



# **YEAR BOOK**

## **2004-2005**



**GOVERNMENT OF PAKISTAN  
MINISTRY OF FINANCE  
REVENUE DIVISION  
ISLAMABAD**

## **Fiscal Research and Statistics (FR&S) Wing, CBR**

The Revenue Division Year Book 2004-05 has been prepared by the Research Team of the FR&S Wing.

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### ***Our Vision***

*To be Modern, Progressive, Effective, Autonomous and Credible Organization for Optimizing Revenue by Providing Quality Service and Promoting Compliance with Tax and Related Laws.*

### ***Our Mission***

*Enhance the Capacity of the Tax System to Collect Due Taxes through Application of Modern Techniques, Providing Taxpayer Assistance and by Creating a Motivated, Satisfied Dedicated and Professional Workforce*

### ***Our Values***

- *Integrity*
- *Professionalism*
- *Teamwork*
- *Courtesy*
- *Fairness*
- *Transparency*
- *Responsiveness*

## Foreword

The Financial Year 2004-05 has been exciting year for Pakistan's economy and for CBR. The economy has achieved a remarkable (real) growth of 8.4%. Riding on this growth the revenue collection not only surpassed the start-of-the-year target of Rs. 580 billion, but also exceeded the upwardly revised target of Rs. 590 billion. Wide-ranging reforms in diverse areas have also contributed positively in this achievement. Undoubtedly, CBR has been transformed into a modern, progressive, effective and credible organization. Our endeavor is to maintain this momentum and keep providing efficient service to the taxpayers by ensuring uniform application of tax laws with integrity, efficiency and high degree of professionalism.

The current edition of Revenue Division Year Book 2004-05, second in the series, presents an elaborate analysis of Goals and Targets assigned to CBR under the Prime Minister's Goal/Target initiative. For CBR, Resource Mobilization has been at the top of the Goal/Target initiative list. Therefore, the volume provides a detailed analysis of tax collection. It also highlights achievements on other Goals/Targets including broadening of tax bases of income and sales tax, liquidation of refunds, and reducing the burden of cases in litigation. The Year Book also includes an up-date on various projects/ initiatives started under the tax administration reform program and human resource management, which hopefully will provide useful insight to the reader.

The timely preparation and publication of Revenue Division Year Book 2004-05 has been possible due to resolute commitment and hard work put in by the Fiscal Research Wing of CBR. The effort of the officers and staff is highly appreciated and complemented. I hope the present edition of the Year Book will be successful in provoking thoughtful deliberations on fiscal matters among the readers.

(M. Abdullah Yusuf)  
Secretary, Revenue Division/ Chairman, CBR

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## **Preamble**

In the world community, only those nations secure trustworthiness that painstakingly follow the arduous path of success designed and planned carefully by various organs of state. More importantly, the forerunners strongly follow the golden rule of constant monitoring and evaluation so that continuity in policies is ensured and any slippages from a sustained growth path are immediately observed and rectified.

Until very recently, Pakistan's economy had to endure a painful period of stabilization due to major macroeconomic imbalances. However, persistence with prudent policies under a well-defined reform program resulted into a turn around of the economy. An *ex post* assessment now confirms that the initial 'corrections' in economic fundamentals have been helpful in regaining the objectives of economic consolidation and macroeconomic stability. The resource mobilization efforts have been strengthened and rewarding. The expenditure management strategy is functioning well. Through a combination of restraint, prioritization, and lowering the cost of domestic and external borrowing the budget deficit to GDP and the debt to GDP ratios have declined to sustainable levels. Pak Rupee is now stable vis-à-vis the currencies of Pakistan's trading partners. The position of foreign exchange reserves is comfortable. The only immediate discomfort is in area of inflation that has crept up mainly due to supply constraints and extreme volatility in the international prices of oil (mainly the cost push factors). This distortion is being addressed through a combined

effect of improvement in supply position (by allowing imports of essential food items) and tightening of monetary policy.

It is indeed heartening that the recent gains through careful economic management and continuity of wide ranging reforms have placed the economy of Pakistan on the path of sustained growth. It has maintained an upsurge during the FY 04-05. The rate of growth of 8.4% in real terms has been two-percentage point higher than the previous year. This has been the fifth time in Pakistan's 57-year history that the growth has exceeded the 8% mark. Previously, in FY 53-54 the GDP growth was 10.2%, it was 9.4% in FY 64-65, 9.8% in FY 69-70 and 8.4% in 1984-85. The sharp increase in GDP during FY 04-05 was possible due to broad-based sectoral performance, particularly in the commodity producing sectors. After recording 14.1% growth during FY 03-04, the manufacturing sector maintained a healthy growth of 12.5% during FY 04-05. Similarly, riding on the success of cash and food crops, agricultural production registered one of highest growths of 7.5% after FY 95-96. Finally, the services sector also contributed significantly towards the overall growth in GDP with 7.9% increase in its value addition. It is worth emphasizing that at this rate Pakistan is now the third fastest growing economy in Asia.

In an effort to maintain the growth path, the present Government has undertaken a comprehensive program of monitoring and evaluation and has implemented the Prime Minister's Goal/Target Initiative. Under this initiative, quantifiable goals/targets have been set for all

government departments, including the Revenue Division. To monitor CBR performance on quarterly basis, the following five areas have been identified and the progress on each one of them is evaluated on quarterly basis.

- a) Resource Generation – the start of the year Revenue Target for CBR was set at Rs. 580 billion during 2004-05. This was enhanced to Rs. 590 billion during the year;
- b) Broadening of Tax Base of Income and Sales Tax;
- c) Liquidation of pending Refunds;
- d) Liquidation of Pending Cases under Litigation; and
- e) Observance of timelines of various Projects under the Tax Administration Reform Program to improve efficiency of the Organization.

The Revenue Division submits with utmost satisfaction that it has accomplished the assigned targets. The detailed description on the achievements has been discussed in the relevant chapters of the Revenue Division Year Book.

*Dr. Ather Maqsood Ahmed*  
*Member*  
*Fiscal Research and Statistics, CBR.*



# **Chapter 1**

## **An Overview of the Organization**

The Central Board of Revenue (CBR) was created on April 01, 1924 through enactment of the Central Board of Revenue Act, 1924. In 1944, a full-fledged Revenue Division was created under the Ministry of Finance. After independence, this arrangement continued up to 31<sup>st</sup> August 1960 when on the recommendations of the Administrative Re-organization Committee, CBR was made an attached department of the Ministry of Finance. In 1974, further changes were made to streamline the organization and its functions. Consequently, the post of Chairman CBR was created with the status of ex-officio Additional Secretary and Secretary Finance was relieved of his duties as ex-officio Chairman of the CBR.

In order to remove impediments in the exercise of administrative powers of a Secretary to the Government and effective formulation and implementation of fiscal policy measures, the status of CBR as a Revenue Division was restored under the Ministry of Finance on October 22, 1991. However, the Revenue Division was abolished in January 1995, and CBR reverted back to the pre-1991 position. The Revenue Division continues to exist since from December 01, 1998.

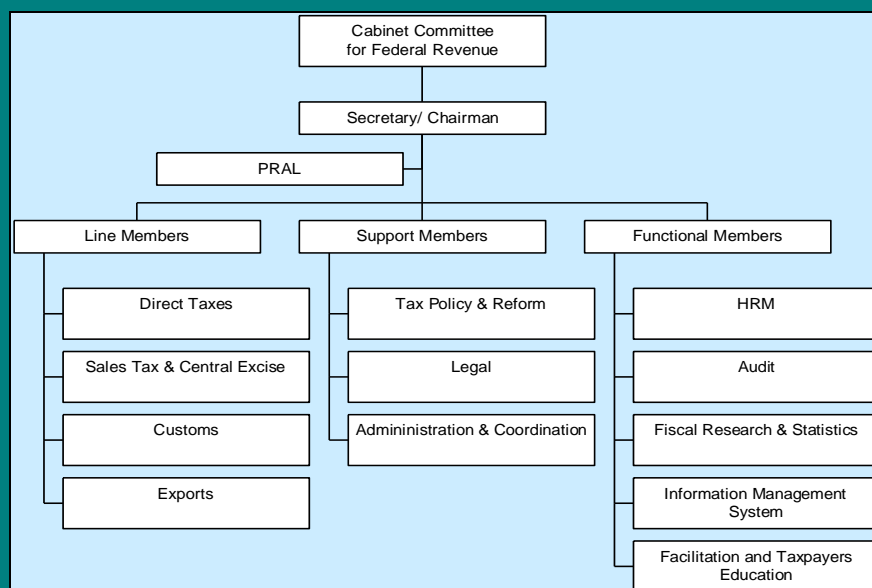
### **Functions of Revenue Division/ CBR**

In the existing setup, the Chairman, CBR, being the executive head of the Board as well as Secretary of the Revenue Division has the responsibility for (i) formulation and administration of fiscal policies, (ii) levy and collection of federal taxes and (iii) quasi-

judicial function of hearing of appeals. His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic Ministries as well as trade and industry.

