments vs. sectoral contribution to GDP, huge tax arrears and unsatisfactory efforts in creation and collection of current demand through tax audits and anti-evasion efforts etc are the major issues. In most of developing countries like Pakistan, the need for greater revenue in the wake of fiscal crisis/long spells of budget deficit have been the immediate reason for tax reforms. Bird (1993) stated “fiscal crisis has been proven to be the mother of tax reforms”.

Tax Reforms in Pakistan

Reasons for Tax Reforms in Pakistan:

In addition to primary revenue & efficiency considerations, the basic conditions underlying focus of tax reforms and their implementation in any country include growing globalization of the world economy, especially after creation of WTO and huge impetus to free trade, investment and taxation agreements of bilateral and regional nature. States are now forced to respect the tax systems of other countries more so on account of ICT revolution, easy cross border movement of men, materials and capital rather more conveniently, increasing tax planning, tax havens and other related efforts & given strategic objectives of economic policy underlined in various investment incentives still being allowed by different countries inspite of their limited role in the tax policy today.

Like many others, economy of Pakistan is characterized by certain basic problems that include lack of adequate political will to bring about fiscal changes & to maintain fiscal discipline, poor expenditure management adversely affecting the desire to pay the taxes, inefficiency in investments and returns thereon, endemic delays in systems of enforcement and redressal of grievances, political interference in important policy/base broadening decisions such as taxation of agricultural income, implementation of VAT, long term vision and missionary zeal for undertaking reforms& taking them to logical conclusion, organized efforts to factor in the undocumented activities in the national economy, continuing low tax culture despite increasing expenditure requirements of the government, in-consistent approach in tax policy & administration, existence of different kinds of groups (degenerating into mafias), lack of stakeholders support in tax reforms and automation constraints, both technical as well as administrative etc.

In addition to these generic problems, that require immediate solution, specific tax related issues are also to be solved. Besides mobilization of resources to finance government expenditure, promoting savings and investment; inducing savings in particular forms to facilitate the process of channeling the funds into potential investment & its direction towards desirable activities, encouraging the use of production techniques that could stimulate domestic industrialization, removal of distortion for bringing about greater equity in the tax system for redressal of regional, sectoral and income inequalities could also be considered important objectives of tax reforms despite being currently unpopular in terms of achievement of neutrality objectives.

A Brief Historic perspective of Tax reforms in Pakistan

Since 1980s there was a realization that the tax system needs restructuring and needs to be reformed, as has been happening in the world around. Since then, different Task Forces, Committees and Research Groups were constituted and their contribution has resulted into valuable studies/reports including the following:

- Report by the National Taxation Reform Commission (NTRC) (1986)
- Report by the Resource Mobilization and Tax Reforms Commission (1994)
- The Strategy Document on Tax Reform (2001)
- Report on Income Tax Law Reforms (2001) by Committee to Revise

Income Tax Ordinance, 1979 (CRITO)

- Several Reports by the Task Force on Reform of Tax Administration (2001)
- Strategy and Priorities for Tax and Customs Administration Reform (2001)
- Pakistan: A Preliminary Assessment of the Federal Tax System (2006) and
- Tax Policy in Pakistan: An Assessment of Major Taxes and Options for Reform (2008)

Various projects including Tax Administration Reforms Project TARP (2005) & Resource Mobilization Project (RMP) (2012) etc were initiated on basis of different studies.

(These were major reports and initiatives regarding Tax Reform. Many other projects were also started at various points in time in the past in collaboration with different IFIs/Donors such as World Bank, DFID & IMF etc. There should have been a formal study after fiscal decentralization effort emanating from 18th amendment but it does not appear to have been done that keeps the inter-government fiscal relations confused and blurred)

NTRC reported basic issues such as high rates of direct taxes, complicated tax laws and complex procedures, thus inconvenient for the taxpayers, harassment of taxpayers and corruption, lack of public confidence in the system, customs tariff excessively biased towards revenue, rates of custom duty high leading to mis-declaration and smuggling'. In addition, international donors and financial institutions like World Bank objected on delay in fundamental economic reforms to be "started with the complete rethinking, revamping and reorganization of the Tax System" for achieving the desired purposes of a reasonable tax policy.

Broad Contours of Tax Reforms in Pakistan

In 2000, the government constituted task forces for revision of tax law and restructuring of the tax administration. Their major recommendations are as follows;

Tax reforms were initiated after Government's approval of the Report of the "Task Force on Reform of Tax Administration" in May 2001 and donors' consent through changes in tax policy instruments, tax assessment, collection and refund procedures, process re-engineering, re-organization of field offices & HQ on functional lines, adoption of a segmented approach by establishing LTUs and RTOs, capacity building and human resource development.

The Report of Task Force on Tax Administration (TAFTA) also known as Shahid Husain Committee report was a major milestone in the direction of Reform of Tax Administration in Pakistan. The Committee highlighted the urgency of tax reform & provided a sound direction and strategy.

TAFTA recommended that the entire organizational Structure of CBR and its field offices need fundamental changes, especially creation of new slots for Member, improvement in the design of human resource management system, revision is desired in recruitment, training, compensation, evaluation and promotion system and alignment of salaries with market rates, maximum autonomy to the tax administration, setting up of the Internal Audit Divisions, Regional Collectors and Taxpayers Assistance Units to streamline the contact between taxpayers and tax officials, fixation of realistic revenue targets and computerization of the system to ensure quick data retrieval and its use for various purposes.

Report of the Committee for Revision of Income Tax Law Reforms (CRITO 2001) made recommendations for revision of income tax law ensuring uniformity of tax treatment, reducing dependence on withholding taxes, reviewing the appellate hierarchy and consolidating, and redrafting the basic tax statue towards simplification.

It was also appreciated that exemptions under IT/ST and Customs laws distort the system, impede the reforms process & cause stagnation in tax-to-GDP ratio. Overall cost of all exemption as per a recent study got conducted by World Bank through consultants was reportedly around 300(b) during (2012). The other factors contributing to low ratio include the lack of adequate political will and departmental preparedness to bring into tax net the sectors like Agriculture, Whole/Retail sales, Transport and Services & other “difficult to reach” sectors, that contribute a little towards revenue as compared with their respective contribution to overall GDP.

According to some estimates, tax expenditure is around 3-5% of GDP and has been due to uncertainty, restricted tax base on account of exemptions, special rates structures for various industries/sectors/persons, exclusions, tax credits and underground economy, lack of documentation of economic transactions, ineffective tax administration, loopholes in the system facilitating tax evasion & speculative activities, that needs to be plugged in. There is a need to adopt a holistic approach for documentation of the economy under a special scheme that may be implemented by concerned federal agency in coordination with other relevant federal and provincial governments and other stake holders as success of such programs by the Government/FBR considerably depends upon implementation of reforms in other’s jurisdictions.

Analysis of Guiding Principles

An analysis of tax reforms is considered incomplete without narrating their guiding principles; major being as follows with reference to their application in Pakistan;

The (changing) role of the Taxation

In past, taxation was treated as a policy instrument to serve "the dual role of securing resource transfers to the public sector for application to planned uses and inducing the private sector to operate in conformity with plan objectives" (ESCAP, 1983, p. 405).

The global trends about role of taxation however kept on changing with the passing times and there has been a fundamental shift in using taxes as a macroeconomic tool. While the conventional task of mobilization of resources to finance increasing government expenditure (Burgess and Stern (1992, p.1), promoting saving and investment still remain in focus of the tax systems, and quite recently the objectives like directing investment into given desired areas/activities & encouraging production etc were substituted by more emphasis on bringing about greater equity in the system for better distribution of income, correcting (negative) externalities & growing trends of shifting of money by MNCs' to tax heavens(even by enterprises of developed countries). (Such policy framework was never followed by them so vigorously directly in the past as they most often spoke against tax evasion and money laundering. Ramifications of the global economic and financial crisis for the EU countries causing huge debts and deficits have reportedly prompted such extreme steps by some of the developed countries quite recently).

Equity and efficiency of the tax systems & reducing distortions (Mackenzie, Orsmond and Gerson, 1997) too remained on the agenda with added emphasis on service to the tax payers. Australia & some of the other reform models propounded the taxpayer's services as prime objective implemented through lower rates, simpler provision and clearer rule that could lead to accurate reporting of income and consequently higher compliance by taxpayers. It got wide support across many tax systems, both developed as well as developing countries.

The global financial crisis 2008 had shaken the basic superstructure of the western economic system. Almost all major economies included the large economies of Asia used taxation as important instrument of tax policy once again through fiscal stimulus programs. Tax reforms were altered accordingly and they paid desired dividend in countries like China who introduced huge stimulus for stimulating the downtrodden economies after financial crisis. Therefore, now there is a need to align the reform initiatives with the broader current economic policy objectives. Globalization of the economies, free movement of capital, men and materials coupled with ICT revolution laid extra stress on the tax policy for its synchronization with the ongoing systems and processes.

Initiating the tax reforms process

--Drawing a Strategy Document

Tax reform is a long and continuous process. It is a function of drawing the strategy document, formulating a tax policy, designing the tax administration and an effective implementation strategy. Reforms are to be implemented in the light of global best practices and peculiar domestic circumstances of a country. For successful tax reforms, there has to be a long-term strategic plan, with an implementation strategy for short and medium terms. The strategy document needs to be prepared in line with overall reforms agenda. If ground realities of a country are not appreciated, critical success factors are not set specifically, and measurable, realistic and achievable objectives are not documented and effectively implemented & performance indicators are not identified, the success ratio of reforms is likely to be limited.

Strategic Plan should clarify the tasks and objectives of the organization provide information on the Vision and Mission of the administration, clear and transparent formal procedures to implement through equitable administration that could restrict corruption streamline and simplify procedures to reduce compliance costs of taxpayers and administration costs.

In nutshell, design of the tax reforms strategy should be prepared considering the size of tax gap and peculiar circumstances of the country as to Tax gap & state of compliance of tax laws (around 45% estimated for Pakistan as per recent studies). Previous reforms experience is often the basis for nature of tax reforms, i.e. radical or routine (gradual) reforms and for developing a coherent framework for reforms that could lead to success & effective management of various initiatives.

Strategic Decision making

-- Comprehensive vs. Partial Reforms

After establishing the goals, next fundamental decision /question about the nature of reforms, i.e. comprehensive or partial reforms. The policy analysts recommend comprehensive tax reform. Bruce (2001) defines comprehensive reform as transformation of the tax system by altering the entire tax structure. It includes the tax base, that is, the economic activity such as consumption, income, or property & exemptions, exclusions, deductions, and special provisions regarding investments, sectors, areas or persons. Partial reform is a targeted change in details of the existing tax structure but the basic structure is kept intact.

Experts like Eugene Steuerle advises that in view of complicated nature of the tax system, there is a need to have a long term vision as to begin with a view of what is achievable and most important to pursue, minutely see the forces at play, seriously view the observation, insights and objections, understands the forces at play, have knowledge of major difficulties facing the tax system, avoid distractions, start with principles that provide the guiding beam to help people understand that whether they are on course or not, establishing and maintaining some reasonable balance without which reform may get shot down for its failure on one front even if it is successful on another, seek bipartisan consensus especially for major reforms.

The Approach

Tax reforms are initiated Bottom-Up or on Top-Down basis. In case, the initial steps are undertaken top-down, it would be appropriate later to work from the bottom up too. This however required a lot of effort by going through the tedious detail of the tax system to set the things in accordance with the reform plan. Famous tax reform expert Eugene Steuerle states that in case the reforms initiatives are stuck between various camps, it is always advisable to work on Common Concerns as in this way, divisive issues were momentarily set aside, and attention could be shifted to areas where there was common ground (The TRA86 tax reform initiatives). These golden principles and his words are still valid, albeit with quick adjustments with the requirements of a modern tax systems developed after his reform initiatives, for tax reform experts for maintaining the momentum of the reforms at critical junctures of strong opposition or midway temporary failure.

Tax Policy

Towards the tax policy, recent tax policy trends in various developed and developing regions, country practices and recent developments in the areas like fiscal decentralization and implications of tax policy efforts could help draw the basic principles that are broadly followed in tax reform effort.

For a developing country, the characteristics of an “ideal” tax system , as prescribed by IMF (Stotsky, 1995) are inter alia as under followed by some comments on these principles;

• Reliance on a broadly-based sales tax, such as a value-added tax (VAT), preferably with a single rate and minimal exemptions, and excise taxes on petroleum products, alcohol, tobacco and perhaps a few luxury items.
• Lesser reliance on export duties, except possibly as a proxy for income tax for hard-to-tax sectors such as agriculture.

• Reliance on import taxation for protective purposes only – since the domestic sales tax is assigned the revenue-raising function – with a low average rate and a limited dispersion of rates to minimize effective rates of protection.

• An administratively simple form of personal income tax, with exemptions limited, if possible, to personal dependents' allowances, a moderate top marginal rate, an exemption limit large enough to exclude persons with modest incomes, and a substantial reliance on withholding.

• A corporate income tax levied at only one moderate-to-low rate, with depreciation and other non-cash expenditure provisions uniform across sectors and minimal recourse to incentive schemes for new ventures

It would be worthwhile to state here the actual contribution of each tax in Pakistan to properly contextualize the reforms agenda for various components;

The above elements are discussed as follows;

Value Added Taxes- the major contemporary source

The aforementioned principles look too ambitious in the sense that a broad variety of Sales Tax/VAT options and their true implementation, particularly in developing countries with large volumes of undocumented transactions are compelled to restrict the base and ultimately jeopardize the success of reforms. Besides the capacity constraints to check evasion in broad based taxation and the risk of VAT setting in motion a spiral in which the tax, wages and prices feed on each other also affect the choice. Countries like Pakistan with a rather loose market system and effective controls are more prone to negative effects. Improvement in tax policy involves reduction in tax rates, elimination of loopholes, and introducing of equitable system of income taxation & discouragement of exemptions as they complicates the tax code further and distracts from fundamental tax reform.

VAT has been implemented in a fairly large number of countries (reportedly 160) including Asia Pacific (ADB, 1995-p40) & rates are generally uniform with exemptions of various kinds. In some countries including China, the rate structure is different for various goods and services. China is one of those countries that adopted incremental and progressive approach in implementing VAT and made it flexible with reference to the overall fiscal management of the country.