## Organizational Set-up

The Secretary, Revenue Division/ Chairman, CBR is assisted by the four Line Members (one each for Direct Taxes, Sales Tax and Federal Excise Duties, Customs and Exports), three Support Members (Legal, Tax Policy and Reforms, and Administration and Coordination); and five Functional Members (HRM, IMS, Audit, Facilitation and Taxpayers Education, and Fiscal Research and Statistics). The functional members have been inducted from the private sector as part of the restructuring of the CBR and its field formations. Besides Members, various Directors General are also within CBR fold.



Besides recently established model units, the field formations of the organization include Collectorates and Commissionerates to collect taxes. In case of direct taxes, revenue is collected through five Regional Commissionerates, i.e., Northern, Eastern, Central, Southern, and Corporate that are further sub-divided into 28 Commissionerates. Five Model Taxpayers' Units and two Large Taxpayers Units are also entrusted with the job of collecting direct tax receipts. The indirect taxes (sales tax, federal excise duties, and customs) are collected by 18 Collectorates across the country and two Large Taxpayers Units.

The names of Secretaries/ Ex-officio Chairmen, full time Chairmen; Secretary Revenue Division/ Chairmen and Vice Chairmen, who headed the Revenue Division/ CBR from August 14, 1947 onwards, are given in the following.

*Finance Secretaries/ Ex-Officio Chairman, CBR*

1)	Sir Victor Turner	14.08.1947	01.02.1950
2)	Mr. Abdul Qadir	01.02.1950	25.02.1952
3)	Mr. Mumtaz Hasan	25.02.1952	01.11.1958
4)	Mr. H. A. Majid	01.11.1958	29.07.1960
5)	Mr. M. Ayub	29.07.1960	19.06.1961
6)	Mr. Mumtaz Mirza	19.06.1961	06.03.1963
7)	Mr. M. M. Ahmed	06.03.1963	30.05.1966
8)	Mr. Ghulam Ishaq Khan	31.05.1966	08.09.1970
9)	Mr. A.G.N. Kazi	08.09.1970	10.10.1971

*Chairman, CBR*

1)	Mr. M. Zulfiqar	11.10.1971	17.11.1973
2)	Mr. Riaz Ahmad	17.11.1973	30.09.1974
3)	Mr. M. Zulfiqar	01.10.1974	12.11.1975
4)	Mr. N.M. Qureshi	12.11.1975	14.12.1980

5)	Mr. Fazlur Rahman Khan	14.12.1980	11.08.1985
6)	Mr. I.A. Imtiaz	11.08.1985	20.08.1988
7)	Syed Aitezazuddin Ahmed	20.08.1988	02.01.1989
8)	Mr. Ghulam Yazdani Khan	22.01.1989	11.08.1990
9)	Mr. Ahadullah Akmal	16.08.1990	24.07.1991
10)	Mr. Sajjad Hasan	24.07.1991	03.10.1991

*Secretary Revenue Division/ Chairman, CBR*

1)	Mr. Sajjad Hasan	03.10.1991	03.11.1992
2)	Mr. M. Mubeen Ahsan	03.11.1992	03.05.1993
3)	Qazi M. Alimullah	03.05.1993	17.07.1993
4)	Mr. Javed Talat	26.07.1993	01.07.1994
5)	Mr. A.R. Siddiqi	11.07.1994	11.01.1995

*Chairman, CBR*

1)	Mr. Alvi Abdul Rahim	13.07.1995	28.08.1996
2)	Mr. Shamim Ahmed	28.08.1996	11.11.1996
3)	Mr. Hafeezullah Ishaq	11.11.1996	02.01.1998
4)	Mr. Moinuddin Khan	02.01.1998	06.11.1998

*Secretary Revenue Division/ Chairman, CBR*

1)	Mian Iqbal Farid	07.11.1998	06.11.1999
2)	Mr. Riaz Hussain Naqvi	08.11.1999	02.07.2001
3)	Mr. Riaz Ahmad Malik	03.07.2001	11.03.2004
4)	Mr. M. Abdullah Yusuf	12.03.2004	To-date

## **Chapter 2**

### **CBR Revenue Collection vis-à-vis Targets**

One of the major goals/targets set by the Prime Minister for CBR was achievement of the revenue target of Rs. 580 billion during FY 2004-05, which was higher by 11.4% over the actual collection of Rs. 520.8 billion of last year. However, the provisional (net) collection of Rs. 591.1 billion of CBR for FY 04-05 has not only surpassed the start of the year target of Rs.580 billion, but it has also exceeded the enhanced revised target of Rs. 590 billion. This commendable achievement has been possible due to broad-based performance of all the four federal taxes, as there has been a double-digit growth in the collection of direct taxes, sales tax at import stage, federal excise duties (previously central excise duties) and customs duties.

Table 2.1 reflects that the provisional tax collection has exceeded the start of the year target of Rs. 580 billion by Rs. 11.1 billion and the enhanced revised target by Rs. 1.1 billion during FY 04-05. One of the striking features of this accomplishment is that all the individual federal taxes have surpassed their respective targets for the year. This achievement has been possible due to wide-ranging tax policy and administrative reforms initiated in the late 1980s and being pursued religiously ever since. The recent policy initiatives include: lowering the tax and tariff rates of capital goods to promote investment and boost economic activity in the country, reducing the up-front cost of doing business through automation of business processes – CARE project being the fore-runner in this respect –

discouraging smuggling by reducing tax and duty rates of smuggling prone items, abolishing distortions in the sales tax regime through the adoption of uniform rate of 15%, continuous reductions in corporate tax rates to cultivate corporate culture, drastically reducing the litigation burden by withdrawing all frivolous cases and offering alternative dispute resolution mechanism to the taxpayers, and most importantly, offering a hassle-free environment to the taxpayers through dedicated tax units and efficient workforce.

With these changes, the tax structure has been re-engineered in accordance with the internal best practices where due recognition is paid to the taxpaying capacity of general population and sectors that are liable to pay taxes under the existing legal framework. These initiatives aside, it is not out of place to mention that the overall growth of federal tax receipts has been possible due to overwhelming performance of the economy and adherence of the Government to the overall macroeconomic policy framework announced as part of the Medium Term Development Framework.

**Table 2.1: A Comparison of Collection vis-à-vis Original and Revised Targets**

	Original Target	Revised Target	Collection	Difference from Revised Target	
	FY: 04-05	FY: 04-05	FY: 04-05	Absolute	Percent
Direct Taxes	181.7	182.7	183.1	0.4	0.2
Sales Tax	249.1	239.5	240.0	0.5	0.2
Federal Excise	46.9	52.8	52.9	0.1	0.1
Customs Duties	102.3	115.0	115.1	0.1	0.1
<b>All Taxes</b>	<b>580.0</b>	<b>590.0</b>	<b>591.1</b>	<b>1.1</b>	<b>0.2</b>

*Note: Collection in Rs. Billion*

### Collection in FY 2004-05 vis-à-vis Last Year

A comparison of net collection for FY 04-05 and FY 03-04 confirms a healthy growth of 13.5% in federal receipts (Table 2.2). In fact, an increase of Rs. 70.2 billion over last year has been the largest in a single year since FY 47-48. This increase (in absolute terms) exceeds the previously recorded highest collection of Rs. 61 billion of FY 03-04 by about 15%. An important aspect of this growth has been the performance of domestic taxes that is consistent with strong domestic demand and the overall strength of the economy. It is relevant to mention that while the growth of the federal tax receipts has been substantial in absolute terms, it has lagged behind the (nominal) growth of the GDP and thereby the CBR Revenue to GDP ratio has declined from 9.4 in FY 03-04 to 9 in FY 04-05. A number of factors have contributed towards this decline. The most significant among them are the performance of those sectors that are fairly lightly taxed, narrow tax base, administrative weaknesses despite some progress to overcome them, taxpayers' unsympathetic perception on how the public funds are being expended, and the inherent inefficiencies in the system.

**Table 2.2: A Comparison of Collection vis-à-vis Last Year's Collection**

	Collection		Difference	
	FY: 04-05	FY: 03-04	Absolute	Percent
Direct Taxes	183.1	165.1	18.0	10.9
Sales Tax	240.0	219.2	20.8	9.5
Central Excise	52.9	45.6	7.3	16.0
Customs Duties	115.1	91.0	24.1	26.5
<b>All Taxes</b>	<b>591.1</b>	<b>520.8</b>	<b>70.2</b>	<b>13.5</b>

## **Achievement in Historical Perspective**

The information presented in Table 2.3 corroborates that an additional amount of Rs. 70.3 billion in net terms was generated during FY 04-05, which is the highest addition in a single year in the history of tax collection in Pakistan. Previously, Rs. 60.6 billion was the additional amount in FY 03-04 and Rs. 56.1 billion during FY 02-03. More interestingly, these three increases individually are greater than the cumulative increase of Rs. 40.5 billion between FY 95-96 and FY 98-99. This consistent pattern of significant jump in collection over the last three years is a welcome development in view of the fact that resource mobilization is directly linked with the overall economic management of the economy. A shortfall in collection in the past has not only widened the fiscal deficit, the ultimate impact of the eroding fiscal space was also felt on the social sectors. This situation has now been reversed.

A further analysis of the 100% accomplishment of the target during the current and past years confirms that, barring FY 95-96 and FY 99-00 when CBR achieved 99.1% and 95.8% of the start of year budgetary targets, a much larger shortfall was recorded in other years. The worst was the FY 96-97 when only 86% of the budgeted target was met. More serious has been the performance on account of the revised targets – the revised target that were met in only three out of twelve years since FY 90-91. The main reasons for the dismal performance were: (a) a misplaced policy of exaggerated projections of key indicators of the economy, whereby it was a routine to set highly ambitious targets at the beginning of the year only to see



them slip away during the course of the year. Thus, creating macro-management difficulties and inviting criticism from every nook and corner; (b) inefficient tax machinery with out-dated, labor intensive and poorly organized work processes and deficient information technology to support extensive activities, and (c) absence of tax culture in the country with limited effort to motivate taxpayers to carry-out their legal obligations.

**Table 2.3: A Historical Profile of Collection vis-à-vis Targets**

(Collection Rs. Billion)

YEAR	Budget Estimates	Revised Estimates	Collection	Downward Revision (%)	Achievement (%)	
					B.E.	R.E.
1990-91	123.3	120.6	110.5	-2.19	89.6	91.6
1991-92	149.5	143.0	139.8	-4.35	93.5	97.8
1992-93	174.8	160.0	153.2	-8.47	87.6	95.8
1993-94	190.7	180.3	172.6	-5.45	90.5	95.7
1994-95	259.9	225.0	226.6	-13.43	87.2	100.7
1995-96	270.5	264.8	268.0	-2.11	99.1	101.2
1996-97	328.0	286.0	282.1	-12.8	86.0	98.6
1997-98	324.0	297.6	293.6	-8.15	90.6	98.7
1998-99	354.0	308.0	308.5	-12.99	87.1	100.2
1999-00	362.5	351.7	347.1	-2.98	95.8	98.7
2000-01	430.0	406.5	392.3	-5.47	91.2	96.5
2001-02	457.7	414.2	404.1	-9.5	88.3	97.6
2002-03	458.9	No Revision	460.2	NA	100.3	NA
2003-04	510.0	No Revision	520.8	NA	102.1	NA
2004-05	580.0	590.0	591.1	Upward Revision	101.9	100.2

*NA means Not Applicable*

### **Tax/GDP Ratio: The logic of Growing Concern!**

Recently there has been a growing concern about stagnation (rather decline) in tax to GDP ratio. Due to sensitivity of this concern, a brief analysis on the issue is presented in the following.

To recapitulate, total revenue receipts of GoP include tax revenues (including surcharges) and non-tax revenues. The tax revenues, in turn, include federal receipts and there is a relatively small contribution by provinces. Since more than 90% of tax receipts are collected by CBR, the organization plays a leading role in the formulation and execution of taxation policy. A cursory look at Table 2.4 indicates that with the exception of provincial non-tax revenue to GDP ratio, there is a peculiar pattern in the remaining cases. The peaks and troughs of other series are almost identical. While the peak in these ratios was attained in FY 02-03, the latest year recorded the trough. The real concern is why the decline has taken place in FY 04-05.

**Table 2.4: Revenue, Tax, and Non-tax to GDP Ratios**

FY	Total Revenue	Total Taxes	Federal Taxes	CBR Revenue	(Percent)		
					Non Tax Revenues		
					Federal	Provincial	Total
1999-00	13.5	10.7	10.2	9.2	2.4	0.4	2.8
2000-01	13.4	10.7	10.2	9.4	2.2	0.5	2.7
2001-02	14.2	10.9	10.5	9.2	2.8	0.5	3.3
2002-03	14.9	11.5	11.0	9.6	2.9	0.5	3.4
2003-04	14.9	11.6	10.6	9.4	2.9	0.4	3.3
2004-05	13.5	10.6	9.6	9.0	2.3	0.6	2.9

To gain further insight the tax receipts are decomposed into different components (Table 2.5). These components include: CBR revenues, Surcharges on POL products and natural gas, provincial tax receipts and a nominal amount collected through taxation on foreign travel. It is evident that even though the collection by CBR (in relative terms) has fallen from 9.6% to 9% (of re-based GDP at market prices), but the significant source of decline in tax/GDP ratio has

been the reduction in surcharges. Specifically, the surcharges on POL products had declined by about 60% or one percentage point of tax/GDP ratio in comparison to FY: 02-03 [Economic Survey, 2004-05]. In response to extreme volatility in the international price of oil, the Government opted for a ‘shock-absorbing’ strategy and did not pass on the full burden onto consumers for quite some time. In fact, the domestic prices of POL were kept frozen for most of the first half of FY 04-05. In the process, while the Government succeeded in ensuring (partial) stability in domestic POL prices, its revenue generation was badly affected. There was a substantial decline in Petroleum Development Levy (PDL). The ratio of surcharges/GDP declined from 1.4% in FY 02-03 to only 0.5% in FY 04-05.

**Table 2.5: Decomposition of Tax/GDP Ratio**

FY	Total Taxes	Federal Taxes	CBR Revenues	Surcharges	(Percent)	
					Total Provincial Tax	Foreign Travel Tax
1999-00	10.7	10.2	9.2	1.0	0.5	0.0
2000-01	10.7	10.2	9.4	0.7	0.5	0.0
2001-02	10.9	10.5	9.2	1.2	0.4	0.0
2002-03	11.5	11.0	9.6	1.4	0.5	0.1
2003-04	11.6	10.6	9.4	1.1	0.5	0.0
2004-05	10.6	9.6	9.0	0.5	0.5	0.1

The second source of decline in tax/GDP ratio has been the collection by CBR. Even though the collection in absolute terms has increased by 13.5% over past fiscal year (as indicated earlier), it has declined in relation to GDP. There are at least three reasons to rationalize this outcome. Firstly, there has been scaling-up of GDP when provisional figures were revised for FY 04-05. On the other hand, CBR revenue figures cannot be changed once the three-way

reconciliation is completed between CBR, AGPR and SBP.<sup>1</sup> Secondly, the recent fall in CBR Revenue to GDP ratio has been partly influenced by the oil-price phenomenon. Due to the nature of GST (operating in VAT mode), the oil companies had claimed huge input adjustments and refunds, as they were facing higher input prices at the import stage and low output prices in the domestic market. Thirdly, there was an adverse (unanticipated) revenue impact of some of the budgetary and post-budgetary measure that reduced the CBR revenue. Actual CBR collection would have been higher by about Rs. 10 to 15 billion in the absence of these changes.<sup>2</sup> Incorporating these factors in the analysis, the fall in various ratios presented in Table 2.6 does not remain a mystery.

**Table 2.6: Tax/GDP Components of CBR Revenue**  
(Percent)

FY	CBR Taxes	Direct Taxes	Indirect Taxes			
			Sales Tax	Customs	Excise	Total
1999-00	9.2	3.0	3.1	1.6	1.5	6.2
2000-01	9.4	3.0	3.7	1.6	1.2	6.4
2001-02	9.2	3.2	3.8	1.1	1.1	5.9
2002-03	9.6	3.1	4.0	1.4	0.9	6.4
2003-04	9.4	3.0	4.0	1.6	0.8	6.4
2004-05	9.0	2.8	3.7	1.8	0.8	6.2

## Explaining the Apparent Stagnation

Further analysis on the relative strength of different components of GDP and their contribution to revenue is quite revealing. It is rather startling to observe that the high growth of GDP has been

<sup>1</sup> This is evident from the fact the GDP at market prices for FY 03-04 has been revised upward from Rs. 5458 billion to Rs. 5533 billion, showing an increase of 1.4%, the CBR revenue collection remained stationary at Rs. 521 billion. In the process, the CBR Revenue to GDP ratio declined from 9.55% to 9.42%.

<sup>2</sup> The significant among these measures are: change in the advance tax regime of income tax, zero-rating of ginned cotton who effect has been spilled over, introduction of deemed price for fertilizer, removal of distortions in the GST rate, and payment of higher than anticipated amount of refunds in the case of direct taxes.

accomplished on the performance of those sectors whose tax compliance is low traditionally.<sup>3</sup>

It is patently clear that growth in a number of sub-sectors does not correspond on one-to-one basis with growth in CBR revenue. For instance, while the contribution of bumper crop of cotton has been immense as far as value added in agriculture is concerned, but the revenue contribution of this source of GDP has been insignificant. The same has been true of transport, wholesale and retail trade, and many other sub-components of GDP. Thus, to have any meaningful increase in tax/GDP ratio there is a need for widening of tax base to sectors that are either outside the tax net or they are lightly taxed.

**Table 2.7: Sectoral Share in GDP and Taxes: FY 04-05**

(Value in Rs. Million; Share in Percent)

Description	GDP-MP	Share in GDP	CBR Revenues	Share in Taxes
Agriculture	1,322,641	20.2	7,308	1.2
Mining & Quarrying	121,836	1.9	23,573	4.0
Manufacturing	1,118,391	17.1	367,648	62.2
Construction	143,916	2.2	17,033	2.9
Electricity & Gas Distribution	156,301	2.4	31,479	5.3
Transport, Storage & Communication	902,247	13.8	26,606	4.5
Wholesales & Retail Trade	1,107,296	16.9	16,383	2.8
Finance & Insurance	210,683	3.2	23,150	3.9
Ownership of dwelling	165,456	2.5	1,688	0.3
Public Administration & Defense	337,560	5.2	29,831	5.0
Services	543,349	8.3	46,376	7.8
T-S (Correction for GDP at FC & MP)	417,914	6.4	0	0.0
<b>Grand Total</b>	<b>6,547,590</b>	<b>100.0</b>	<b>591,085</b>	<b>100.0</b>

*Source: Economic Survey (2004-05) and CBR Estimates*

<sup>3</sup> It may be added that the estimates presented in Table 2.7 are indicative in nature and should be interpreted with caution. The reason for issuing this caution is that the tax contribution of various GDP components has been estimated on the basis of (a) nature of good, and (b) the *initial* tax incidence. It is important to mention that the final burden of taxation (especially of indirect taxes) is on consumers rather than the sectors, which appear to be paying taxes at the initial stage.