After global economic crisis 2008, State Administration of Taxation of China adjusted the tax policy including VAT for revival of the economy and for keeping its enterprises competitive in regional and international economy being an export dependent economy. It bore fruits. Developing countries need to understand and follow the indirect tax initiatives of China as successful precedent of VAT implementation, albeit with adjustment of the broad system with domestic conditions as was done by China itself, for effective enforcement of VAT. This issue is critical in implementing tax reforms as there is no “one-size-fit-for-all” tax system.

There is a need to study the systems of the other countries in terms of project content and the realistic time schedule for implementation. Role of other stakeholders is equally important. Transformation may be continued with a broad based consumption taxation, initially within the system and processes and consequently at the other ends by ensuring increased involvement of the given stakeholders for complete implementation.

Revenue productivity of VAT actually depends on its design in terms of the base, the rate and coverage etc and effectiveness with which it is enforced. In a country like Pakistan where only few thousand taxpayers contribute the major chunk and the rest of the population (which is also very small as compared to the potential) endevours to seek more refunds that they pay on basis of a flawed system of input adjustments, overall contribution of VAT had always been very modest. In the absence of an integrated environment, the broad base is likely to remain a far cry, thus continuing the problems of universality of the coverage and uniformity of the rate.

Only those countries have been successful who could, after imposing VAT, avoided the potential inflationary effect of VAT through effective government communication policies about impact of VAT on prices, use of price controls & monitoring, generous measures to ensure full credit for taxes previously paid and offsetting adjustments in other taxes. The author had the opportunity of being in Singapore in the year of implementation of GST there and personally witnessed as to how the aforementioned measures actually implemented. A similar opportunity was available to observe the implementation of Sales Tax in China after 1994 reforms and introduction of a broad based VAT in 2011 on selective basis through pilot programs.

The mechanism for implementation of VAT/RGST thus needs to be developed considering such factors and by following global standards and best practices of implementing value added taxes elsewhere. VAT is an infectious disease that is required to be spread slowly instead of showing unnecessary haste in its implementation & that also without proper preparatory work and a practical/realistic framework for implementation.

There is enough material to support that heavy reliance on trade taxes has adverse impact on trade, investment and competitiveness and respective policy objectives including growth and development. They also include disincentive to local production, in the inefficiency in local productivity, exports, undesired resource allocation and certain unintended consequences. Tax policy design of Pakistan is defective on this count.

Other countries have significantly reduced trade related taxes (ESCAP 1995), particularly in the context of regional economic integration while we still have burdensome mechanism. However, ineffective implementation of RGST/VAT and narrow base seems to be the prominent reason for keeping the reliance on such taxes but we have to replace trade related taxes by VAT in the long term to avoid their distortionary and negative equity impact through an effective and practical mechanism for development of alternate sources of revenue like true VAT.
In Pakistan, Sales Tax Act of 1990 embodied elements of a value added tax. The tax base was broadened initially to cover more goods like petroleum products, electricity and gas. Subsequently, a number of large and rapidly growing services like telecommunications were brought into the tax net. The standard tax rate has also been enhanced from 12.5 to 15 percent and then to 16 percent.

The result is that over the last two decades, the sales tax-to-GDP ratio has increased by only by two percentage points. Automation was timely started but the process could not be consolidated with the passage of time in accordance with increasing IT and other structural requirement. Merger of Direct & Indirect sources of Inland Revenue in 2010 did not see much effort later towards integration of processes, development of reliable Database and use thereof for policy analysis for forecasting and other essential purposes. The law is still riddled with exemptions and credits and base is still limited horizontally despite huge potential in various sectors.

Compliance of Sales Tax in Pakistan, as per a recent study by a tax experts is only 45 %. Substantial effort has not been seen in the tax reforms initiatives for effective enforcement of existing laws and introduction of true VAT in the country. Processes also need to be complemented through enabling legislation for filing of complete ST Returns with all particulars of sales made in the market. This will supplant enforcement drive from non-filers and improve the quality of Returns/Statements by existing tax payers for anti-evasion actions.

Customs Duties

Towards Customs reforms, the effort had been lopsided in the sense that there had been huge time gaps between different initiatives and broad objective, universally acceptable, were not fully kept in view. As a consequence, despite significant IT initiatives that successfully facilitated the importer/exporters, overall system could not create requisite linkages and achieve state-of-the-art modernization of all Customs related processes & documentation. One reason in the personal view of the author is wastage of time on trial of various computer soft ware Applications such as CARE & One-Customs and now WEBOC and review of custom code for more harmonization with global trends would be beneficial for effective custom control. Above all, the original concept of extension of Customs Applications in the context of a trade corridor scenario should have been implemented. Even today, in the age of robust ICT technology and better coordination between the Custom agencies, efforts may be made to explore the possibility of single (common) document for trade related processes.

Reforms on the Customs side are somewhat different from others in the sense that the system, processes and procedures have more international exposure on account of multilateral trade. Moreover, Customs reforms in large number of countries have set certain established (holistic) standards that need to be followed for convenience of international trading partners and by their private sectors. It has been observed from the related literature that for many countries, achieving efficiency and transparency in customs operations remains a formidable challenge. Customs related structures have to improve its service to facilitate trade, to establish adequate contact over the private sector that is involved in the customs procedures, to reduce the physical inspection of goods, which are mainly based on discretional criteria of the customs officials, to improve general equipment and infrastructure par requirements of the modern administration.

Revenue agencies have to improve their typical structure and to have an integrated customs information system up-to cross-border levels as much as possible. Many countries are undertaking to modernize their customs administrations and regulatory requirements while at the same time they are minimally intervening in the legitimate movement of goods across the national borders. A well-organized customs service is one that successfully strikes a balance in its various responsibilities to ensure a high level of compliance without losing the revenue objectives & has all forward/backward linkages. However, it is to be recognized while reforming the system that ground conditions differ greatly across countries. Therefore, each customs administration has to tailor the scope of its modernization initiatives in accordance with the national reform objectives, policies, implementation capacities, resource availability and will of the government to implement reforms and to create enabling environment for such reforms.

Meeting the customs modernization efforts essentially require the adoption of the core principles, i.e. a widely circulated vision for the agency, adequate use of intelligence for core processes, reliance on risk management on basis of reliable data, optimal use of information and communications technology, effective partnership with the private sector using the system and processes, including programs to improve compliance, increased cooperation with other cross-border agencies and transparency through information on laws, regulations, administrative & implementation guidelines. In the case of Pakistan, such arrangements with four adjoining countries namely India, Iran, Afghanistan and China are absolute & essential requirements while other trading partners are also important.

Linkages--------- forward/backward------

Another important thing is that achievement of customs modernization is partly dependent on the overall trade policy environment too. Experts believe that simple but well formulated, transparent, and harmonized trade policies reduce administrative complexities for traders, facilitate transparency of administrative procedures, and reduce the incentives and opportunities for rent-seeking and corruption by all concerned. Open/free trade regime fosters trade integration when a range of complementary policies are also in place to support Customs.

A well functioning effective customs administration provides investors and traders with transparent, predictable, and speedy clearance of goods that lowers their cost of doing business and ultimately competitiveness and profitability for further investment in the business. We lag behind many countries on this score. On the other hand, a poorly functioning customs administration could negate the improvements made by the government through valid initiatives in other trade-related areas Hence, Customs modernization and national trade policy needs to be reviewed in sync from the broader perspective of national/regional/international trade policy & Customs reform initiatives.
The reform experiences of other countries indicates that the countries that have been most successfully integrated into the world economy had enjoyed improved allocation of resources, improved competitiveness of their enterprises to raise productivity through use of better & new technologies leading to exponential growth of trade and consequent tax revenue. Growth in world trade and increased share of the trading partners bear ample testimony to this fact. Tax reforms in indirect taxes like CD thus play an important role in national development also and are thus the need of the hour.

Income Tax

In the Income taxation, broad principles are lower rates with reduced progressivity and minimal incentives, reductions, credits and exclusions. Towards this end, efforts have been made but there still exist on the tax laws a large number of allowances, credits, reductions, exemptions and exclusions that increase the tax expenditure. There has not been a consistent policy of tax brackets and rates, particularly for top slabs for various sources of income in Pakistan either that has added to the complexity and horizontal equity of the system. Lower rate of property and capital income generally earned by rich sections of the society and incentives for investment with questionable achievement of desired goals thereof are the worst to quote in this regard. Major reforms have, however, been undertaken in direct taxes than others in the shape of SAS, reduction in tax rates and expanding the base.

However since 80s, repeated attempts have been made to reform the system by broadening the tax base, rationalizing the rate structure and strengthening of tax administration that did not succeed fully. Progress was certainly made in certain areas including improvement in the infrastructure, introduction of comprehensive withholding regime covering the otherwise difficult sectors of the economy and bringing in simplification and certainty in the rates of deduction, taxation of capital/property income and other sorts of unearned sources, utilities and imports/exports etc to bring in an emblem of equity in taxation system while there was reduction in related tax evasion also.

In addition, withholding taxes in the form of advance taxes were introduced on proxies of income like electricity, telephone and gas bills, cash withdrawals from banks, car sales, etc. Today, more than eighteen sections of the Income Tax Ordinance relate to withholding taxes. These arrangements resulted in substantial increase in the revenue too.

The Committee to Revise the Income Tax Ordinance also recommended phasing out the presumptive taxes but perhaps the revenue constraints always came into the way of the government to continue most of them. These taxes now contribute around 65% of national direct tax collection while in the RTOs; their contribution is more than 95%., thus making the task of their rationalization much more difficult than before. Deductions at source from capital income have however contributed to a more comprehensive tax system for reducing the extent of tax evasion by those able to conceal and evade these sources conveniently due to privacy & other constraints.

On the other hand, increased reliance on withholding taxes have distorted the system as such taxes far away from equity as most of them presumptive and final discharge of tax liability without any consideration of actual annual income earned from the related transactions. Beside they have nurtured the culture of complacency in the department as concerned officials just manage the collection of withholding taxes for achieving their annual revenue targets instead working hard on core activities of raising the demand against genuine resourceful tax payers and collecting the demand from arrears that require more effort.

Even within these contested withholding Income Tax & Sales Tax regimes, the absence of any rule based computer system to electronically monitor withholding taxes impedes the exploitation of true potential and many prescribed persons successfully get away with non-deduction or non-deposit of taxes if deducted due to limited out-reach and low compliance level by the taxpayers at large. This clearly speaks of the impact of tax reforms on collection of taxes and development of an equitable tax system in the country (the major goals of any tax reform in any country). Tax reforms need to focus on them despite conventional reactions and till time alternate system is developed.

Pakistan is one of the countries where true direct taxes like inheritance, gift or wealth tax are not imposed. They have been abolished not for very valid policy considerations to say the least. Any direct tax system is incomplete without them, more so in the countries where direct tax contribution is comparatively lower than global average.

It is thus probably widely accepted that recent direction of income tax reforms in Pakistan without real direct taxation has been lop-sided & is basically tilted towards inequity. Ineffective enforcement/non-compliance and large stock of exemptions add misery to the equity of the tax system. Linkage of issues relating to improvement in tax administration has to be an integral part of the overall future tax reforms package for ensuring their success.

Federal Excise Duty

Federal Excise duty is payable on goods manufactured, imported, such goods as the Federal Government may, by notification in the official Gazette, specify, as are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale or consumption therein; and services, provided or rendered in Pakistan and others. After transfer of jurisdiction to provinces, this has to be realigned to the authority of the federal government and in accordance with typical use of such duties under other systems.

FED is levied for affecting the consumption patterns of certain goods, mostly luxurious. This aspect perhaps needs an elaborate study to identify the import and consumption of goods used by higher income groups and subject them to FED as in past no such effort appears to have been made under the reform umbrella. Since FED is a dying levy, there is thus hardly any need to discuss it at length except that it can still be used as policy tool to influence the consumption pattern of luxurious good and for its proper adjustment of certain levies introduced in lieu of Sales Tax (on services) in line with the changes in the constitution through 18th amendment that has restricted the federal space for taxation of services.

These & other issues of tax policy reform are not new and future tax reforms framework is required to be based on a strong foundation and premise of designing and developing an equitable system, less prone to tax fraud, evasion and corruption, capable for raising adequate funds and for achieving the other desirable objectives of tax policy. These aspects have repeatedly been emphasized at various stages in the past but reforms initiatives either did not fully contain their essential elements or were not implemented effectively under various tax reform initiatives of the past.

Tax Administration

--Salient Features of a Modern Tax Administration

After policy, administration and implementation are the core issues of tax reforms. This is the task of the Tax Administration. An effective tax organization needs to have a strong and effective administration. Many factors influence the broad architecture of tax administration reforms.

Globalization & ICT revolution and innovative business structures & financial products have substantially increased tax compliance risks, warranting constant up-to-dates with the modern trends in tax administration, particularly in the following areas;

- Simple Laws and regulations, easy to understand & implement by tax collectors and to comply with by tax payers, recognizing the full account of taxpayer's rights, accountability and responsibility, modern and efficient tax administration, enforcement, transparent systems and procedures, a feedback system that could identify failures in the implementation.
- Operational and financial autonomy to manage day-to-day decision making and operational activities by administration with display of fairness, impartiality, honesty and integrity
- Integrated tax administration with reference to systems, processes and common systems for data bases, audits, intelligence gathering and fraud investigations.
- A strong system of stake holder's feedback as it has direct impact not only upon the community attitude towards compliance but also upon the ability of the revenue authority to successfully administer the taxation system,
- The tax systems are to be based on voluntary compliance as a major strategic objective. Services relating to taxpayer's assistance easily accessible, dependable & information and network based with friendly frame work for recording of transactions, book keeping, electronic/automated invoicing for all taxes including filing of statements and returns.
- A risk based audit policy with a vibrant process & structure of risk assessment, competent to identify internal and risks arising out of economic activities in domestic and international markets, a regular flow of data, regional/global trends of trade and investment, their system based analysis for coverage of the tax avoidance and evasion to safeguard the revenue.

All reform initiatives should be carved out in the light of given position of existing tax system at that particular stage as there is hardly one-size-fit-to-all system of tax reforms in any country.

Design Criteria

The Tax structure is adjusted by each country as per its needs and ground realities of its economy are essentially to be kept in view while implementing the tax reforms. The bottlenecks, effective reform management capacity and level of compliance of tax laws in a country should guide the design. The best example of adjustment of the tax policy and designing of reforms in accordance with the local situation is that of China. It although brought in the western style of tax reforms within the framework of overall economic reforms and opening up but made considerable local adjustment so as to suit the country and to remove the major domestic bottlenecks (and succeeded). An incremental approach was adopted and more than a decade was taken to pilot the reform in selected areas and then fully implemented the tested tax system across the country by adjusting the implementation strategy in the light of experiences gained from the pilot areas.