## **Chapter 3**

### **Detailed Analysis of Individual Taxes**

CBR is responsible for collection of revenue on the basis of four federal taxes, which are: Direct Taxes, Sales Tax, Customs Duties and Central Excise Duties. The Direct Taxes in turn include income tax, wealth tax, capital value tax, corporate assets tax and workers welfare fund. The Sales Tax or GST is collected on imports and domestic sales. The base of customs duties is dutiable imports, and central excise is levied on selected manufactured items. The collection under these heads during FY 04-05 has been analyzed in greater detail in the following.

#### **Direct Taxes**

The overall collection of direct taxes has been influenced by diversified changes introduced during FY 04-05 and earlier. Most significantly, the full impact of the system of universal self-assessment (USAS) announced during FY 02-03 and becoming applicable from FY 03-04 has been experienced in FY 04-05. It is encouraging that contrary to the general apprehension that USAS would result in significant reduction in revenue, the outcome has been quite rewarding so far. The taxpayers have reposed their confidence in the new system, which has substantially reduced their direct interface with the tax administrators. This change has also brought an anticipated reduction in 'current demand'. However, this reduction has been more than compensated by improvement in collection on account of voluntary compliance, withholding taxes, and 'other' direct taxes, especially the CVT from capital market.

Another significant development has been the (effective) broadening of the income tax base. A total number of 1.23 million returns were filed during FY 04-05 of which 12,526 were from the corporate sector. Compared to last year, there has been 19.4% growth in return filers. However, even the improved number of the returns filers continues to present a less than desirable picture when compared to the number of NTN holders or the number of 'live' cases. Whereas the share of return filers to NTN holders has been around 54%, the share of the same to live cases has been 72.4%. Segregating this information into individuals and corporate categories it has been observed that within the former category (salaried and business persons and AOPs) having NTN, nearly 50% had filed their returns and within the corporate sector, the compliance rate has been around 55%. However, the compliance rate of private companies was at least five times superior to that of the public (listed) companies where it was in the range of only 10%. Incidentally, the compliance rate of the foreign companies has been extremely low at around 3%.<sup>4</sup> Since this situation requires immediate correction through further research, CBR has already embarked upon an extensive effort to streamline the income tax base including the list of withholding agents.

**Revenue Collection:** A significant improvement in direct tax has been registered during FY 04-05. The gross collection has recorded a healthy growth of 14.2%, increasing from Rs. 185.8 billion in FY

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<sup>4</sup> Source: PRAL and Tax Policy Wing of Direct Taxes.

03-04 to Rs. 212.2 billion in FY 04-05. However, payment of higher refunds of Rs. 29.1 billion or 40.4% more than last year has reduced the growth in net collection to 10.9%. The net collection has, nonetheless, risen from Rs. 165.1 billion in FY 03-04 to Rs. 183.1 billion during the CFY. The increase has been possible despite a reduction in withholding tax rates on selected categories of taxpayers to promote economic activity, continuous reduction in corporate tax rates to encourage corporate culture, and change in the advance tax regime. Moreover, facilitation of the taxpayers has also encouraged voluntary compliance amply demonstrated by the fact that while 5.1% growth in VP is attributable to advance taxes, 43.9% is due to payment with returns.

### *A Comparison of Corporate and Individual Categories*

To get further insight, the amount of tax paid by various categories of taxpayers has been disaggregated. It may be added that the analysis relies on tax collection on the basis of income and corporate taxes alone, as the amount collected through other direct taxes (CVT, CAT, and WWF) amounting Rs. 10.6 billion is not included. The comparative position presented in Table 3.1 highlights the following points:

- a. The corporate sector is the major contributor of income and corporate taxes. The share of this sector in gross collection has been around 68%, which reduces to 64% in net terms;
- b. Within the corporate sector, public companies, as defined in the Income Tax Ordinance, 2001, are the major contributors to tax receipts. The share of public companies in corporate



collection has been stagnant around 58% in gross terms and 54% in net terms;

- c. The contribution of salaried individuals has been far less than other individuals within the individual category. Salaried individuals had contributed 21% and 22% of gross and net receipts, respectively.
- d. Corporate sector is the major refund seeker. Nearly 92% of total refunds were paid back to the corporate sector in FY 04-05. Incidentally, this share is 4 percentage points less than last year;
- e. Within the corporate sector, public companies are the major refund claimants – 74% of corporate sector refunds were paid back to public companies in FY 04-05, compared to 73% in FY 03-04.

**Table 3.1: Comparative Position of Income & Corporate Taxes**

*(Revenue Figures are in Rs. Billion)*

	FY 2004-05			FY 2003-04			Difference (%)		
	Gross	Refund	Net	Gross	Refund	Net	Gross	Refund	Net
<b>Companies</b>									
Public*	79.8	19.8	60.1	70.6	14.5	56.0	13.1	36.1	7.2
Private	52.0	6.4	45.6	45.3	4.5	40.7	14.9	40.5	12.1
Foreign**	5.4	0.6	4.8	6.6	0.7	5.9	-18.4	-6.5	-19.7
<i>Sub-Total</i>	<i>137.2</i>	<i>26.8</i>	<i>110.4</i>	<i>122.4</i>	<i>19.8</i>	<i>102.6</i>	<i>12.1</i>	<i>35.6</i>	<i>7.6</i>
<b>Individuals</b>									
Salaried	13.5	0.2	13.3	17.1	0.1	17.0	-21.1	91.6	-21.8
Non-Salaried	49.9	2.1	47.8	37.4	0.8	36.5	33.5	147.4	30.9
<i>Sub-Total</i>	<i>63.4</i>	<i>2.3</i>	<i>61.1</i>	<i>54.4</i>	<i>0.9</i>	<i>53.5</i>	<i>16.5</i>	<i>140.6</i>	<i>14.2</i>
Other	1.0	0.0	1.0	1.4	0.0	1.4	-28.6	0.0	-28.6
<b>Total</b>	<b>201.6</b>	<b>29.1</b>	<b>172.5</b>	<b>178.2</b>	<b>20.7</b>	<b>157.5</b>	<b>13.1</b>	<b>40.6</b>	<b>9.5</b>

\* Include companies wholly owned or controlled by Federal/Provincial Governments and Listed Companies

\*\* Also include Other entities taxed at company rate

\*\*\* Include AOP/ URF/ HUF and Registered Firms

### *Components of Income Tax*

**Voluntary Compliance by the Corporate Sector and Individuals:** The assumption that the new income tax system that relies heavily on accurate and candid self-assessment by taxpayers will encourage taxpayers to comply voluntarily has been vindicated. The analysis of returns received and the tax paid shows that payments with returns have increased from Rs. 9.8 billion in FY 03-04 to Rs. 14.2 in FY 04-05. However, the share of voluntary payment in gross income tax collection has slightly decreased from 37.3% in FY 03-04 to 36.6% in FY 04-05, mainly due to change in the advance tax regime whereby advance tax is now payable on expected income rather than the past turnover ratio.

The information presented in Table 3.2 confirms that after a robust growth in VP by 283.4% in the 1<sup>st</sup> quarter of FY 04-05, the collection from this head fluctuated in the next three quarters due the fact that most of the corporate sector returns were filed in September 2005, as is reflected by nearly 300% growth in Q1. On the whole, in terms of absolute amount, the collection increased from Rs. 66.5 billion in FY 03-04 to Rs. 73.9 billion in FY 04-05, indicating an overall growth of 11%.

**Collection on Demand:** Contrary to the case of voluntary compliance, the collection on account of demand creation has declined during the FY 04-05 by 11.9%. The decline has been observed both in the creation of current as well as arrear demand, due to the implementation of the USAS wherein the declared income is treated as final liability. It is relevant to mention that

growth in current demand is expected under the new system if there are 'Brought Forward' cases lying pending with the regions. Once these cases are exhausted, as has been the situation now, the possibility of further demand creation under the present system will exist only to the extent that fresh cases are selected for complete audit under the pre-announced criteria for audit selection. Thus, in the coming years, the collection under the head of CoD is expected to decline further. However, on a positive note, the loss in revenue from this source is expected to be compensated by other sources of direct taxes including the voluntary compliance.