Organizational Structures

The modern tax administration is generally organized on functional lines with adequate resource allocation, clear role and responsibilities and reporting lines to meet the most significant commercial risks and priorities, more so on large cases/taxpayers units, special units requiring special skills for Return filing/processing, tax Intelligence, tax Enforcement and Audit units specialized by industry etc. The tax administration strategy has also included the issues encompassing institutional improvements, automation, transparency, compliance, taxpayer services and tax audit.

Reforms based on such organizational structure can help develop an effective and efficient organization, contributing to speedier decision making, better quality of analysis and improved delivery design, clear separation of functions but coordination between the design and delivery of systems, more accurate and generally higher quality information flows between various newly (functionally) organized departments, increased consistency of delivery and performance monitoring. Best international tax administration practice suggests that the organizational structure so determined is ordinarily most likely to contribute to achieve such aims & objectives.

The strategy should focus on tax administration issues encompassing institutional improvements, automation, transparency, accountability, compliance, tax payer services and participation, efficiency, tax audit and a tax payer oriented approach to implement tax policy in a fair and impartial manner. Any country endeavoring reform initiatives by blindly adopting the imported system, without realizing national constraints, fractures the existing structure and impedes implementation of desired one.

In the case of Pakistan, reforms were not started with absolute clarity about establishment of tax payer segment based reformed units. Initially the concept of LYU and MTU was implemented at Karachi and Lahore and later at other major stations. Functional system (which was the crux of the reforms as per FBRs' Strategy Document) was although introduced but processes were not integrated in LTU having all taxes under one roof. Moreover, subsequently the concept of RTO was introduced but once again a strategic mistake was made by abolishing much trumpeted and somewhat functional MTUs' that resulted in loss of much effort made for establishing the systems and processes conceived under tax reforms. Dislocations were also caused due to frequent shifting of record on account of changes in jurisdiction, resulting in loss of revenue too. Ultimately, the concept of Medium tax payers withered away as cases other those assigned to LTUs' were again parked in the RTOs which considerably adversely affected the allocation of HR and other sources.

That's why today, despite increase in relative cadres of the respective departments, field offices quite often complain of shortage of HR. In terms of solving this problem through further increasing the departmental cadres will damage the career of the officers themselves in the medium to long-term in shape of delay in promotions and may amount to putting them at comparative disadvantage. This is a complex issue that needs to be solved with administrative wisdom for properly managing the overall cadre strength and with due care as against the bare emotionalism of increasing the number of seats only in isolation.

Tax administration challenges

Improvement and changes in the tax administration are perhaps the most difficult task as (existing) weak administrative capacity encompasses a variety of issues such as inability to register and process large numbers of new taxpayers, deficient collection methods, lack of adequate capacity to conduct desk/field audits, use of third-party information, simplistic audit plans and rare use of audit selection programs, shortage of sufficiently trained personnel to detect sophisticated tax evasion techniques such as transfer pricing, ecommerce, incipient or inadequate taxpayer services, inadequate training, insufficient resources for skilled personnel and constraints in building adequate information systems, often overstaffed local offices and understaffed and weak central headquarters, causing high levels of tax evasion by international standards, a significant growth in tax arrears, and an overall lackluster revenue performance.

In Pakistan tax evasion has been studied and a compliance rate of around 50-55 percent has been reported in various studies. However, the author practically observed still worst situation of filing of tax returns and statements, high volumes of tax arrears, large number of delinquent payers of tax liabilities etc that have been found pervasive across the organization in various taxes. For example by the end of last financial year, collection out of arrears was around 6% while default of Withholding Statements and Sales Tax/Income Tax Returns was found abysmally low.

Therefore, building an effective tax administration is a difficult task anywhere, but why it has been so particularly difficult in Pakistan, is the fundamental problems confronting the modernization of tax administration (although some of the problems such as low compliance from registered tax payers of Income/Sales Tax and low collection of arrear demand have been self-inflicted on the system by ourselves). Such challenges to a greater extent can be met through creating effective enforcement environment and development of work ethics/discipline without waiting for tax reforms.

As regards using the tax system to achieve the other objectives like simplification and (unrealistic) facilitation has in fact made the system rather too complicated, giving rise to non-compliance, fraud, evasion and corruption in cash economies like Pakistan. The other stake holders hardly respond to the national cause of correct declaration and payment of due taxes.

Administrative simplicity (Mundle 1997) and effectiveness is however an essential but less trumpeted aspect and approach of tax reforms. In developing countries, the capacity to implement tax reforms and to enforce tax laws is typically limited and there is a requirement to develop a whole new structure, both human and technological, to deal with the core processes like Registration, Return/Statement filing, Returns processing, tax Collection, Auditing, Penalties, appeals/revisions/amendments management etc. Establishment of such structures, training of HR, computerization of processes and administration and integration of cross tax processes are all the key elements of the basic foundation for the rest of the tax reforms (Tanzi 1992).

Economic efficiency

Economic efficiency is one of the important features of taxation. Experts have analyzed the distortions created by taxation and the features of tax systems that minimize such distortions by introducing the tax reform measures. Basic analysis is although rather technical for having been based on economic/tax models and theories of optimal taxation, deadweight loss measurement, i.e. tax measures induced reduction in the economic efficiency in a system. Consequent redesigning of taxation on basis of optimal taxation theory, characterized by optimal commodity taxation and linear and nonlinear income taxation under certain given conditions, and ultimate objective of public good are not simple either.

Besides, taxes inherently tend to disrupt the allocation of resources, whether efficiently or inefficiently, depending upon actual incidence of taxation on various segments of the society, generally born by buyers and sellers with varying degree. In the case of Pakistan collection of direct taxes through indirect modes like excessive withholding and collection of indirect taxes in DT modes have distorted the system and are exerting greater burden the lower rungs as against the general principles of equity.

Since the tax system does not bear the essential features of economic efficiency, tax reforms have been proposed since long to alter the tax policy & administration to achieve broader economic efficiency through changes in taxation. This important aspect of tax reforms has perhaps not found proper place in previous reform projects, perhaps on account of revenue considerations and lack of political will to introduce meaningful tax reforms. Thus there is a need to consider the same in the future tax reform initiatives for standardization of reform programs and if no, future initiatives will also doom. The government should sacrifice the short-term fall in revenue in the interest long-term efficiency gains while may advise the tax agency to bring about innovative measures to cover the expected shortfall in the short term.

Implementation strategy

---Implementing Tax Reforms

Tax Reforms have been implemented in fairly large number of countries and has thus become a full-fledged discipline. There are many instances of successful tax reform implementation strategies as quoted elsewhere in this paper. Therefore, while implementing tax reforms, certain basis criteria/aspect, need to be considered. Many countries have undertaken comprehensive tax administration reforms.

Those which are considered as most successful have carefully conceived the reform initiatives recognizing the complex inter-dependencies that exist between the main components, appreciated domestic socio-econo-political situation in terms of real implementation, provided adequate resources for the projects in timely manner and effectively and consistently managed the implementation process. Strategic management and its importance cannot be underestimated while modern project management techniques and governance practices are adopted with the help of a suitably equipped project team by successful tax administrations.

Countries that adopted success implementation strategies includes Vietnam that has planned reforms of VAT, personal and corporate income taxes, special consumption taxes, import-export taxes, environmental taxes, and fees and duties on mineral and land use rights and agricultural lands. Under the plan, tax revenues are expected to increase by 70 percent by 2015 and 80 percent by 2020. By 2015 tax revenue would be around 23-24 percent of the country's gross domestic product. Vietnam has one of highest ratios of revenue to GDP in the region except Malaysia & it has quickly raised the collection ratios due to effective implementation strategy, adequately covering most segments of the economy.

GST/VAT Implementation

This issue is critical as we could not implement a true VAT in the country despite tremendous pressure by the organized sectors and Donors. VAT has been implemented in more than 160 countries. There is a need to study the systems of the other countries in terms of project content and the realistic time schedule for implementation. Role of other stakeholders is equally important. There is need to continue the transformation to a broad based consumption taxation in a holistic manner, initially within the system and processes and consequently at the other ends by ensuring increased involvement of the given stakeholders.

VAT experience of more than 50 developing economies indicates that despites its revenue benefits, its role as a money machine is usually slightly overstated (Gillis, 1990, p. 231). Ahmad and Stern (1991) have argued that a comprehensive VAT would be almost impossible to administer in a developing country despite its inherent benefits ostensibly due to challenges in achievement of neutrality and universality of its coverage and the uniformity of the rate & other administrative difficulties of policing etc. Pakistan was no exception and it failed to implement a truly universal VAT. That's why TARP was not considered as successful towards this end in the reports of donors and the government alike. Studies into compliance with VAT in other countries too did not indicate better than with income taxes (Silvani and Baer, 1997). This aspect is likely to be the subject matter of concern in the future reforms also due to lack of any change in the context and ground realities.

China continues to be an important lab for effective VAT reforms with considerable success. As per latest reports, State Administration of Taxation has officially commenced the pilot for conversion of the existing business to value-added tax (VAT) tax since September 1, 2012, started from Beijing followed by Shang Hai(and then to be implemented in other parts in an incremental manner).

Mobilizing HR & other Resources

Given the requirement for the reform plan to be adopted by the government by the end of September 2006, immediate attention should be given to appointing a full time project manager and the initial members of a project team (4-5 persons). The project team should proceed quickly to work on immediate reform priorities (e.g., finalizing the strategic plan and ensuring that proper budget and funding proposals are worked out). This team would ultimately provide the core of a full time planning and development unit.

It is essential that sufficient HR resources and financial means are timely provided to the tax administration to efficiently implement and maintain the tax system for achievement of the administration's reforms objectives and proper management of most valuable resources of the organization.

Administrative simplicity (Mundle 1997) is another essential but less trumpeted aspect and approach of tax reforms. In developing countries, the capacity to implement tax reforms and to enforce tax laws is typically limited. In views of problems of taxation in the countries, there emerges the need to develop a whole new structure, both human and technological, that should be required to deal with the core processes like registration, Return/statement filing, Returns processing, tax Collection, Auditing, Penalties, appeals/revisions/amendments management etc. Establishment of such structures, training of HR, computerization of processes and administration and integration of cross tax processes are all the key elements of the basic foundation for the rest of the tax reforms.(Tanzi 1992).

Good governance

TAFTA commented in its report on the aspect of corruption by stating that "A tax system, which has simpler laws and efficient procedures that promote self-assessment, reduce physical controls and creates reliance on audit and risk assessment. An effective revenue organization must comprise of trained and dedicated persons with integrity, transparent processes, a comprehensive information system, and taxpayer education about their rights and obligations and reduction of discretion and direct contact between tax collector and taxpayer".

However all this requires a holistic approach for changing the system and processes that provide the room for misdeclarations by the tax payers, ineffective administration and enforcement of tax laws without any accountability per se for in-efficiency; little chances of detection and actual prosecution of those involved in tax evasion. In the presence of such malice, internal environment can hardly be changed despite being necessary for bringing into good governance in the Service.

Like many other countries, Pakistan is facing the serious problem of good governance that needs to be sorted out. Task Force on Tax Administration took this matter elaborately in consultation and assistance of renowned experts and institutions and recommended simplification of tax laws. Another task force (CRITO) that was set simultaneously also suggested changes in legal structure rather proposed a new tax law with significant structural change in taxation in legal and administrative realms. But simple laws, if not complemented by supporting and consequential changes in other components simultaneously, stake holders and institution met the same fate with only incremental improvements in the related structures.

Other Ground Realities

Tax reform process is started and implemented on basis of certain guiding principles but the domestic circumstances of each country can hardly be ignored. The state of economy, tax policy, attitudes towards taxes,, documentation of economy and establishment of data bases, tax administration and ICT infrastructure and HR's capacity etc are important features that affect the pace and fate of reforms. Broad principles are thus to be dovetailed/customized in the light of local factors for successful implementation of reforms.

Monitoring & Evaluation of Tax Reforms

Like any project, reforms also need to be properly monitored and evaluated for effective implementation and mid-time reviews. Generally reforms projects are reviewed after completion. Such exercise does not serve any meaningful purpose as nothing can be done for that project at that stage. Implementation should be reviewed on real time basis for changes, wherever required. Automation in Income Tax had been the victim of timely monitoring as a consequence of which the core processes could not be fully automated and scope of the TARP was altered without proposing the alternate strategy for automation. Even the post-merger scenario of Income Tax & Sales Tax was not fully appreciated and accounted for in the process and pre-reform structures are still being operated disparately, thus defeating the basic aim of reforms.

Stakeholders' Roles & Responsibilities

Like others, tax organizations also have many stakeholders. Major stake holders include legislature for bringing in the legal changes in structure, executive to implement them and judiciary to interpret the law or regulations. Requisite changes for making the tax reforms successful were hardly implemented to a fair degree. Resultantly many challenges are still faced that include the formulation of appropriate tax policy and its continuity, understanding of the reform process, proper coordination between the stakeholders, use of information technology, ineffective implementation mechanism, real time monitoring and evaluation of the assigned task of the collecting agencies and lack of support by concerned stakeholders for real implementation of the tax laws. Complexity of laws and outdated processes are still hallmarks of a system that were required to be changed as per global best practices.

The important stakeholders where felt the challenges of meeting the tax obligations conveniently, a section thereof did not extend in extending cooperation in terms of documentation of the economic transactions and maintenance of the accounts and related global standards. Even proposed changes in the tax laws were thwarted by using the force of the related power houses at a colossal cost of time and money and systems credibility before the international financial institutions and even the supporting governments supporting the tax reforms and economic development initiatives. Results are obvious.

Therefore, like any project, tax reforms can also achieve success if all the stake holders perform their respective roles and responsibilities. They include concerned government agencies in the realms of fiscal policy and related operations, the tax payers, tax practitioners, professional bodies and representative trade and industrial bodies etc. The essential requirements like tax laws, transparent processes and procedures, recording of economic transactions, promotion of taxpaying culture, maintenance of books of accounts, filing of correct declarations, fair & transparent treatment etc. are the responsibilities of all. If they are not discharged, overall enabling environment for implementation of reforms can hardly be established. In our case, self-assessment was introduced but correct declarations were not forthcoming as taxpayers Returns of Income. Documentation & good governance is still a challenge.