**Table 3.2: Quarterly Data on Voluntary Payments and Collection on Demand:  
A Comparison FY 04-05 & FY 03-04 Figures**

(Rs. Million)

Collection Heads	FY: 04-05	FY: 03-04	Difference	
			Absolute	Percent
1. Voluntary Payments				
Q1	20,268.00	5,286.10	14,981.90	283.4
Q2	15,656.70	21,252.90	-5,596.20	-26.3
Q3	16,505.80	13,839.50	2,666.30	19.3
Q4	21,458.80	26,164.90	-4,706.10	-18.0
Total	73,889.30	66,543.40	7,345.90	11.0
2. Collection on Demand				
Q1	1,569.80	1,130.30	439.50	38.9
Q2	2,246.40	4,480.70	-2,234.30	-49.9
Q3	4,446.00	3,389.30	1,056.70	31.2
Q4	9,248.90	10,883.10	-1,634.20	-15.0
Total	17,511.10	19,883.30	-2,372.20	-11.9

**Withholding Taxes:** The income tax collection continues to rely heavily on Withholding Taxes (WHT) whose share in gross income tax collection has been 54.7% during FY 04-05. Despite this high share, frequent fluctuations in WHT receipts are a general characteristic due to their direct link with the economy and its

different components. Nonetheless, the quarterly data for FY 04-05 has established that a stable growth was maintained throughout the year. While there are 25 major WHT heads (ignoring sub-sections), only few of them have major contribution. The six major withholding taxes constituting nearly 81% of total WHT collection in FY 04-05 were: contracts/ supplies, imports, salary, exports, electricity and telephones/mobiles. The share of contracts (30.3%) remained at the top, followed by imports (22.2%), salary (12.1%), exports (7.2%), electricity (4.3), and telephones/ mobiles (4.6%). The collection from telephones, contracts, exports, salary, imports and electricity, has increased by 33.6%, 28.4%, 22.4%, 11.9%, 7.2% and 6.6% respectively [Table 3.3].

The primary reason for this performance of WHT has been the improved economic activity in respective areas. For instance, the higher volume of trade transactions has led to additional withholding deductions on imports and exports. Similarly, higher government spending on infrastructure due to availability of fiscal space has contributed towards higher deductions on contracts and supplies. Finally, the spreading out of telephone/ mobile services in the country, higher pace of industrialization, respectable growth in the real sector of the economy have all contributed towards higher collection on account of various WHT heads.

**Table 3.3: Quarterly Data on WHT: A Comparison of  
FY 04-05 & FY 03-04 Collection**

*(Rs. Million)*

Collection Heads	FY: 04-05	FY: 03-04	Difference	
			Absolute	Percent
Contracts				
Q1	6,121.9	4,552.7	1569.2	34.5
Q2	6,430.3	5,877.4	552.9	9.4
Q3	7,805.6	5,792.2	2013.4	34.8
Q4	13,058.2	9,793.1	3265.1	33.3
Total	33,416.0	26,015.5	7400.5	28.4
Imports				
Q1	6,293.0	5,808.2	484.8	8.3
Q2	6,043.4	6,034.7	8.7	0.1
Q3	5,845.5	5,205.9	639.6	12.3
Q4	6,301.4	5,780.3	521.1	9.0
Total	24,483.3	22,829.0	1654.3	7.2
Salary				
Q1	2,840.3	1,986.3	854.0	43.0
Q2	2,742.5	2,789.9	-47.4	-1.7
Q3	3,021.8	2,934.6	87.2	3.0
Q4	4,739.9	4,216.0	523.9	12.4
Total	13,342.5	11,926.7	1415.8	11.9
Export				
Q1	1,735.8	1,517.9	217.9	14.4
Q2	1,900.0	1,645.9	254.1	15.4
Q3	1,929.8	1,568.2	361.6	23.1
Q4	2,420.1	1,794.2	625.9	34.9
Total	7,985.7	6,526.2	1459.5	22.4
Electricity				
Q1	1,047.5	962.8	84.7	8.8
Q2	1,246.2	1219.2	27.0	2.2
Q3	904.3	948.8	-44.5	-4.7
Q4	1,618.9	1387.1	231.8	16.7
Total	4,816.9	4517.9	299.0	6.6
Telephone/mobiles				
Q1	1,022.0	632.8	389.2	61.5
Q2	1,087.7	813.8	273.9	33.7
Q3	1,410.3	835.4	574.9	68.8
Q4	1,498.7	1475.2	23.5	1.6
Total	5,018.7	3757.2	1261.5	33.6
a. Sub-Total (Six Major Items)	89,063.1	75572.5	13490.6	17.9
Percentage Share in Total WHT	80.8	82.3		
b. Other WHT	21,125.3	16209.5	4915.8	30.3
c. Total WHT	110,188.4	91782.0	18406.4	20.1
Percentage Share in Gross Income Tax	54.7	51.5		

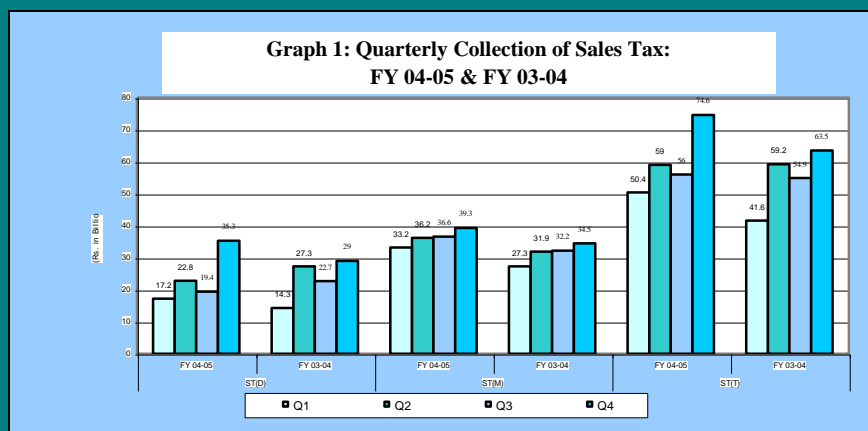
It is relevant to add that apart from six major WHT contributors, a substantial growth has also been recorded in three additional WHT

heads. These are dividends where the growth has been about 69%, an indication of growing confidence of corporate sector, transport (26%), a reflection of increasing demand for imported vehicles also verified by other taxes, and Commissions (88%). As expected, the WHT collection from securities has gone down by around 21% due to declining bank rates at the time of deductions that have now started to rise again.

***Sales Tax:*** The General Sales Tax (GST) has been one of the major sources of federal revenue receipts. With the onset of the WTO regime and the consequent changes in customs duty rates, the reliance on GST has increased manifold. The value addition based assessment with the independence of self-assessment system, automated refund procedure, and risk-based audit have also contributed significantly to its widespread acceptability. This is evident from the fact that the share of GST has reached nearly 41% in the total federal tax collection during FY 04-05. The gross sales tax collection of Rs. 294.9 billion and net collection of Rs. 240 billion during July-June 2004-05 shows an increase of 8.7% and 9.5% over the corresponding period of PFY respectively. Despite zero-rating of ginned cotton, the refund payments have also increased by 5.2% during this period partly due to the increased volume of exports. The quarterly comparison indicates that the sales tax collection increased in the first quarter by 21% but dipped in the 2<sup>nd</sup> quarter by 0.2%. However, the growth momentum again picked up in 3<sup>rd</sup> quarter and increased by 2% and by 17.5% in the 4<sup>th</sup> quarter. The narrow base and heavy reliance of GST on limited

commodities is one of the reasons for these wide fluctuations in quarterly growth.

Of the two components of sales tax, the gross and net ‘domestic’ sales tax collection increased by 2.9% and 1.5% respectively during FY 04-05 over PFY. A number of factors have been responsible for this apparently low growth when compared to the overall surge in the industrial activity during the year. These include: abolishing of further tax @ 3% and higher tax @ 20%, zero-rating of ginned cotton, reduction of duty on capital machinery, higher input adjustments by taxpayers. On the other hand, ST collection at ‘import stage’ has increased by 15.3%, which is consistent with the international trade activities. In absolute terms, the net collection of sales tax at import stage has been Rs. 145.3 billion and the domestic component of sales tax contributed Rs 94.7 billion. As indicated, the overall growth in these components was 15.4% and 1.5%, respectively over FY 03-04. A comparison of quarterly collection of the two components is presented in Graph-1.



*Domestic Sales Tax Collection and Major Revenue Spinners:* For further insight, the growth of ST (D) has been analyzed in the following on the basis of major revenue contributors. Nearly 72% of (gross) collection has been generated by ten major revenue spinners during FY 04-05. Incidentally, this share has increased from 62% observed during the PFY. The quarterly data presented in Table 3.4 confirms that the growth in collection of ten major spinners was highest in the first quarter, however, the tempo of growth dropped from 34% in 1<sup>st</sup> quarter to 16.7% and 9% in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters, respectively. A rebound was, nonetheless, registered in the 4<sup>th</sup> quarter. This erratic behavior in growth has been analyzed in the following when the performance of individual commodities is discussed. A similar growth pattern has been observed when all commodities of ST are considered due to simple reason that the ten major spinners, as pointed out, carry larger weight.