Perception Surveys

--Stake Holders Perceptions & Role

Tax reforms projects are reviewed by the donors also as important stakeholders through independent surveys. World Bank initiated comprehensive review of the Tax Policy and Administration Reforms through a study by Georgia State University, USA that identified the gaps and recommended comprehensive tax policy reforms for all taxes to ensure an adequate increase in domestic revenue resources through expansion of its tax bases and improved enforcement. The Organization and Management issues such as operational performance of functional responsibility and harmonization of legal and operational criteria were reported missing and expansion of the KPI's frame work to evaluate core functions of administration were also recommended. Such reports are considered essential component of tax reform initiatives.

Other Stakeholders Views:

---AGP Annual Reports

Annual reports of the Auditor General of Pakistan, the agency responsible for external audit of the performance of tax authorities are important input for reforming the tax systems. Audit authorities at times point out fundamental defects in the system, processes, enforcement of law and rules/regulations and maintenance of record by the taxpayers and maintenance of statutory registers by the departmental officers. It is in the interest of FBR and its field offices to document and include the systemic issues raised by the AGP in the reform agenda for improvement in the indicated areas.

Professional Organizations & Chambers

These bodies expect better services to facilitate the tax filing problems, maintenance of accounts/ledgers, tax credits and refunds, in-adequate knowledge of law, regulations and procedure and modernization of systems and processes and consequent capacity of the system in facilitating them for meeting the tax obligations by the taxpayers due to complex laws/rules and frequent changes in policy/regulations etc are important factors that help create the adequate environment for tax reforms.

Tax Payer's participation

The stakeholders including tax payers expect their involvement in tax policy formulation process, resent against non-participatory approach, are not fully aware of complex laws, cumbersome and out-dated processes, non-responsive attitude of the department and lack of transparency and unfair tax treatment of tax-paying community and other involved in tax related processes. Their involvement in the entire process at the time of reforms can certainly yield better results of tax reforms. Country-wide visits by the Saeed Qureshi Committee to Revise the Income tax Law (CRITO) was widely appreciated and their view points were incorporated in their finding and so was done by Task Force on Tax Administration headed by World Banks expert Mr. Shahid Hussain.

Tax Officials

The departmental staff and officers are also important stakeholders in the reform process as they have to carry out the reforms and test their practical viability. They expect a consistent approach, timely automation of core processes for rendering better services to the tax payers, operational independence in reforming and applying the system, development of databases, better information management and proper/timely training & development & provision of adequate number of human & financial resources required for implementation of tax reforms. In the previous reform process, due attention was not given to these aspects as a result of which the issues of ownership of reforms and removal of constraints although popped up but could not be redressed, and ultimately jeopardized the entire reforms process

The officers believe that Tax reforms have either not been fully implemented or implemented in isolation & have not been owned by the stakeholders. There has emerged a feeling amongst the officers that tax reforms results in lot of wastage of time and money without significant effect on the performance indicators. IT structure is also considered defective and incomplete and training on it had been inadequate. Relationship & coordination between PRAL & the field offices has been very scant as a result of which exchange of IT projects Requirements and development process of Software & consequent initiatives were not shared, thus, the IT components of the reform project too faced the problem of ownership & failure in drawing an appropriate Information System Strategy for the Board and its field offices.. This aspect was conspicuously reflected in the evaluation of TARP also by World Bank and other agencies.

Bureaucracy

While raising issues of tax reforms, it is important not to lose sight of the goal of transforming the entire bureaucracy concerning overall economic policy, tax policy formulation and its dovetailing in the broader economic development planning, project management and operational strategy in the context of proposed tax reforms. The objective should be to change the mind set, link together the immediate concerns of the economy and the tax system and the bureaucratic power structure & the role of vested interests in bureaucratic decision-making as important stake holders.

He purpose of the entire process is to establish a defense against bureaucratic reprisals that could emphasize issues of enforcement, tax evasion and performance review along-with achievement of broader goals and that of tax reforms and expose the misuse of power/corruption or inefficiency at the other & higher levels(other than FBR). Besides, organization-wide spread of essential skills and knowledge, derivation of great deal of power for exerting control on information and breaking up of organizational activities by effective bureaucratic system into narrow tasks to be performed by tax authorities, e.g. through creation of operational, functional & other structures can considerably control abuse of power. Such efforts need to be synchronized with broader reform agenda for bringing about real systemic change in the existing systems and processes.

Project Management

-- Organizational support

Primarily, top management support is an essential element of the project success. There is a need to clearly define roles and responsibilities for projects. The project sponsorship role speaks of the executive support for the projects supported by the project manager roles, a sound methodology, and solid technical & experienced leadership with track record of similar projects. In addition, the critical factors include the use of the right processes by the right people, financial management, communication of information down the line, proper training, follow-up, supporting organizational culture/enabling environment, avoiding dictation of unrealistic project deadlines, assigning under-skilled managers to high-complexity projects and not establishing a comprehensive project portfolio to track progress of ongoing projects.

Unfortunately, it has never been an established practice in FBR to fully keep in mind the essential components of a project that could significantly contribute towards achievement of the desired goals of tax reforms. The most common of them include institutional development, to support and enhance the broader tax reform strategy, driving: strategic changes within FBR's organizational structure on desired (functional) lines, transformation of the organization's culture and present mind set & development of an overall Human Resource Management strategy fully derived from the reforms process. As a matter of fact, there had constantly been an echo of the old system in the FBR corridors by certain elements(though limited in number) even after lapse of more than a decade of initiation of a most comprehensive and the largest tax reforms project and expenditure of millions of US dollars by the government on the project, conceived and implemented across the entire field formations of FBR.

Improving the revenue operations to transform the administrations of the FBR in two independent revenue streams, a risk-based self-assessment & audit systems, strengthening revenue services' to tax payers, creating a tax compliant culture, through taxpayer education and facilitation, a comprehensive communications program for the department and the tax payers as well as professionals, comprehensive automation of processes and computerization with the help of a responsive & standard IT systems, infrastructure upgrading, effective project management with top political and administrative support and subsequent review of performance of project and the administration in reformed environment.

Experience suggest that nowhere in the world ticklish tax reform projects were successfully completed without qualified and dedicated teams of experts , who are open to new ideas and demonstrate the passion to create enabling reformed environment. In Pakistan, unfortunately the project management had never been done with the help of qualified professionals in the entire life cycle of the project.

Information Technology

Information Technology components of the projects (2000 Standish Group Report), the top success factors for projects are IT vision, user involvement in requirements , experienced project managers, clear business objectives, standard software infrastructure, firm & realistic basic requirements, well documented methodology & reliable financial and technical estimates & other essential criteria that need to be laid down and followed for ensuring success. FBR is no exception. However, this important aspect of tax reforms has not received a professional approach in the past as a result of which the IT related objectives and targets of tax reforms could not be fully achieved. It was, in the opinion of the author, due to the following factors;

- Absence of well articulated & communicated IT Vision
- Drawing of appropriate Information System Strategy for the agency

- Incomplete documentation and automation of core processes
- Absence of true IT project management principles during the development, proper pilot & testing and ultimate implementation
- Absence of proper and quality monitoring & evaluation system for gauging the progress of software development projects
- Failure to properly develop computer systems for management of even major tax matters/core processes such as well linked registration, filing, tax deposit, reporting & performance evaluation system
- There is no system to control important core processes with the help of a rule based standardized computer Software Application having capacity to examine the periodic Returns & Statement with reference to legal obligations for various tax processes.
- Lack of annual evaluation of PRAL's performance by FBR with reference to projects conceived for development of software for FBR.
- Non-implementation of clear role of IMS Wing in terms of giving the policy direction to PRAL as per IT Vision of FBR and to manage the "Requirements" for the software Applications.

As per TARP approved components for information technology, the entire supply chain of the Inland Revenue processes was required to be re-engineered on holistic basis for automation and computerization thereof during estimated project life. Globally, such activities are undertaken with well articulated Vision and realistic Information System implementation plan under the reforms projects. Unfortunately, this was not done and IT components were altered, particularly exclusion of Software Application through mid-way revising of the project components and structures. As a result of this, completion of essential IT components of the project is still a far cry. This shortcoming impeded the achievement of overall strategic goals of the project.

The efforts made for automation focused on development of separate Applications for different processes, backed by even separate hardware for them which adversely affected the agility of the Applications & tax payers faced difficulties in filing the Returns & Statements, particularly during the peak period. In this way, in my opinion, development of a proper standardized system and a comprehensive Software Applications for organization wide implementation was successfully avoided.

On the indirect taxes side, existing Sales Tax Applications were operated as before with marginal tinkering with refunds processing, Returns' filing and tax deposit system. On Customs side, two separate software, one developed locally and another one procured from abroad was pilot tested for a considerably long time that is against the global Best IT practices. (Constraints of this paper do not allow a comprehensive analysis of IT initiatives of FBR & they are left to any future analysis). Consequently, the automation and computerization requirements of Inland Revenue could not be met. It had its impact on the projected improvement of FBR in services delivery to the taxpayers and revenue.

Besides, there is every likelihood of immense problems of synchronization & dovetailing of the IT infrastructure developed under TARP with the software structure yet to be developed. Hence, desired outcomes of TARP that were dependent on a robust Software Application could not be achieved and jeopardized for the future also due to split implementation of components for Soft/Hardware.

IT improvements, whatever made, in Customs, Sales Tax, FED and IR were inadequate in the sense that they were rendered useless in organization wide context on account of little integration with the cross service disciplines and processes. They are still operating in isolation although availability of the data is much trumpeted in a non-systemic manner that is of questionable nature in the absence of merger and consolidation of processes and the systems for safety, health and convenient use by the stake holders.

Other essential IT components such as Data Warehouse, main Inland Revenue Management System, Performance Monitoring & Evaluation & Hardware requirements in the integrated environment are still to be conceived as already developed databases & acquisition of certain business intelligence Software cannot meet the ultimate information management requirements of FBR., Business Intelligence & Revenue Forecasting & other requirement of a revenue agency like FBR as per global experiences. Even otherwise, newly deployed systems can only be viewed objectively in the presence of a fully functional system, based on comprehensive Software, supported by matching Hardware. The computerization requirements of FBR and its field offices can be met only if an IT Vision is articulated through an appropriate policy and its execution for organization-wide implementation & to avoid any Software/Hardware compatibility problems.

Collection systems and procedures

Tax collection systems and procedures for tax deposits in Banks/ Treasuries are not less important. They directly affect the quality of the services to the tax payers for filing and deposit of tax as declared therein or for proper & timely credit of the amount that has already been paid for squaring the account or seeking a refund of tax paid beyond liability. Timely reporting and reconciliation between the Bank, FBR/field offices and Controller General Accounts is of far more significance that can hardly be achieved without a truly developed tax deposit system as applied by modern tax organizations.

Integrated environment

On account of merger of two Services, integration of all Inland Revenue processes is an essential task of the IT system to be put in place for improving the overall efficiency of the organization without any further delay. As a matter of fact, the IT Application component for Inland Revenue appears to have missed the main focus of the review par its significance, ostensibly on account of FBR’s changed strategic outlook to develop a home-based IT Application for overall management of tax revenue both from direct and indirect avenues instead of developing a new Software as per components of the original project document of TARP and the latest requirement.

This aspect is being flagged for timely intervention. The TARP has already completed its conclusive last phase but most of the Inland Revenue processes, particularly on the Income Tax side, are yet to be automated and brought under an End-to-End robust IT Application. Further integration of Income Tax and Sales Tax processes and their linkage with Customs Applications is a far cry. Even within Customs, the entire process of imports, exports, trans-shipments, Customs Intelligence, adjudication, appeals & Bonds are not integrated. The reforms were mostly focused on major cities and main Customs station, leaving the Dry ports still under-equipped and least integrated.

Fiscal Decentralization

There exist various kinds of political regimes around the world such as federal, unitary or hybrid systems. They have their connotations in the fiscal realms. Federal fiscal regimes differ greatly in the extent of constituent unit's autonomy to own source revenues. In Pakistan, the federal government, till the 18th amendment in the constitution, was generating the major chunk of the tax revenue than it used directly. A resource allocation system was in place that determined the inter-government fiscal relations in terms of transfer of funds from federal government and sharing of federally levied taxes. Two provinces have since established their own revenue Boards and the other provinces are likely to follow suit that warrants restructuring of inter-government fiscal structures and relations.

The resultant new balance or to say imbalance involves and reflects strong logic for devolving the expenditure and revenue raising responsibilities. The provinces although may value and cherish the newly granted autonomy but the federal government despite being fully cognizant of the change has to immediately develop much more effective response mechanism in view of consequences of the new fiscal regime(s) as global developments regarding devolved tax regimes demonstrated great risks for healthy functioning of the consequent fiscal system because constituent units may adopt taxation policies that may distort the system, create disputes and affect decision making processes concerning generation and utilization of resources.

There are concurrent tax bases for the federal and provincial governments, issues of harmonization, tax competition, tax administration, dispute resolution and assignment of individual revenue resources, hitherto least attended in proper perspective. Even any unintended maladjustments may even erode government's ability to tax a particular source, create tax competition, may increase significantly the compliance and administrative costs due to resultant tax competition, and involve valid equity issues due to comparative advantage of some of the units in revenue raising capacity and previously accumulated wealth in rich regions.

Moreover, such consequences may at times warrant counter–balancing efforts through a system of equalization funds and grants, thus causing additional burden on the federal government in a constrained revenue raising environment. As a matter of fact, we have perhaps started facing such scenario. The provinces eye on important services such as telecommunication, ports, and insurance, Banks, hotels, courier services, franchise, brokerage, shipping agents, freight and transportation (in order of volumes in revenue share). Transfer of control from federation to provinces, FBRs tax base will be diluted causing lesser resources with the government.

This requires review of inter-govt. fiscal relations in terms of jurisdiction of various governments, impact on tax administrations, consumers and tax payers & requisite coordination and for readjustment of distribution mechanism in accordance with new fiscal paradigm envisage in the 18th constitutional amendment & to avoid the distortions in the system. Most importantly, cross border movement of goods and accrual of income/services in various newly emerging provincial tax jurisdictions will also confront typical or unintended consequences requiring absolute clarity on part of policy formulating and implementing agencies. There is thus a need to review the realigned jurisdictions governing fiscal relations for the sake of clarity, coordination and much better inter-government (federal-provincial and inter-provincial) relations in the best interest of the national cohesion.