**Table 3.4: Quarterly Comparison of Major Revenue Spinners of Sales Tax: FY 2003-04 & FY 2004-05**

(Rs. Million)

	FY:04-05	FY:03-04	Difference	
			Absolute	Percent
Ten Major Commodities				
Q1	22,738	16,951	5,787	34.1
Q2	26,092	22,354	3,738	16.7
Q3	24,974	22,906	2,068	9.0
Q4	33,196	26,553	6,643	25.0
Total	107,000	88,765	18,235	20.5
Share in Total (%)	71.5	61.6		
All Commodities				
Q1	33,019	27,330	5,689	20.8
Q2	35,996	39,103	-3,407	-7.9
Q3	34,437	37,220	-2,784	-7.5
Q4	46,145	40,461	5,684	14.0
Total	149,597	144,115	5,482	3.8



A detailed analysis of the ten major goods and services indicates that the collection from six commodities has recorded a positive growth over the corresponding period of PFY (Table 3.5). The highest growth in collection of 247% was from cotton yarn as a result of the abolishing of sales tax on ginned cotton. Previously, the input claim generated at the stage of ginned cotton was chargeable at cotton yarn stage. While introducing the budgetary measure of zero-rating of ginned cotton it was perceived that the adverse revenue impact of this change would be compensated by reduction in refund claims and higher collection at the second stage of textile chain (i.e., cotton yarn). The additional benefit of this move would be in the shape of improvement in the cash-flow situation of the stakeholders (farmers and manufacturers). While the measure had not been revenue neutral during the FY 04-05, as there has been an estimated revenue loss of Rs. 6.5 billion, nonetheless, the purpose of generating economic activity has been accomplished to a large extent.<sup>5</sup> It is expected that the objective of ‘revenue neutrality’ will also be accomplished within the 1<sup>st</sup> quarter of CFY with the completion of cotton-cycle.

The second highest growth in sales tax (domestic) gross collection was observed in services, especially the telecom services. Despite a reduction in connection charges from Rs. 2,000 to Rs. 1,000 the robust growth in collection from this source was possible due to such factors as: entry of new service providers, phenomenal increase

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<sup>5</sup> The bumper crop of cotton and the related activities have been instrumental in attaining 7.6% growth in agriculture and 8.4% growth of GDP.

in the number of connections and consequently activation charges, air time charges etc.

**Table 3.5: Quarterly Comparison of Sales Tax Domestic Collection by Major Commodity FY 04-05 & FY 03-04**

	FY 04-05	FY 03-04	Growth (%)		FY 04-05	FY 03-04	Growth (%)
<i>Services</i>				<i>Sugar</i>			
Q1	5,078	2,223	128.4	Q1	1,734	1,700	2.0
Q2	5,521	4,125	33.8	Q2	1,995	1,991	0.2
Q3	5,884	4,288	37.2	Q3	2,325	2,318	0.3
Q4	7,468	4,818	55.0	Q4	2,002	2,233	-10.3
Total	23,951	15,454	55.0	Total	8,056	8,242	-2.3
<i>POL Products</i>				<i>Cigarettes</i>			
Q1	5,677	4,841	17.3	Q1	1,076	1,080	-0.4
Q2	5,488	4,974	10.3	Q2	1,276	1,290	-1.1
Q3	5,099	5,373	-5.1	Q3	1,379	1,276	8.1
Q4	6,438	6,567	-2.0	Q4	2,210	1,720	28.5
Total	22,702	21,755	4.4	Total	5,941	5,366	10.7
<i>Electrical Energy</i>				<i>Cement</i>			
Q1	2,590	1,342	93.0	Q1	934	981	-4.8
Q2	4,467	4,227	5.7	Q2	878	1,063	-17.4
Q3	3,021	3,861	-21.8	Q3	704	1,053	-33.1
Q4	5,561	4,314	28.9	Q4	1,241	1,334	-7.0
Total	15,639	13,744	13.8	Total	3,757	4,431	-15.2
<i>Natural Gas</i>				<i>Iron &amp; Steel Products</i>			
Q1	2,636	2,265	16.4	Q1	844	534	58.1
Q2	2,788	2,448	13.9	Q2	969	790	22.7
Q3	2,465	2,443	0.9	Q3	741	1,018	-27.2
Q4	3,700	3,454	7.1	Q4	897	1,198	-25.1
Total	11,589	10,610	9.2	Total	3,451	3,540	-2.5
<i>Cotton Yarn</i>				<i>Fertilizers/Urea</i>			
Q1	1,241	1,043	19.0	Q1	929	943	-1.5
Q2	1,986	427	365.1	Q2	724	1,019	-28.9
Q3	2,601	382	580.9	Q3	756	894	-15.4
Q4	3,301	778	324.3	Q4	377	138	173.2
Total	9,129	2,630	247.1	Total	2,786	2,994	-6.9
<b>Major Ten Commodities</b>				<b>All Commodities</b>			
Q1	22,738	16,951	34.1	Q1	33,019	27,330	20.8
Q2	26,092	22,354	16.7	Q2	35,996	39,103	-7.9
Q3	24,974	22,907	9.0	Q3	34,437	37,221	-7.5
Q4	33,196	26,553	25.0	Q4	46,145	40,461	14.0
Total	107,000	88,765	20.5	Total	149,597	144,115	3.8

The 4.4% growth in ST (D) from POL products has been rather low in view of the substantial increase in the international price of oil. However, since GoP had frozen the supply price of oil during the 1<sup>st</sup> half of FY 04-05, this resulted into higher amount of input claims by

oil companies. According to CBR estimates, the revenue loss due to this policy measure had been around Rs. 5 billion. Another factor that adversely affected ST (D) collection was heavy carry forward claim by PSO in June 2004 on account of input. There was a recurring effect of this adjustment in subsequent tax collection, that otherwise went un-noticed.

The ST (D) collection from electrical energy although recorded a respectable overall growth of 13.8%, a mixed trend was witnessed during the four quarters. The remarkable growth of 93% during the 1<sup>st</sup> quarter was followed by a modest growth of 5.7% in the 2<sup>nd</sup> quarter. It turned negative in the 3<sup>rd</sup> quarter but recovered in the 4<sup>th</sup> quarter. Since WAPDA is the major contributor of revenue, it is easy to trace the variations in collection. Primarily the shortage in electricity generation experienced by WAPDA and reliance on IPP produced expensive electricity that in turn claimed higher input adjustment for higher cost of furnace oil resulted into a decline in net ST (D) receipts. A similar fluctuating pattern in quarterly collection has been observed in the case of natural gas. However, the reasons for variations are different. The Gas Companies had to rely on expensive sources due to disruptions in supply during the year. Moreover, these companies resorted to massive expansion in network and opted for galvanized pipes that increased the cost of inputs as compared to output.

Finally, within the commodities showing overall positive growth, the collection from cigarettes, after recording negative growth in

first two quarters, recovered gradually in the 3<sup>rd</sup> and 4<sup>th</sup> quarter. The overall growth in collection was 10.7% that is consistent with the growth in production. The reason for decline in collection during the first two quarters has been the abolition of further tax and lower than anticipated deposits by the cigarette distributors. This problem was resolved during the 2<sup>nd</sup> half of FY 04-05.

Among the commodities with negative growth, cement has been the front-runner. Despite a healthy growth in production and substantial improvement in capacity utilization, the decline in ST (D) is not easily explainable. The outcome is also inconsistent with growth in collection on account of central excise duties. While the negative growth is attributed to abolition of further tax and increased level of exports to neighboring countries, the explanation remains unconvincing in the light of the fact that taxable sales have also risen significantly. There is no doubt that certain plants are going through BMR activities, but input adjustment for plant machinery and equipment may not be a valid argument due to zero-rating of these items introduced during FY 04-05. The performance of the industry therefore requires an in-depth analysis based on investigative and collaborative research.

The collection from fertilizer also declined by 7%. The main reason of this shortfall is said to be the high prices of fertilizer, caused by increase in input prices i.e., natural gas. Similarly, the collection from sugar also declined by 2% mainly due to substantial decrease in production of sugarcane in the Sindh Province by 37%. On its

turn, the production of sugarcane declined for two basic reasons, i.e., shortage of water in the province during the peak season, and delayed and minimum payment of prices to the farmers by sugar mill owners. Finally, despite showing a strong growth in the first two quarters, the collection from iron and steel products declined in the subsequent two quarters thereby reducing the overall collection by 2.5% as compared to PFY. Once again, higher global prices of vital inputs like iron ore and coal were responsible for this decline.

***Customs Duties:*** The phenomenon of constant decline in customs duties in response to tariff rationalization and reduction has been reversed during recent years, especially during FY 04-05. The share of customs in overall revenue collection has started to increase mainly due to upsurge in international trade activities. Better compliance has also been due to the diverse nature of administrative reforms that have created business friendly environment and reduced the up-front cost of doing business. The CD collection has not only surpassed the beginning of the year collection target of Rs. 89.9 billion by 28.1%, it has also exceeded the revised target of Rs. 115 billion by 0.1%. The gross and net collection of customs duty increased by a healthy margin of 24.5% and 26.5%, respectively during FY 04-05 as compared to PFY. In absolute terms, the gross and net collection has been Rs.130.9 billion and Rs. 115.1 billion, respectively (Table 3.6). The payment of refund/rebate also increased by 11.9% as compared to last year. The quarterly data also exhibits that the healthy growth in revenue collection continued throughout the FY 2004-05. The collection growth remained within

the comfortable range of 24.3% and 28.7% during year, indicating consistency in trade related activities and revenue receipts.