Performance Measurement: Performance management has two dimensions. First review of achievement of goals in terms of proposed policy changes under the project such as modernization of tax administration, strengthening of income tax for bringing in progressivity and revenue enhancement after reforms. Policy considerations include "lowering of rates, base broadening & enrichment with all sorts of income like property, capital income, inheritance/wealth taxes and in terms of status as to individuals, corporates, partnerships and other juridical persons/entities, exemptions and credits and incentives for investments", that have to be applied across the board without any external intervention to once give the system an opportunity. Besides, system of penalties and interest/default surcharges that "encourage false and delinquent Returns and deliberate tax avoidance by taking chances to preclude corrections" are also to be rationalized for timely results and meaningful performance reviews. (The Columbian Tax System, Charles E McClure, Jr.) The other aspect is performance of the system in terms of efficiency gains and effectiveness after reforms and performance of the employees as a result of training and better working conditions and automation etc. Increase in voluntary compliance and enhancement of revenue & effectiveness of monitoring & evaluation in establishing a transparent and fair system are also essential parts of performance review for determining the fate of reforms. We don't have a well articulated & robust system of performance management and evaluation; therefore, except technical evaluation, there is hardly any clarity about the real effect of tax reforms on the system and management for their efficiency or otherwise.

Impact of Tax Reforms

It is always difficult for any tax agency and experts to clearly identify an empirical relationship between taxes and growth, so it is impossible to know as to whether a particular reform achieved its desired goals or not. The taxes have other important social impacts also such equity and economic efficiency etc which are considerably visible but not correctly determinable. Success or failure needs to be judged on the basis of trade-offs made between competing objectives (such as equity vs. efficiency or administrative simplicity vs. fairness etc).

There are more than one approaches to measure the real tax incidence and the efficiency benefits but there is lack of precision in measuring the exact impact of reforms through conventional models like partial equilibrium vs. general equilibrium analysis on the basis of available data, thus making the task challenging. General impact may therefore be viewed with reference to simplification, facilitation of taxpayers, efficiency and effectiveness of the agency in terms of collection as a percentage to GDP as compared to other similar countries and the base period effective initiation of tax reforms and state of automation that are at par with global initiatives etc.

The basic objectives of reforms were to increase revenue collection and contribute to the achievement of fiscal targets; increase tax-to-GDP ratio; collect optimum tax revenues; broaden the tax base; strengthen audit and enforcement procedures; guarantee fairer and more equitable application of tax laws; increase transparency and integrity; improve effectiveness, responsiveness and efficiency; facilitate and promote voluntary compliance with tax laws and provide transparent and high quality tax services. Achievements in these areas are very limited.

Hence, there is an urgent need to include these aspects in the broader tax reform agenda of the government in consultation with the stakeholders' the before it becomes a creeping problem and drain of resources, both federal and provincial.

Continuing Concerns/Conclusions

There is a constant change in the system, procedures and information technology regarding taxation that requires all time review of the tax system. In addition, nature of tax policy also changes in developing countries as factors determining the level and structure of taxation also changes. Such changes affect the future developments also.....(Tax Policy in Developing Countries: Looking Back and Forward- (By Roy W. Bahl Andrew Young School of Policy Studies Georgia State University & Richard M. Bird Institute for International Business Rotan School of Management University of Toronto).

Global trends and guiding principles of reforms have elaborately been explained in this paper that should form the basis of reforms. Besides, there are certain basic country specific econo-socio-taxation issues that continue to exist and there is remote possibility of any easy solution thereof in the foreseeable future. They generate much of the impetus for fundamental tax reforms, seemingly impossible without another but aggressive round of reforms based on a practical approach in terms of ground realities obtaining in the field today and minimum expectations/doables. In short, the following aspects need special mention as probable justifications for real tax reforms in the country;-

Tax Policy- The Tax Mix

Globally there is a shift toward greater reliance on indirect taxes for their revenue potential, convenience, and extended base & for other good reasons. In Pakistan, however, the balance between direct and indirect taxes changed only slightly and there has been no marked shift from direct to indirect taxation as the country faced the problem of implementation of RGST/VAT due to in-adequate support and preparation and for various factors beyond FBR. The imbalance needs to be corrected ASAP by following the instances & experiences of the other countries who implemented VAT in the recent past.

The present tax system is not fully in line with established principles of taxation in so far as there is need for a true direct tax system capable of taxing the rich, gifts/inheritance or wealth also and a comprehensive Sales Tax/VAT that is broad based with minimal exemptions & reasonable rate(s). True impact of trade liberalization on trade related taxes and development of alternate strategy and impact of cross border movement of goods and capital on inland taxes also needs to be looked into in a formal and more professional manner.

There is limited equity in the tax system due to significant contribution by such taxes (indirect taxes, withholding and trade taxes etc) that are levied without any reference to capacity to pay of those feeling the pinch of taxation. There is a need for a demonstrable political will and adequate preparation and departmental capacity to bring about the requisite tax policy changes in a system in which reliance on trade and withholding taxes is increasing, creating equity problems and affecting distribution of income and resources. Most of the present taxes are pro-cyclical and have their excessive incidence on lower income classes. Tax exemptions and exclusions have rendered the system complicated with a restrictive tax base & high tax expenditure, resulting in pressure on the government to keep the rates high for maintaining even the organic growth.

There is hardly any empirical evidence that could establish a reliable and clear link between tax policy and its savings/investment/growth related incentives. There is a need to do away with meaningless/general exemptions and to opt for country-specific tax policy measures in the regional economic contexts as per recent trends of regional economic integration. The policy regarding FDI and free trade etc should consciously be designed and sustained over a given period of time. We don’t have a track record on this count.

Tax Administration

Tax administration issues include inconsistency towards the structural adjustments such as functional system, integrated environment after merger of inland taxes, capacity constraints, low enforcement culture, lack of accountability towards functional responsibilities, shortage of sufficiently trained personnel to detect sophisticated tax evasion techniques such as transfer pricing, ecommerce, incipient or inadequate taxpayer services, lack of understanding of computer system based business processes in large cases and accounting procedures and lack of good governance.

Limited (proper) coordination within the departments and with the provincial revenue agencies in the newly emerged scenario, lack of integration of processes, ineffective audit, stabled tenure at various levels and attitude towards computerization are also important administrative problems.

The current system is in-efficient as tax-to-GDP ratio is low and enforcement is poor. Besides, tax enforcement is lop-sided. Sources like property and capital income etc, which are not pro-cyclical, contribute minimally towards the present direct tax revenue due to low enforcement or special (inequitable) rates.

These deficiencies have degenerated/ translated into high levels of tax evasion by international standards, a significant growth in tax arrears, and an overall lackluster revenue performance of most of the offices, requiring timely interference.

Information Technology

In today's environment, no tax administration can be transformed into modern and effective agency for collecting revenue without automation and computerization of the processes. In Pakistan, the passed reformed efforts have not succeeded in such transformation in FBR still does not have adequate software and hardware bases IT infrastructure that could cater for its departmental processes in a holistic and seamless manner. This aspect has to be on high priority agenda of the future tax reforms so that tax collection could grow exponentially.

Besides, "automation of processes for reduced physical controls, computerization for reduced discretionary powers and placement of systems for carrying out the due process of law was not introduced that did never removed the direct contact between the tax collector and the tax payers". Resultantly, most of the aspects of tax admn could not be reformed.

Project Management

Tax reforms projects are run on purely technical basis on established project management principles & global best practices. In our country, there is a need to manage the future reform projects keeping in view such principles to avoid the failure with the help of competent and dedicated staff.

Stakeholders Participation

In previous tax reforms, except 2001 initiatives, participation of the stakeholders was limited during the process. Even the departmental officers complain of nature of some of the reforms such as IT system as they had no involvement. Engagement of all stakeholders through an effective communication strategy is very important for success of future reform initiatives.

Emerging Scenarios

In addition, specific current issues based economic priorities of the government like development of alternate sources of energy, promotion of regional growth; trade and investment & generation of employment etc need to be linked with the tax policy in the light of such initiatives of the other countries in view of growing regional and global economic integration. We cnnt remain isolated.

The country is treading on structural changes in taxation rights of federation and units after 18th amendment, calling for review of fiscal decentralization mechanism in the light of such experience of a large number of countries. So far, hardly any systematic effort has been made to face the emerging scenario.

Concluding remarks

In the light of above, there appears strong justification for re-initiating the reforms process in an aggressive manner as the country cannot afford to further deteriorate the current fiscal state which although is result of combination of multiple factors including low tax revenue but is essentially un-sustainable. Reforms are needed for the credibility of the Federal Board of Revenue also in view of failure of past reforms that led to serious doubts about its capacity to implement the reforms and to raise the optimal revenue for meeting the expenditure requirements of the government.

Tax reform is a buzz word. Everyone favors “tax reform” in the abstract phrases: Broaden the tax base by reducing deductions, credits and other tax breaks, and then cut top tax rates. But this sort of sweeping tax reform is usually a political non-starter. (Major tax reform: Why it always fails By Robert J. Samuelson, Published: January 31, 2012). There is need for every stakeholder to work jointly for future for greater good & economic development of the country by transforming the current system into a robust tax system and a modern tax collecting agency. Such change in the field of tax policy and tax administration will obviously be slow but a clearly articulated practical & shared vision and successful implementation strategy supported by requisite legal changes can do the trick.

Simultaneous development of well coordinated physical & IT Hardware and Software infrastructure, changes in law and procedures in the areas out of jurisdiction of FBR, removal of capacity constraints and extension of better services to taxpayers to help meet their tax obligations can go a long way in meeting the long term fiscal challenges faced by the country, meaningful tax reforms & consequent better contribution towards national exchequer.

I would like to part with this paper with a famous statement of one of the American Presidents who once said that I would like to gather together all leaders of this country and play national anthem before them. One of our folk singers also once sang “Tera Pakistan Hai Ye Mera Pakistan Hai”. Is it not still valid in our national context in terms of raising adequate revenue instead undue dependence on loans and technical assistance?

IV.

"A PRELIMINARY STUDY ON WHT FROM IMPORTS"

By Muhammad Imtiaz Khan [4]

Executive Summary

Withholding taxes have generally been of the nature of advance tax payments and considered as an effective mechanism for income tax collection. Withholding tax revenue from imports has been one of the vital sources of tax revenues in Pakistan. The Collector of Customs of Sea Ports / Air Ports are obliged to collect WHT on imports. Monitoring of this source is relatively easy particularly due to computerization of major Sea/Air Ports. There are two IT Programs namely One Customs and WeBOC used by Customs Authorities. Audit of these Programs are relatively easy and periodic checking of imports with reference to exemption and collection of tax, its deposit in the bank and cross verification of exemption allowed with tax records would be useful. For this purpose risk areas have been identified and necessary remedial measures have also been suggested in the article.

Introduction:

All imported goods are subject to collection of advance Income Tax (called withholding tax) on import *value* of goods u/s148 of the Income Tax Ordinance 2001 unless specifically exempted by the Federal Board of Revenue.

Income Tax is collected by Customs Authority in terms of Section 148 of the Income Tax Ordinance, 2001 and different rates ranging from 1-5% on import value + duty + taxes as per procedure given in the Ordinance. The aforesaid collection of withholding taxes made along with collection of leviable custom duty, sales tax and federal excise duty

Exemptions from Withholding Tax on import

The Board has specified the following to be exempt from collection of WHT at import stage through the following SROs and different clauses of Part IV of Second Schedule of the Income Tax Ordinance 2001.

SRO 947(I)/2008 dated 05-09-2008 exempting the following classes of persons from application of provisions of section 148(I).

i. Federal Government.
ii. Provincial Government
iii. Local Government.

[4] The author is Secretary(SP&S). Material/data has been used from different reports & publication of FBR, specially "Report on Collection of Withholding Tax on imports u/s 148 of Income Tax Ordinance, 2001" prepared by Mr. Shahid Azam Khan, DG(WHT) 17th November 2009

iv. Foreign company and its associations whose majority share capital is held by a foreign government.

v. Import of plant, machinery, fixtures, fittings or allied equipments for setting up an industrial undertaking (including hotels) or for installation of an existing industrial undertaking (including hotels) owned by a person and a certificate from the commissioner to that effect is produced by the said person on meeting the given conditions.

vi. Import of plant and machinery for execution of a contract with the Federal Government or a Provincial Government or a Local Government and produces a certificate from that Government.

vii. Companies importing high speed diesel oil, light diesel oil, high octane blending component or kerosene oil, crude oil for refining and chemical used in refining thereof.

viii. Petroleum (E&P) companies cove red under the Customs and Sales Tax Notification No.S.R.O.678(I)/2004 dated 7th August, 2004 except motor vehicles imported by such companies.

SRO 567(I)/2008 dated 11-06-2008 [clause (56), Part IV, Second Schedule to Income Tax Ordinance 2001]

This SRO has been declared as invalid by the Board vide No.C.4(I) ITP/2008-Misc/90766-R dated 08-06-2009 addressed to Collector, MCC, PACCS, Custom House Karachi in the following clarification:

“...... goods classified under PCT Head 52.01 were included in clause (56) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001, in the Finance Bill, 2008. However, National Assembly amended the same and the existing provisions of the Finance Act, 2008 are as under:-

> *“(56) The provisions of section 148, regarding withholding tax on imports shall not apply in respect of*
>
> *(i) goods classified under Pakistan Customs Tariff falling under chapters 27, 86 and 99,”*

2. As such SRO 567 (I) 2008 dated 11th June, 2008 stands redundant. The matter has already been clarified to the Collectorate vide Board’s letter of even number dated 31st January, 2009 (copy enclosed).

3. Since the SRO 567 (I) 2008 dated 11th June, 2008 is inconsistent with the provisions of the sub-section (10) of section 239 of the Income Tax ordinance, 2001, therefore, is invalid.

Exemptions under part-IV of Second Schedule[5]

(16) The provisions of section [113,] 148, 151, 153, 155 [and 156] shall not apply to the institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network:

Provided that such institutions shall continue to collect and deduct tax under section [149, 151, 153, 155, 156 or 233] from others persons, wherever required there under:

(41A) The provisions of sub-section (7) of section 148 and clause (a) of sub-section (1) of section 169 shall not apply in respect of a person if he opts out of presumptive tax regime subject to the condition that minimum tax liability under normal tax regime shall not be less than 60% of tax already collected under sub-section (7) of section 148).

(56) The provisions of section 148, regarding withholding tax on imports shall not apply in respect of.