**Table 3.6: Quarterly Comparison of Customs Duty Indicators:  
FY 2003-04 & FY 2004-05**

(Rs. Million)

	FY:04-05	FY:03-04	Growth		FY:04-05	FY:03-04	Growth
<b>Total Imports</b>				<b>Dutiable Imports</b>			
Q1	275,003	188,561	45.8	Q1	175,493	128,671	36.4
Q2	331,623	223,496	48.4	Q2	215,721	149,754	44.1
Q3	333,194	251,366	32.6	Q3	224,050	174,379	28.5
April	113,042	85,526	32.2	April	80,173	59,177	35.5
May	121,010	93,019	30.1	May	82,944	52,040	59.4
June	133,690	100,750	32.7	June	89,337	65,138	37.2
Q4	367,743	279,295	31.7	Q4	252,454	176,355	43.2
<b>Total</b>	<b>1,308,122</b>	<b>942,718</b>	<b>38.8</b>	<b>Total</b>	<b>863,188</b>	<b>629,159</b>	<b>37.2</b>
<b>Gross Customs Duty</b>				<b>Net Customs Duty</b>			
Q1	26,546	21,966	20.9	Q1	22,395	17,888	25.2
Q2	32,100	25,511	8.0	Q2	28,799	22,371	28.7
Q3	33,221	25,747	29.0	Q3	28,894	22,586	27.9
April	11,028	8,771	25.7	April	9,661	7,377	31.0
May	10,999	7,897	39.3	May	9,580	6,603	45.1
June	17,007	15,230	11.7	June	15,816	14,220	11.2
Q4	39,034	31,898	22.4	Q4	35,057	28,200	24.3
<b>Total</b>	<b>130,901</b>	<b>105,122</b>	<b>24.5</b>	<b>Total</b>	<b>115,145</b>	<b>91,045</b>	<b>26.5</b>

Performance of Major Revenue Spinners: A comparison of growth in customs collection from each of the top 15 major revenue spinners along with the respective customs indicators during FY 04-05 is presented in Table 3.7. It is encouraging to observe that in majority of the cases the improved performance is in response to policy initiatives to maintain the high growth path of the economy. Whereas the import of top 15 major revenue spinners (in terms of value) has increased by more than 50%, this increase has also resulted into 31% higher collection of customs duty notwithstanding

the continuous reduction in tariff rates. The maximum growth of above 70% was observed in import value of vehicles. The growth in customs duty was nearly 76%. In terms of value, the collection from this source alone has increased by Rs.10.3 billion as compared to last year. A slight improvement in the effective rate indicates an increase in imports of vehicles of higher slab.

The second major contributor to customs duty collection has been electrical machinery where it increased by more than 62% with additional collection of Rs. 3.3 billion during the year. Incidentally, the growth in dutiable imports of machinery was over 130% that indicates that duty reduction on machinery has not only induced more imports, this policy measure also generated additional revenues for the national exchequer. A similar phenomenon was also observed for mechanical machinery where the collection increased by 52.5% with additional collection of Rs. 3.9 billion as compared to last year's collection.<sup>6</sup> Within the same spirit, the performance of iron and steel industry has also been impressive in terms of revenue generation and imports. This also reflects that the demand for iron and steel products is on the rise.

Some of the other commodities where considerable growth has been observed are: POL products, Paper and Paperboard, edible oils, and chemical products. In the case of POL products the higher CD collection was mainly because of higher international prices of oil. Similarly, the double-digit growth in collection from paper and

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<sup>6</sup> It may be remembered that the duty on plant, machinery and equipment was reduced significantly during PFY to reduce cost of investment.

paperboard and chemical products was in response to higher domestic demand for these products.

**Table 3.7: Chapter-wise Growth in Major Revenue Spinners of Customs**

PCT Ch.	Tariff Description	2004-05 Growth (%)			Effective Rates (%) with Dutiable Imports	
		Import Value	Dutiable Imports	Customs Duties	04-05	03-04
87	Vehicles	70.5	69.0	75.6	36.4	35.1
15	Animal or vegetable fats	9.7	12.4	14.0	31.1	30.7
84	Mechanical Machinery	69.9	90.1	52.5	8.1	10.2
85	Electrical Machinery	117.5	134.4	62.1	9.5	13.7
27	POL Products	16.3	9.0	10.2	10.2	10.1
72	Iron & Steel	102.4	109.5	41.5	10.0	14.7
39	Plastics & Articles thereof	41.6	45.3	-2.1	11.9	17.7
29	Organic Chemicals	23.6	9.4	2.2	9.1	9.7
48	Paper & Paperboard	21.3	21.0	20.4	18.6	18.6
38	Misc. Chemical Products	27.5	32.2	18.3	10.5	11.7
9	Coffee, Tea, Mate and Spices	16.9	18.8	-31.3	10.8	18.6
40	Rubber products	33.5	24.6	5.4	11.7	13.9
32	Dyes, Paints etc.	18.7	17.0	-7.9	14.1	17.9
54	Man made filaments	16.6	10.6	20.5	17.5	16.0
73	Articles of Iron & Steel	33.0	74.1	38.8	14.5	18.2
	Sub-total	50.6	51.4	31.2	14.1	16.3
	Others	24.4	5.1	10.7	18.7	17.7
.	Grand total	38.8	37.2	24.5	15.2	16.7

**Central (Now Federal) Excise Duties (FED):** Contrary to past few years the collection on account of FED has increased by 16% during the CFY despite the fact that its base is continuously shrinking. The reason for this turn around has been the overwhelming performance of the large-scale manufacturing sector during 2004-05. In the process the share of FED in overall revenue collection increased slightly from 8.7% in FY 03-04 to 8.9% in FY 04-05. The collection from this source has been Rs. 52.9 billion in FY 04-05 as compared to Rs. 45.5 billion during PFY, showing an increase of 7.3 billion.



The quarterly comparison presented in Table 3.8 confirms that barring seasonal factors the major revenue spinners have generally maintained a healthy growth all through the four quarters.

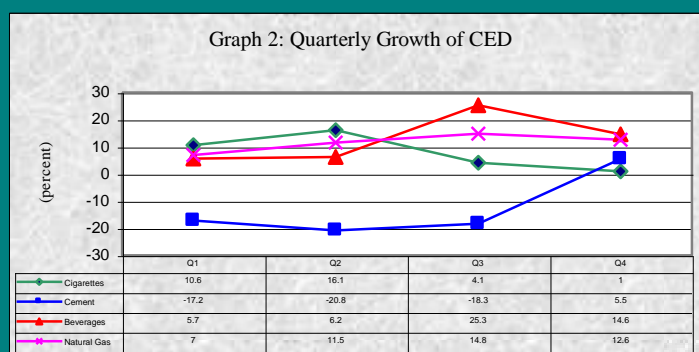
**Table 3.8: Quarterly Performance of FED Major Revenue Spinners**

	FY 04-05	FY 03-04	Difference			FY 04-05	FY 03-04	Difference	
			Absolute	(%)				Absolute	(%)
Cigarettes					Natural Gas				
Q1	3,949	2,974	975	32.8	Q1	1,339	1,162	177	15.2
Q2	5,119	4,552	567	12.5	Q2	1,325	1,158	167	14.4
Q3	5,623	4,604	1,019	22.1	Q3	1,436	1,319	117	8.9
Q4	7,242	6,307	935	14.8	Q4	1,559	1,890	-331	-17.5
Sub-total	21,933	18,437	3,496	19.0	Sub-total	5,659	5,529	130	2.4
Cement					Beverages & Beverages Concentrate				
Q1	2,643	2,169	474	21.9	Q1	1,129	957	172	18.0
Q2	2,553	2,158	395	18.3	Q2	965	615	350	56.9
Q3	2,710	2,408	302	12.5	Q3	744	861	-117	-13.6
Q4	3,155	2,664	491	18.4	Q4	1,697	1,590	107	6.7
Sub-total	11,061	9,399	1,662	17.7	Sub-total	4,535	4,023	512	12.7
Total (Major Commodities)					POL Products				
Q1	10,195	8,148	2,047	25.1	Q1	1,135	886	249	28.1
Q2	11,074	9,457	1,617	17.1	Q2	1,112	974	138	14.2
Q3	11,493	10,154	1,339	13.2	Q3	980	962	18	1.9
Q4	14,739	13,664	1,075	7.9	Q4	1,086	1,213	-127	-10.5
Sub-total	47,501	41,423	6,078	14.7	Sub-total	4,313	4,035	278	6.9
Share of Five Major in Gross Excise Collection						89.8	90.8		

### *Analysis of Major Commodities of CED*

The collection from the five major revenue spinners including cigarettes, cement, beverages & beverages concentrate, natural gas and POL products contributed about 90% of the FED collection during FY 04-05. The collection from cigarettes increased by 19% due to increased clearance and production by 19% and 10%, respectively. In particular, the growth from cigarettes remained

strong in all the four quarters i.e., the collection was higher by a margin of 12.5% to 32.8% than the last year. The collection from cement also exhibited a healthy growth of 17.7% during FY 04-05, which was mainly attributed to increased construction activities as a result of government initiative to promote construction sector. However, as indicated above, the strong performance of cement industry from FED standpoint has been inconsistent with GST collection from this source. The collection from Natural Gas after showing more than 14% growth in first two quarters, and 9% growth in the 3<sup>rd</sup> quarter, declined gradually by 17.5% in the 4<sup>th</sup> quarters thus leaving the overall growth at 2.4% only. The FED receipts from POL products increased by 6.8% during FY 04-05 as compared with PFY. However, the collection this source was similar to that of Natural Gas. Finally, the collection from beverages and beverages concentrate showed a mix trend during the four quarters. Varying between 56.9% and -13.6% growth in collection, its end of the year growth was 12.7%. The wide variations were essentially due to seasonal factors. The growth trend in collection of four major items is presented in (Graph 2).