- (i) Goods classified under Pakistan Customs Tariff falling under Chapters 27, 86 and 99;
- (ii) Goods imported by direct and indirect exporters covered under sub-chapter 7 of Chapter XII of SRO 450(1)/2001 dated June 18. 2001
- (iii) Goods temporarily imported into Pakistan for subsequent export5ation and which are exempt from customs duty and sales tax under Notification [No.492(I)/2009, dated the 13th June 2009
- (iv) Manufacturing Bond as prescribed under Chapter XV of Customs Rules, 2001 notified vide S.R.O. 450(I)/2011 dated June 18, 2001[;and]
- (v) Mineral oil imported by a manufacturer of formulator of pesticides which is exempt from customs-duties under the customs Notification No. S.R.O. 857(I)/2008, dated the 16th August, 2008.]

(57) The provisions of sections [113] [148] and 153 shall not apply to companies operating Trading Houses which-

- (i) Have paid up capital of exceeding Rs.250 million;
- (ii) Own fixed assets exceeding Rs.300 million at the close of the Tax Year;
- (iii) Maintain computerized records of imports and sales of goods;
- (iv) Maintain a system for issuance of 100% cash receipts of sales;
- (v) Present accounts for tax audit every year; and
- (vi) Is registered with Sales Tax Department;

[5]S.A. Salam, "Complete Income Tax Law" (8th Edition) Sheikh Asif Salam, Chartered Accountant pages 496 I to 496 AK.

Provided that the exemption under this clause shall not be available if any of the aforementioned conditions are not fulfilled avail for a tax year

[Provided further that the exemption from application of section 113 shall be available for the first ten years, starting from the tax year in which the business operations commenced.]

Ordinance 2001,in the Finance Bill, 2008.However, National Assembly amended the same and the existing provisions of the Finance Act, 2008 are as under:-

(60) Provision of sections 148 and 153 shall not apply to fully as well partly designed/assembled cipher devices, for use within the country as are verified by [Cabinet Division (NTISB)] with reference to design, quality and quantity.]

(70) The provisions of section 148, regarding withholding tax of imports, shall not apply in respect of goods or classes of goods for the execution of contract, imported by contractors and sub-contr4actiorengatgedin the execution of power project under the agreement between the Islamic Republic of Pakistan and HUB Power company Limited.]

(77) The provision of section 148 shall not apply on import of solar PV penal/modules,[with or without] related components including investors, charge controllers and batteries, LVD induction lamps, SMD LEDS with or without ballast with fittings and fixtures, fully assembled wind turbines including alternator and mast, solar torches, lanterns and related instruments.

(77) Provisions of section 148 and 153 shall not be applicable on import and subsequent supply of items with dedicated use of renewable sources of energy like solar and wind etc., even if locally manufactured, which include induction lamps, SMD, LEDs with or without ballast with fittings and fixtures, wind turbines including alternator and mast, solar torches, lanterns and related instruments, PV modules along with the related components including invertors, charge controllers and batteries.

Exemption/Lower Rate Certificate issued by Commissioner

The Commissioner is empowered under section 159 of the Income Tax to issue:

i. Exemption certificate where an amount is exempt under the Ordinance; and

ii. Certificate of lower tax rate where an amount is subject to a tax rate lower than the rate specified in the First Schedule to the Income Tax Ordinance, 2001 i.e. lower than 4%

iii. The exemption certificates issued by the Commissioner of LTU and RTO Karachi are given in Appendix-I.

A. **Rates of Withholding Tax on Imports**

The rate of withholding tax on import value of goods has been enhanced with effect from 01-07-2009 from 4% to 5% through the Finance Act 2010 and provided in Part II of First Schedule to the Income Tax Ordinance, 2001. However, certain imported goods are subjected to withholding tax at rates lower than 5% as specified by the Board through the following SROs or as are provided in Part II of Second Schedule of the Income Tax Ordinance, 2001.

B. Reduced Withholding Tax Rates[6]

i) Reduced Withholding Tax @3% for Import of Raw Material for Industrial Undertakings[7]. According to the clause (9A) of the part II of the second schedule, withholding tax@3% on value of the raw material imported by an industrial undertaking is allowed for its own use. The withholding tax rates on imports for manufacturing sector from 2006-07 to 2011-12 are depicted in Table 2:

Table 2: Reduced Tax Rates for Industrial Undertakings

Fiscal Years	Raw Materials Imports by Industry
2006-07	6%
2007-08	1%
2008-09	2%
2009-10	3%
2010-11	3%
2011-12	3%

Currently, the reduced rate of 3% for the industrial undertakings is adjustable while tax collected from a person on imports of edible oil and packing materials for a tax year is minimum tax.

ii) Reduced Withholding Tax @2% for Import of Pulses

As provided in clause 24 of part II of the 2nd Schedule to the Income Tax Ordinance, 2001, a reduced withholding tax rate of 2% is allowed to the imports of pulses.

iii) Reduced Withholding Tax @1% on Imports

The reduced rate of withholding tax i.e. 1% is applied to a number of items or groups of items through various clauses of second Schedule to Income Tax Ordinance, 2001. The detail has been depicted in Table 3.

[6] Mir Ahmad Khan "Withholding Tax at import stage-A Preliminary Assessment" in FBR Quarterly Review Vol. II No.3, January – March 2012 pages 12-29.

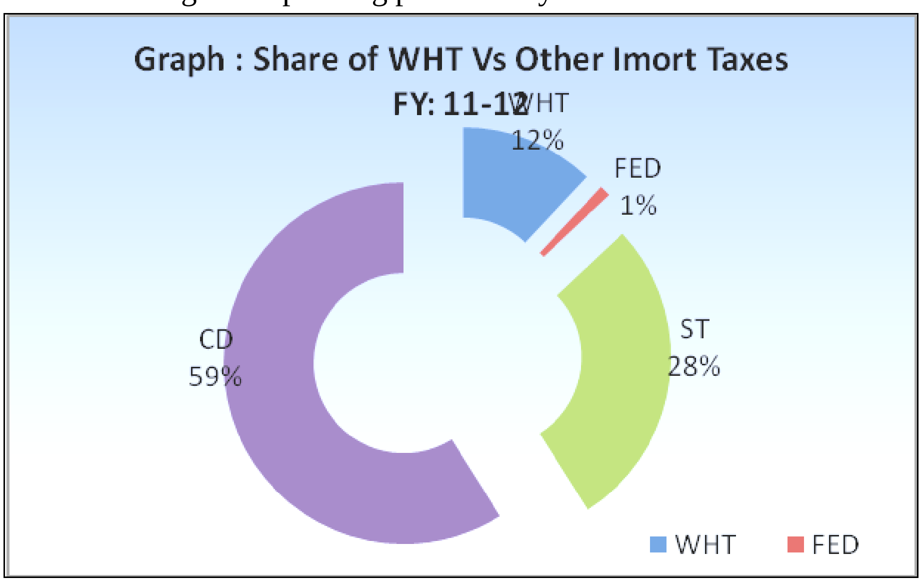
[7] Detailed definition of Industrial Undertaking has been provided in Chapter 1 under (Preliminary) of Income Tax rdinance, 2001 available at www.fbr.gov.pk.

Table 3: Reduced Withholding Tax @1% on Imports

Description	HS code/ PCT	SROs/Clauses of Part II of the 2nd Schedule	Adjustable /Final
Potassic Fertilizer	3104	Economic Co-ordination Committee (ECC) decision No. ECC-155/ 12/2004 [Clause 13E Part]	**Final**
Mobile Phone Sets	8517.1210	Clause 13G	**Final**
Gold	3102.1000	Clause 13G	**Final**
Silver	Respective Heading	Clause 13G	**Final**
Fibers,Yarns,Fabrics and goods covered by zero rating regimes of sales tax	Chapter 50 to 63 of Pakistan Customs Tariff and their inputs	Clause 9	**Final**
Urea Fertilizer	3102.1000	Clause 23	**Final**

Contribution of Withholding Tax in Tax Revenue from Imports[8]

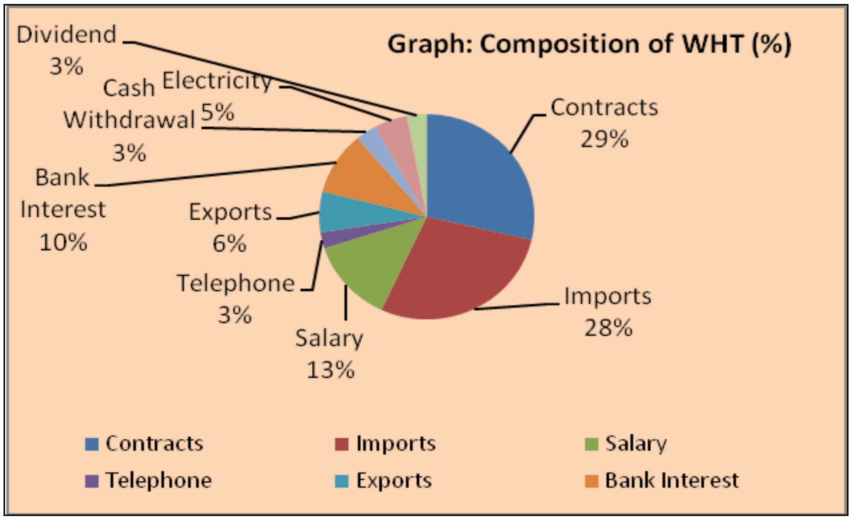
The overall collection of tax receipts at import stage constitutes a significant portion of the federal taxes in Pakistan. Withholding tax is the 3rd major revenue generation source of the import related taxes which also contributes more than 1/5th to the overall collection from imports as evident from the following Graph. During PFY 2011-12, a significant amount of Rs.85.8 billion was realized against Rs. 66.6 billion during corresponding period last year.



[8] Mir Ahmad Khan, page 20.

Withholding taxes are the leading revenue generation source of income tax in the country. Withholding tax on import stage is one of the components of overall withholding taxes. It is the second top revenue generation source of withholding taxes after contracts. In fact, it has contributed more than 1/4th of the collection of withholding taxes during 1st Quarter of CFY 2011-12 as illustrated in the Graph below;

Graph : Composition of Withholding Taxes (%) during July-June, 2011-12



The withholding tax on imports has cast healthy influence on the receipts of overall withholding taxes and import related taxes in the recent years. A major breakthrough has been observed in 2009-10 when its receipts have manifested a dramatic rise from Rs. 30 billion to Rs. 50 billion entailing a massive growth of 67%. Consequently, it stood at Rs. 85.8 billion in 2011-12 with 28.8% growth. Similarly, the spate of higher growth continued during the 1st Quarter of current financial year as shown in the table below.

Table 5: A comparative Position of Withholding Taxes

(Rs. Million)

	2012-13	2011-12	Change (%)	Share (%)
Contracts	21,992	19,800	11.1	26.0
Imports	21556	19,025	13.3	25.7
Salary	9,989	10,700	-6.6	11.9
Telephone	1,915	6,274	-69.5	2.3
Exports	4,848	5,306	-8.6	5.8
Bank Interest	7,599	6,889	10.2	9.0
Cash Withdrawal	2,464	2,647	-6.9	2.9
Electricity	3,772	2,600	45.1	4.5
Dividend	2,566	3,320	-22.7	2.7
Sub-Total	***76,703***	***76,561***	**-0.2**	**90.8**
Other WHT	7,897	7,657	3.1	9.2
Total WHT	**84,600**	**84,218**	**0.5**	**100.0**

Year wise details of tax revenues realized from imports, overall withholding tax and WHT on imports have been presented in Table 6.

Table 6: Tax-wise Trends in Tax Receipts

(Rs Billion)

Fiscal Year	All Taxes Collected from Imports	Overall Withholding taxes	WHT on Import
1990-91	60.4	50.5	2.1
1991-92	74.8	61.8	3.0
1992-93	77.2	61.4	3.6
1993-94	83.1	64.2	3.8
1994-95	106.5	77.7	4.2
1995-96	129.3	88.9	10.9
1996-97	136.5	86.1	12.6
1997-98	118.7	74.5	12.0
1998-99	125.2	65.3	14.1
1999-00	149.0	61.7	14.7
2000-01	179.9	65.0	19.4
2001-02	167.4	47.8	19.2
2002-03	202.6	68.8	20.8
2003-04	247.9	91.0	22.8
2004-05	296.0	115.4	24.5
2005-06	350.6	138.4	26.9
2006-07	349.8	132.3	25.8
2007-08	400.2	150.7	27.7
2008-09	411.0	148.4	30.1
2009-10	488.2	160.3	50.2
2010-11	579.4	184.9	66.4

WHT Collection during 2010-11 & 2011-12

The collection of WHT at import stage during the current financial year as compared to the previous financial year is given in the following table.

Table 7: Comparative W.H.Tax Collection on Imports for July to June

(Rs. Million)

Month	FY (2010-11)	FY (2011-12)	% Increase
July	4,804.4	6,954.5	44.8
August	4,900.5	6,689.3	36.5
September	4,977.6	6,617.5	32.9
October	4,925.3	6,930.7	40.7
November	4,611.7	6,783.9	47.1
December	5,468.0	7,230.2	32.2
January	5,297.0	8,601.7	62.4
February	5,131.2	6,290.2	22.6
March	5,950.4	6,689.2	12.4
April	7,120.1	7,196.5	1.1
May	7,011.0	7,671.7	9.4
June	6,416.5	8,167.3	27.3
Total :	**66,613.7**	**85,822.7**	**28.8**

Source PRAL

The RTO within whose jurisdiction a model Customs Collectorate is located is responsible for the monitoring of WHT and is also entitled to take credit of WHT collection

WHT potential based on import data

The following table gives a fare picture of WHT potential at import stage for the year 2010-11 & 2011-12 based on import data.

(Rs. Million)

Details Heads	2011-12	2010-11
Imports Value	4,012,198	3,457,899
Customs Duty (Gross)	226,689	193,380
FED on Imports (Gross)	8,859	19,524
Sales Tax on Imports (Gross)	430,412	308,694
$ Rate (Rs. Per Dollar)	89.16413167	85.61559483
WHT at Imports (U/S 148)	85334.182	66399.243

WHT Collection Recording System

<u>WeBOC System</u>

WeBOC has its own collection recording system for the duty and taxes realized from the clearance of imported goods other than Bulk cargo (KPT area) and launch operations. It is as completely automated system for the assessment of duties and taxes. The system is explained briefly as follows:[9]

1) All the import manifest is filed for vessels arriving at Karachi International container terminal (KICT) Pakistan International Container Terminal (PICT) Qasim International Container Terminal QICT, (Excluding Bulk Cargo & Launch Operation).

2) Clearing Agents/taxpayer prepare GD mentioning all the details of the consignment, PCT codes and SROs/exemption (if they are applicable to specific PCT or Taxpayer) and submit the GD.

3) System calculates the duties and same is shown to the taxpayer for payment of duties to tax and for confirmation.

4) The system at the time of submission to the clearing Agent/Taxpayer either gives option of payment through Bank or Post Deposit A/c. Once payment is made in the system through Bank or PD A/c the system allots machine No.

5) Immediately Risk Management System is invoked which decides as to what channel the GD will follow. There are 03 channels.

[9] Mr. Arshad Hussain, Manager Operation PRAL, Customs House Karachi interview by author, Karachi 15th October 2012.

(i) Red Channel

GD is marked for examination & system randomly marks the container for grounding. This message is sent to terminal operator for grounding the selected container in the examination area. Once grounded, the GD/container appears in the screen of examiner. The examination report is fed in the system. The GD is pushed to appraiser who assesses the duties & taxes in the light of snap shots & examination report and trader's profile, valuation rulings, PCT/original history.

Principal appraiser verifies assessment made by appraiser

The consignment randomly goes to AC [If there are differential duties the taxpayer has to pay it] Cargo is cleared & sent to Gate for get out.

(ii) Yellow Channel

Difference:- Appraiser makes the assessments Rest process is same. Examination is waived. This is decided by system.

(iii) Green Channel

Both assessment & examination are waived

One Customs System

One customs deals with Bulk Cargo (KPT area) and launch operations. The system is briefly explained as follows:[10]

- The shipping Company bringing import cargo files import manifest to the Custom Department on arrival of the Cargo.
- The importer/clearing agent produces Exemption Certificate which is entered by cashier of Customs Department in a register and allot it serial number. If the Exemption Certificate is issued system based by the Commissioner then online verification is made.
- This Certificate bearing serial number is fed in the system by PRAL.
- The clearing agent of the importer files goods declaration (GD). All SROs/Clauses of 2nd Schedule/serial number of Exemption Certificate/PCT Code etc. are indicated/entered on the GD.
- System processes the GD and allot it a machine number.
- GD is marked to the concerned Appraiser who assesses the duties and taxes and makes relevant entries in the GD. If any discrepancies have been observed by the Appraiser, relevant correction is made.
- Principal Appraiser in an appropriate Officer who verifies the assessment made by Appraiser.
- The system calculates duties and taxes and arrives at assessed value.

[10] Mr. Muhammad Ali, Senior Manager Operation PRAL, Customs House Karachi interview by author, Karachi 15th October 2012.

- The GD is marked to cash department. The payment procedure is given in the system which is verified by the cashier. If Pay Order is attached with the GD the cashier presses fx button for OK and system allot a cash number to the GD.
- Bank collects the Pay Order and affix stamp on the GD. Furthermore, the Bank segregates the Taxes and Duties to different departments in collaboration with Chief Account Officer.

<u>Difference</u>

1. We BOC system is totally paperless
2. EDI (electronic data interchange) is not present in one Customs.
3. We BOC access is available to all stakeholders. e.g. shipping lines/ RTOs Banks/Enforcement Agencies/FBR/NADRA.
4. Data Binding PCT binding, NTN Binding, LC Binding is not present in one Customs.
5. We BOC system is totally Internet Based
6. We BOC system is totally User Friendly.
7. We BOC system is managed & run by Project Management Office headed by a Collector.
8. In We BOC system there is totally no manual command.

4. Risk Areas of Withholding Tax Leakages

There can possibly be a number of reasons of revenue leakages on account of withholding Income Tax at import stage as identified below:-

i) Wrong application of lower WHT rate than the prescribed rate of 5% in cases where lower rates have not been prescribed by the Federal Board of Revenue.
ii) Wrong allowance of exemption from WHT in cases where exemption has not been provided by the Federal Board of Revenue.
iii) Application of invalid SRO.
iv) Where customs duties are charged at lower than the prescribed rates.

Wrong Allowance of Exemption:

At import stage only those exemptions are allowed which are available under different SROs or clauses of Income Tax Ordinance or exemption certificate issued by Commissioner of Income Tax. The system software of 1-Customs should calculate WHT at default rate of 5% where exemption is not available. The system software needs to be looked into to see as to whether there are entries where no SRO/ or exemption is mentioned on the worksheet. On all such entries default rate of 5% should have been applied.

Wrong Application of lower rates:
Facts are that lower rate of WHT from 0 to 3% is prevailing on different commodities or imports and for application of lower rate relevant provision of law such as SRO or different clauses of Income Tax Ordinance are required to be fed in the system otherwise statutory rate of 5% is applied. It needs to be looked into as to what amount of income tax is attributable to lower rate. This aspect needs to be thrashed out with reference to correct application of rate. For this purpose "cost of exemption analysis" needs to be carried out.

Application of invalid SRO:
It may be looked into that while granting exemption from WHT, it is specially checked that no invalid exemption is extended. In 2009, exemption has been granted by the system software of 1-Customs with reference to SRO 567(I)/2008 dated 01-06-2008 which has been declared invalid by the Board. If any such SRO is present in the system it needs to be removed and quantum of escaped duty be recovered.[11]

Levy of custom duty at lower rate:
If may be seen as to whether lower rates of Custom duty has been applied than that of PCT code. There might be entries where no provision of law or SRO have been indicated in output document i.e., worksheet. The lower quantum of custom duty would result in lower import value for the purpose of calculating WHT on import. The system software of 1-Customs accepts manual command. Ideally it should have all the provisions of law/SROs in its memory/software and no official of customs should give the system manual command.

Recovery of lost WHT Revenue:
If it is established that WHT is short levied with reference to a particular GD then recovery proceedings can be initiated. For this purpose, a new sub section needs to be inserted after sub-section (2) of section 161 of the Income Tax Ordinance 2001. The matter needs to be referred to Income Tax Policy Wing, FBR for removing this lacuna. In the light of Audit conducted for short levy of WHT or custom duty, post clearance Audit needs to be conducted.

Recommendations:
1. Post clearance Audit should be carried out where taxes/duties have escaped.
2. Loss of Revenue should be quantified in the following three areas:
    i. Exemption from Income Tax granted where no exemption/SRO is available.
    ii. Reduced rates of 2% WHT applied on items other than Pulses and Edible oil.

[11] Mr. Shahid Azam Khan page 20.

iii. Levy of Custom duties at the rates lower than rates prescribed under PCT Code.

iv. The shortcoming and defects in the system software of 1-Customs pointed out need to be rectified. Therefore, an exercise needs to be carried out for 1st Quarter of current financial year to remove defects from the system software.

3. There should be no manual command in the system and it should also not override the default/design functions of the system. Even if there is a necessity of manual command, its justification should be reflected on the output document i.e., worksheet. The system should have all provisions of law/SROs/etc. in its memory and no officer/official of Customs Collectorate should give manual command to the 1-Customs system

4. All the inputs are provided on the GD which is a source document; therefore, the collection worksheet which is an output e-document must bear all the information present in the GD.

5. The computer software of 1-Custom needs to be revisited/examined to ensure correct application of law. The following short comings should be rectified in 1-Custom software.

   i) All valid SROs and existing provision of law should be available in the memory (data base) of 1-Customs software.

   ii) Invalid SROs/provisions removed from law should also be removed from the system.

   The following are the two defects which need to be removed from the system:

   a) The provision of manual command should be removed from 1-Customs software.

   b) The invisibilities (important entries in the GD not appearing in the system output i.e., work sheet) needs to be eliminated and visibility needs to be enhanced in the 1-Customs system software so that it qualifies the test of transparency.

6. There should be provision in the system that invalid SROs/law should be removed itself from the system.

7. PRAL should take measures to ensure that manual certificate issued by Commissioner is fed in the system at source.

8. For the purpose of recovery proceedings a new sub-section needs to be inserted after sub-section (2) of section 161 of the Income Tax Ordinance, 2001. The matter may, therefore, be referred to Policy Wing (Direct Taxes) FBR, Islamabad for consideration.

9. While defining Collector of Customs u/s 148(9) the word “Assistant Collector” has not been mentioned as an authority which needs to be added.

10. Furthermore it is recommended that capacity building may be provided by PRAL to officers/officials of concerned RTOs/Collecotrates to use/examine the output data i.e., worksheet generated by 1-Customs.

Annexure

Collection of WHT on imports by MCCs

The collection details of WHT on imports by different MCCs are given below:-

Collection of W.H.Tax on Imports by MCCs

S #	MCC	CLT-COD	CLT DESCRIPTION	FY (2010-11)	FY (2011-12)
1	Faisalabad	FAFU	Faisalabad Air Freight Unit	1,333,014	1,684,996
		FDRY	Faisalabad Dryport	62,932,425	178,404,496
2	Hyderabad	HDRY	Hyderabad Dryport	298,716,609	167,995,268
3	Rawalpindi	RAFU	Islamabad - Rawalpindi Air Freight Unit	714,957,309	845,062,997
		RPAF	Islamabad - Rawalpindi Paper LessAir Freight Unit	164,660,953	109,054,739
		SUST	Islamabad - Rawalpindi Sust Port	49,977,788	62,306,157
		IDRY	Islamabad Dryport	326,594,661	370,467,945
4	Preventive	KAFI	Karachi Air Freight Import	335,767,309	344,139,753
		KAFU	Karachi Air Freight Unit	3,182,740,823	4,016,378,951
		KPDB	Karachi Diplomatic Bond Preventive	1,505	0
		KOIL	Karachi Oil Terminal	1,532,431,391	1,385,786,775
5	Appraisement	KAPR	Karachi Appraisement	12,661,674,629	17,471,764,379
		KEPI	Karachi Export Processing Zone for Import	52,226,838	27,075,270
6	PaCCS	KCSI	Karachi PICT Terminal Import in (WeBOC)	0	14,231,054,311
		KMCC	PaCCS	28,849,410,286	15,686,901,788
7	Port Qasim	KPQI	Karachi Port Qasim	10,456,326,034	13,025,736,284
		KPPI	Karachi Port Qasim Import in (WeBOC)	49,498,561	6,652,778,941
8	Lahore	LAFU	Lahore Air Freight Unit	2,261,182,372	2,716,856,085
		LDRY	Lahore Dryport	1,874,126,983	2,257,230,999
		LPAF	Lahore Paperless Air Freight Unit	26,071,642	63,649,125
		LPRN	Lahore Prem-Nagar Imports	0	5,104,612
		LTNB	Lahore Thokar Niaz-Beg	1,289,101,688	1,913,680,810
		LWGH	Lahore Wahgah Border	451,774,941	766,170,721
9	Multan	MAFU	Multan Air Freight Unit	6,028,347	23,824,135

10	Peshawar	PAFU	Peshawar Air Freight Unit	24,592,712	28,367,245
		PDRY	Peshawar Dryport	224,101,171	367,327,118
		PGDN	Peshawar Gadoon Port	31,861,149	21,353,188
		PGHK	Peshawar Ghulam Khan Terminal	15,599,879	20,460,300
		PHRI	Peshawar Haripur Terminal	165,812,587	164,972,607
		PSQR	Peshawar Shab-Qadr Port	18,207,127	8,839,524
		PSHD	Peshawar Shaheedano-Dand Port	2,134,335	1,399,799
		PTNK	Peshawar Tank Port	14,897,056	6,458,339
		PTOR	Peshawar Torkham Border	236,697,611	284,976,345
11	Quetta	MAND	Quetta - Mand Border Port	2,777,102	3,997,908
		ZDRY	Quetta - Zohb Dryport	0	907,057
		QAFU	Quetta Air Freight Unit	548,045	2,575,297
		QCHM	Quetta Chaman Border	7,620,395	3,924,055
		QDRY	Quetta Dryport	73,055,297	66,506,596
		QEPZ	Quetta Export Processing Zone for Import	0	29,751,677
		QGDN	Quetta Gaddani Port	506,626,938	672,070,158
		QGWD	Quetta Gawadar Port	91,973,263	0
		QJIW	Quetta Jiwani Port	489,749	0
		QPGR	Quetta Panjgoor Port	11,305,308	7,447,921
		QRLY	Quetta Railway Port	22,516,237	27,965,778
		QTFN	Quetta Taftan Port	69,470,266	1,407,952,707
12	Sialkot	SAFU	Sialkot Air Freight Unit	522,154	4,058,896
		SDRY	Sialkot Dryport	84,110,348	87,653,275
Grand Total :				**66,613,720,790**	**85,822,693,077**
Grand Total (Rs. In Million) :				**66,613.7**	**85,822.7**

STATISTICAL APPENDIX

Comparative Statements of

Month – to – Month and Progressive

Collection for the period 2012-13 & 2011-12

Collection of Federal Taxes 2012-13 Vz.11-12 (Rs Million)

MONTHS	M/P	Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
	M/P	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	117,012	10,135	106,877	162,084	49,808	112,276	-45,072	-39,673	-5,399	-27.8	-79.7	-4.8
AUGUST	M	131,143	7,785	123,358	125,424	4,918	120,506	5,719	2,867	2,852	4.6	58.3	2.4
	P	**248,155**	**17,920**	**230,235**	**287,508**	**54,726**	**232,782**	**-39,353**	**-36,806**	**-2,547**	**-13.7**	**-67.3**	**-1.1**
SEPTEMBER	M	187,087	6,314	180,773	154,423	6,400	148,023	32,664	-86	32,750	21.2	-1.3	22.1
1st Quarter		**435,242**	**24,234**	**411,008**	**441,931**	**61,126**	**380,805**	**-10,250**	**-6,689**	**27,992**	**-1.5**	**-60.4**	**7.9**
OCTOBER	M				132,591	6,183	126,408						
	P				**574,522**	**67,309**	**507,213**						
NOVEMBER	M				139,028	7,180	131,848						
	P				**713,550**	**74,489**	**639,061**						
DECEMBER	M				213,805	12,129	201,676						
2nd Quarter					**485,424**	**25,492**	**459,932**						
Upto 2nd Qtr					**927,355**	**86,618**	**840,737**						
JANUARY	M				150,311	14,308	136,003						
	P				**1,077,666**	**100,926**	**976,740**						
FEBRUARY	M				143,362	9,974	133,388						
	P				**1,221,028**	**110,900**	**1,110,128**						
MARCH	M				178,473	8,204	170,269						
3rd Quarter					**472,146**	**32,486**	**439,660**						
Upto 3rd Qtr					**1,399,501**	**119,104**	**1,280,397**						
APRIL	M				151,843	6,048	145,795						
	P				**1,551,344**	**125,152**	**1,426,192**						
MAY	M				191,457	9,692	181,765						
	P				**1,742,801**	**134,844**	**1,607,957**						
JUNE	M				285,781	10,712	275,069						
4th Quarter					**629,081**	**26,452**	**602,629**						
Annual					**2,028,584**	**145,558**	**1,883,026**						

(*) M- Monthly, P-Progressive

DIRECT TAXES

(***Rs Million***)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	26,878	5,024	21,854	72,547	43,581	28,966	-45,669	-38,557	-7,112	-63.0	-88.5	-24.6
AUGUST	M	33,946	1,588	32,358	33,730	1,661	32,069	216	-73	289	0.6	-4.4	0.9
	P	**60,824**	**6,612**	**54,212**	**106,277**	**45,242**	**61,035**	**-45,453**	**-38,630**	**-6,823**	**-42.8**	**-85.4**	**-11.2**
SEPTEMBER	M	83,837	1,483	84,546	65,262	1,755	63,507	22,117	1,078	21,039	33.9	61.4	33.1
1st Quarter		**148,203**	**9,445**	**138,758**	**171,539**	**46,997**	**124,542**	**-23,336**	**-37,552**	**14,216**	**-13.6**	**-79.9**	**11.4**
OCTOBER	M				42,296	2,637	39,659						
	P				**213,835**	**49,634**	**164,201**						
NOVEMBER	M				47,395	1,974	45,421						
	P				**261,230**	**51,608**	**209,622**						
DECEMBER	M				110,200	7,255	102,945						
2nd Quarter					**199,891**	**11,866**	**188,025**						
Upto 2nd Qtr					**371,430**	**58,863**	**312,567**						
JANUARY	M				49,664	8,084	41,580						
	P				**421,094**	**66,947**	**354,147**						
FEBRUARY	M				56,885	5,650	51,235						
	P				**477,979**	**72,597**	**405,382**						
MARCH	M				76,833	3,554	73,279						
3rd Quarter					**183,382**	**17,288**	**166,094**						
Upto 3rd Qtr					**554,812**	**76,151**	**478,661**						
APRIL	M				53,001	2,763	50,238						
	P				**607,813**	**78,914**	**528,899**						
MAY	M				77,595	5,474	72,121						
	P				**685,408**	**84,388**	**601,020**						
JUNE	M				144,975	7,173	137,802						
4th Quarter					**275,571**	**15,410**	**260,161**						
Annual					**830,383**	**91,561**	**738,822**						

INDIRECT TAXES

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	90,134	5,111	85,023	89,537	6,227	83,310	597	-1,116	1,713	0.7	-17.9	2.1
AUGUST	M	97,197	6,197	91,000	91,694	3,257	88,437	5,503	2,940	2,563	6.0	90.3	2.9
	P	**187,331**	**11,308**	**176,023**	**181,231**	**9,484**	**171,747**	**6,100**	**1,824**	**4,276**	**3.4**	**19.2**	**2.5**
SEPTEMBER	M	99,689	3,481	96,208	89,161	4,645	84,516	10,528	-1,164	11,692	11.8	-25.1	13.8
1st Quarter		**287,020**	**14,789**	**272,231**	**270,392**	**14,129**	**256,263**	**16,628**	**660**	**15,968**	**6.1**	**4.7**	**6.2**
OCTOBER	M				90,295	3,546	86,749						
	P				**360,687**	**17,675**	**343,012**						
NOVEMBER	M				91,633	5,206	86,427						
	P				**452,320**	**22,881**	**429,439**						
DECEMBER	M				103,605	4,874	98,731						
2nd Quarter					**285,533**	**13,626**	**271,907**						
Upto 2nd Qtr					**555,925**	**27,755**	**528,170**						
JANUARY	M				100,647	6,224	94,423						
	P				**656,572**	**33,979**	**622,593**						
FEBRUARY	M				86,477	4,324	82,153						
	P				**743,049**	**38,303**	**704,746**						
MARCH	M				101,640	4,650	96,990						
3rd Quarter					**288,764**	**15,198**	**273,566**						
Upto 3rd Qtr					**844,689**	**42,953**	**801,736**						
APRIL	M				98,843	3,286	95,557						
	P				**943,532**	**46,239**	**897,293**						
MAY	M				113,862	4,218	109,644						
	P				**1,057,394**	**50,457**	**1,006,937**						
JUNE	M				140,806	3,539	137,267						
4th Quarter					**353,511**	**11,043**	**342,468**						
Annual					**1,198,200**	**53,996**	**1,144,204**						

SALES TAX (TOTAL)

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	68,137	4,263	63,874	66,668	4,994	61,674	1,469	-731	2,200	2.2	-14.6	3.6
AUGUST	M	69,774	5,076	64,698	66,572	2,177	64,395	3,202	2,899	303	4.8	133.2	0.5
	P	**137,911**	**9,339**	**128,572**	**133,240**	**7,171**	**126,069**	**4,671**	**2,168**	**2,503**	**3.5**	**30.2**	**2.0**
SEPTEMBER	M	71,808	2,894	68,914	63,136	3,888	59,248	8,653	-994	9,647	13.7	-25.6	16.3
1st Quarter		**209,719**	**12,233**	**197,486**	**196,376**	**11,059**	**185,317**	**13,343**	**1,174**	**12,169**	**6.8**	**10.6**	**6.6**
OCTOBER	M				66,333	2,607	63,726						
	P				**262,709**	**13,666**	**249,043**						
NOVEMBER	M				65,285	4,279	61,006						
	P				**327,994**	**17,945**	**310,049**						
DECEMBER	M				75,115	4,158	70,957						
2nd Quarter					**206,733**	**11,044**	**195,689**						
Upto 2nd Qtr					**403,109**	**22,103**	**381,006**						
JANUARY	M				70,839	5,261	65,578						
	P				**473,948**	**27,364**	**446,584**						
FEBRUARY	M				60,631	3,565	57,066						
	P				**534,579**	**30,929**	**503,650**						
MARCH	M				68,745	4,011	64,734						
3rd Quarter					**200,215**	**12,837**	**187,378**						
Upto 3rd Qtr					**603,324**	**34,940**	**568,384**						
APRIL	M				69,840	2,975	66,865						
	P				**673,164**	**37,915**	**635,249**						
MAY	M				79,672	3,938	75,734						
	P				**752,836**	**41,853**	**710,983**						
JUNE	M				97,314	3,451	93,863						
4th Quarter					**246,826**	**10,364**	**236,462**						
Annual					**850,150**	**45,304**	**804,846**						

SALES TAX (IMPORTS)

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	36,706	0	36,706	37,311	1	37,310	-605	-1	-604	-1.6	-100.0	-1.6
AUGUST	M	37,022	0	37,022	34,150	1	34,149	2,872	-1	2,873	8.4	-100.0	8.4
	P	**73,728**	**0**	**73,728**	**71,461**	**2**	**71,459**	**2,267**	**-2**	**2,269**	**3.2**	**-100.0**	**3.2**
SEPTEMBER	M	38,126	0	38,124	32,665	2	32,663	5,461	-2	5,463	16.7	-100.0	16.7
1st Quarter		**111,854**	**0**	**111,854**	**104,126**	**4**	**104,122**	**7,728**	**-4**	**7,732**	**7.4**	**-100.0**	**7.4**
OCTOBER	M				33,833	0	33,833						
	P				**137,959**	**4**	**137,955**						
NOVEMBER	M				34,903	1	34,902						
	P				**172,862**	**5**	**172,857**						
DECEMBER	M				38,696	1	38,695						
2nd Quarter					**107,432**	**2**	**107,430**						
Upto 2nd Qtr					**211,558**	**6**	**211,552**						
JANUARY	M				36,331	1	36,330						
	P				**247,889**	**7**	**247,882**						
FEBRUARY	M				31,323	0	31,323						
	P				**279,212**	**7**	**279,205**						
MARCH	M				33,695		33,695						
3rd Quarter					**101,349**	**1**	**101,348**						
Upto 3rd Qtr					**312,907**	**7**	**312,900**						
APRIL	M				37,487	1	37,486						
	P				**350,394**	**8**	**350,386**						
MAY	M				38,815	1	38,814						
	P				**389,209**	**9**	**389,200**						
JUNE	M				41,203	0	41,203						
4th Quarter					**117,505**	**2**	**117,503**						
Annual					**430,412**	**9**	**430,403**						

SALES TAX (DOMESTIC)

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	31,431	4,263	27,168	29,357	4,993	24,364	2,074	-730	2,804	7.1	-14.6	11.5
AUGUST	M	32,752	5,076	27,676	32,422	2,176	30,246	330	2,900	-2,570	1.0	133.3	-8.5
	P	**64,183**	**9,339**	**54,844**	**61,779**	**7,169**	**54,610**	**2,404**	**2,170**	**234**	**3.9**	**30.3**	**0.4**
SEPTEMBER	M	33,663	2,894	30,790	30,471	3,886	26,585	3,192	-992	4,184	10.5	-25.5	15.7
1st Quarter		**97,846**	**12,233**	**85,634**	**92,250**	**11,055**	**81,195**	**5,596**	**1,178**	**4,418**	**6.1**	**10.7**	**5.4**
OCTOBER	M				32,500	2,607	29,893						
	P				**124,750**	**13,662**	**111,088**						
NOVEMBER	M				30,382	4,278	26,104						
	P				**155,132**	**17,940**	**137,192**						
DECEMBER	M				36,419	4,157	32,262						
2nd Quarter					**99,301**	**11,042**	**88,259**						
Upto 2nd Qtr					**191,551**	**22,097**	**169,454**						
JANUARY	M				34,508	5,260	29,248						
	P				**226,059**	**27,357**	**198,702**						
FEBRUARY	M				29,308	3,565	25,743						
	P				**255,367**	**30,922**	**224,445**						
MARCH	M				35,050	4,011	31,039						
3rd Quarter					**98,866**	**12,836**	**86,030**						
Upto 3rd Qtr					**290,417**	**34,933**	**255,484**						
APRIL	M				32,353	2,974	29,379						
	P				**322,770**	**37,907**	**284,863**						
MAY	M				40,857	3,937	36,920						
	P				**363,627**	**41,844**	**321,783**						
JUNE	M				56,111	3,451	52,660						
4th Quarter					**129,321**	**10,362**	**118,959**						
Annual					**419,738**	**45,295**	**374,443**						

FEDERAL EXCISE

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	6,089	0	6,089	9,668		9,668	-3,579	0	-3,579	-37.0	-	-37.0
AUGUST	M	8,541	0	8,541	9,867		9,867	-1,326	0	-1,326	-13.4	-	-13.4
	P	**14,630**	**0**	**14,630**	**19,535**	**0**	**19,535**	**-4,905**	**0**	**-4,905**	**-25.1**	**-**	**-25.1**
SEPTEMBER	M	7,906	74	7,832	8,900	0	8,900	-994	74	-1,068	-11.2	0.0	-12.0
1st Quarter		**22,536**	**74**	**22,462**	**28,435**	**0**	**28,435**	**-5,899**	**74**	**-5,973**	**-20.7**	**0.0**	**-21.0**
OCTOBER	M				8,507	0	8,507						
	P				**36,942**	**0**	**36,942**						
NOVEMBER	M				9,596	0	9,596						
	P				**46,538**	**0**	**46,538**						
DECEMBER	M				6,914	1	6,913						
2nd Quarter					**25,017**	**1**	**25,016**						
Upto 2nd Qtr					**53,452**	**1**	**53,451**						
JANUARY	M				11,859	219	11,640						
	P				**65,311**	**220**	**65,091**						
FEBRUARY	M				8,453	0	8,453						
	P				**73,764**	**220**	**73,544**						
MARCH	M				11,261	0	11,261						
3rd Quarter					**31,573**	**219**	**31,354**						
Upto 3rd Qtr					**85,025**	**220**	**84,805**						
APRIL	M				10,752	0	10,752						
	P				**95,777**	**220**	**95,557**						
MAY	M				13,411	18	13,393						
	P				**109,188**	**238**	**108,950**						
JUNE	M				13,511	1	13,510						
4th Quarter					**37,674**	**19**	**37,655**						
Annual					**122,699**	**239**	**122,460**						

C U S T O M S

(Rs Million)

		Collection											
		FY 2012-13			FY 2011-12			COMPARISON			Growth (%)		
MONTHS	M/P	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	15,908	848	15,060	13,201	1,233	11,968	2,707	-385	3,092	20.5	-31.2	25.8
AUGUST	M	18,882	1,121	17,761	15,255	1,080	14,175	3,627	41	3,586	23.8	3.8	25.3
	P	**34,790**	**1,969**	**32,821**	**28,456**	**2,313**	**26,143**	**6,334**	**-344**	**6,678**	**22.3**	**-14.9**	**25.5**
SEPTEMBER	M	19,994	513	19,481	17,125	757	16,368	2,869	-244	3,113	16.8	-32.2	19.0
1st Quarter		**54,784**	**2,482**	**52,302**	**45,581**	**3,070**	**42,511**	**9,203**	**-588**	**9,791**	**20.2**	**-19.2**	**23.0**
OCTOBER	M				15,455	939	14,516						
	P				**61,036**	**4,009**	**57,027**						
NOVEMBER	M				16,752	927	15,825						
	P				**77,788**	**4,936**	**72,852**						
DECEMBER	M				21,576	715	20,861						
2nd Quarter					**53,783**	**2,581**	**51,202**						
Upto 2nd Qtr					**99,364**	**5,651**	**93,713**						
JANUARY	M				17,949	744	17,205						
	P				**117,313**	**6,395**	**110,918**						
FEBRUARY	M				17,393	759	16,634						
	P				**134,706**	**7,154**	**127,552**						
MARCH	M				21,634	639	20,995						
3rd Quarter					**56,976**	**2,142**	**54,834**						
Upto 3rd Qtr					**156,340**	**7,793**	**148,547**						
APRIL	M				18,251	311	17,940						
	P				**174,591**	**8,104**	**166,487**						
MAY	M				20,779	262	20,517						
	P				**195,370**	**8,366**	**187,004**						
JUNE	M				29,981	87	29,894						
4th Quarter					**69,011**	**660**	**68,351**						
Annual					**225,351**	**8,453**	**216,898**						