## **Budgetary Measures of FY 2005-06: A Brief Review**

Some of the specific fiscal tax and facilitation measures, and initiatives introduced at the time of Budget 2004-05 are as follows:

***Customs Duties:*** The main thrust of measures related to customs has been to promote capital formation through reduction in up-front cost of doing business. This, in turn, required rationalization and reduction in tariff rates, bringing more commodities to lower tariff slabs, and improving cascading. The important relief and revenue measures are as follows:

- a) Textile Sector: In order to boost the textile sector and to discourage rampant smuggling of fabrics, beside under invoicing & mis-declaration, the rate of customs duty of 15% has been rationalized and following relief measures have been allowed to the textile sector.
  - Decrease in CD rates on synthetic, woolen and cotton products
  - The CD rates: 0% for raw material of fiber, 3% on chips, 6.5% on fibers, 7% on yarns, and 14% on fabrics of man-made yarns, blended yarns.
  - On all these items, a uniform rate of 1% of income tax applicable besides zeros rating of sales tax.
- b) Exports related Measures: Exports are the major source of foreign exchange earning of the economy, which need immediate attention. Therefore in budget 2005-06, the following relief measures have been undertaken.
  - Improvement in Duty and Tax Remission for Export (DTRE) Scheme

- Continuation of Temporary import Scheme for Exports
  - Reduction in Duty Draw Backs due to zero-rating of major inputs used in textile, leather, surgical and sports goods
  - Exemption from payment of CD and other taxes on imports for Infrastructure projects at Gwadar.
- c) Measures Related to the Agriculture Sector: Agriculture is the backbone of the economy beside a sole source of providing food and raw material to the country this sector is the base for industrialization and source of foreign exchange. To achieve sustainability in the agricultural production, the following relief measures have been initiated for this sector.
- Exemption of Duty on Urea Fertilizer from its present rate of 5%;
  - Reduction of CD on the import of Agri - Tractors in CBU Condition from 20% to 15% ad val. having an engine capacity 35HP but not exceeding 100HP, and other 10% CD.
  - Exemption of CD on import of ginning machinery
  - Exemption of CD on import of agriculture equipment
  - Decrease in CD on import of items relating to agriculture sector
  - Reduction of CD on vitamins of poultry industry
  - Decrease in CD on 319 edible items
- d) Treatment of Primary Raw Materials: In order to encourage industrialization in the country, necessary relief/ concessions are essentially required on the import of primary raw material. Therefore realizing the growing need of industrialization of textile and pharmaceutical industries and other industries, the

reduction in customs duty has been announced in the budget 2005-06 for following commodities:

- Primary Raw Materials (12 items)
  - Organic and inorganic chemicals (416 items)
  - Dyes and Chemicals (96 items)
  - Plastic Raw Materials (56 items)
  - Hepatitis-B Vaccine
  - Wood
- e) Treatment of Other Industries: The customs duty is also reduced on:
- Raw Materials for Confectionary Industry
  - Essential Oils, Cosmetics/ Toilet Preparations
  - Inputs of Soap and Detergent Industry
  - Photographic and Cinematographic Goods
  - Raw materials, components and sub-components of washing machines
  - Exemption of CD on import of picture tube for assembly/ manufacture of TV sets
  - Reduction of CD on import of
  - Components and sub-components of circuit breakers
  - Parts and components of energy saving lamps
  - Raw materials and components of composite doors and windows
- f) Exemption of CD on import of
- CKD kits for assembly of computer monitors
  - Compressors and evaporators for air conditioners, refrigerators, and deep freezers
  - Petroleum additives
- g) Duty reduction on import of Gold and Silver

- h) Reduction of CD on import of plant, machinery, parts and equipments – 5%
- i) Exemption of CD on import of machinery, equipment, and parts used by Civil Aviation Industry
- j) Concessions for all items/equipments used in the Hotel and Tourism Industry – 5%.
- k) Vehicles: In order to provide relief to the consumers and fair competition to the local assemblers, the following three duty slabs has been introduced in the budget 2005-06.
  - CBU Cars up to 1500 CC: @5 0%
  - CBU Cars from 1501 CC to 1800 CC: @ 65%
  - CBU Cars above 1800 CC: @ 75%
- ◆ Duty and Taxes in US\$ (or equivalent amount in Pak Rupees) for Old and Used Automotive Vehicles to the range between US\$ 4000 and US\$ 21,000

***Sales Tax and Federal Excise:*** The relief measures related to sales tax and excise duty are:

- Zero-rating of the entire chain of Export oriented Industries.
- Entire chain of textile, leather, carpets, sports and surgical goods, including their inputs made zero-rated. Hence, no export related refunds.
- Measure will improve cash flow problems of exporters, which in turn will increase their productivity and competitiveness in the world market without any cost to the exchequer.
- Zero-rating of parts of capital goods
- Onetime waiver of Additional Tax and Penalty on Sales Tax Arrears

- Exemption of Import and Supply of CNG/ EURO-2 Buses, and CKD Kits for CNG/ EURO-2
- Activation Charges for Cellular Phones to be reduced to Rs. 500.
- Exemption on Medical/Orthopedic Equipment
- Withdrawal of FED on Soap & Detergent

The revenue measure related to sales tax and excise duties are:

- Rationalization of FED on payphone/ prepaid calling cards and wireless local loop (WLL) services;
- Readjustment of Excise Tariff on Cigarette Industry due to increase in retail price
- Levying single stage sales tax @ 3% on retail sale of five export oriented industries. The 3% will be inclusive of 1% of income tax.
- Rationalization of the system of levying sales tax on the retail price on certain items.

Simplification of Tax Laws & Procedures

- Replacing the existing EXCISE ACT and RULES of 1944 with Federal Excise Legislation

***Direct Taxes:*** The specific measures related to direct taxes are as follows.

- Personal Tax Rates: The rates of salaried taxpayers rationalized between 3.5% and 30%
- Exemption from filing of income tax return by persons having only salary income
- Taxation of Small Companies: New small companies having paid up capital plus undistributed reserves not exceeding 25 million and turnover of less than Rs. 200 million shall have a reduced corporate rate of 20%.

- Small companies were taken out of definition of prescribed persons u/s 153(a)
- Corporate tax rates have reduced by 3% and 2% for banking and private companies
- Incentive for Enlistment: Any company listed with effect from 1<sup>st</sup> July 2005 shall be entitled to a further tax reduction @ 1%.
- Group Relief: Service sector is allowed to benefit from this facility.
- Amalgamation: After the experience of banking and insurance companies, amalgamation of industrial undertaking is also allowed as well.

#### Relief Measures

- Capital Gains from sale of shares by Insurance Companies exempted
- The limit of tax rebate of Rs. 300,000/- to senior citizens enhanced to Rs. 400,000/-
- Limit for Investment in new shares enhanced to Rs. 150,000.
- Exemption on perks carrying zero marginal cost to the employers
- Enhancement of tax rebate for Teachers and Researchers from 50% to 75%
- Limit on investment in Voluntary Pension Scheme is enhanced to Rs. 500,000 for tax rebate

#### Tax Measures

- The five export oriented industries have been zero-rated for sales tax purposes shall pay enhanced WHT @ 0.25%.
- WHT @ 0.1% for Cash Withdrawal exceeding Rs.25000/- per transaction (adjustable)
- Rationalization of WHT on execution of Contracts (6%)
- Withdrawal of PTR option to Manufacturers cum suppliers



## Revenue Projections for FY 05-06

Anticipating that the economy will maintain the high growth trajectory, the budgetary target for FY 05-06 has been set at Rs. 690 billion, showing an increase of 16.7% over the realized collection of Rs. 591.1 billion of FY 04-05 (Table 3.9). The projections for FY 05-06 are based on the baseline collection for FY 04-05, assumed high growth for various components of GDP, the elasticity/buoyancy estimates, and the expected impact of budgetary and relief measures. Given that the outturn of individual taxes and growth trajectories are materialized, the CBR projections anticipate that the share of direct taxes in total CBR collection will be around 31% and within indirect taxes the shares of sales tax, excise, and CD will be 58.1%, 12.5%, and 29.4%, respectively.

**Table 3.9: A Comparison of Baseline Collection and Projections**

	Provisional Collection FY 04-05	Projections FY 05-06	Growth (%)
Direct Taxes	183.1	214.0	16.9
Sales Tax	240.0	276.5	15.2
Customs Duties	115.1	140.0	21.6
Federal Excise	52.9	59.5	12.5
All Taxes	591.1	690.0	16.7

*Note: Values in Billion Rupees.*

## **Chapter 4**

### **Achievement of Additional Goals/Targets during FY 2004-05**

Success of an Institution is dependent on the appropriate strategy adopted by the management to accomplish the preferred objectives. In today's competitive world any organization cannot flourish without formulating proper planning and policy to reach the target. CBR has followed the same path in the past by focusing on setting a revenue target for it self and reaching that target through a planned strategy. However, this approach has been reshaped and the scope of revenue target has been enlarged to other important quarters of the organization. Thus for the first time apart from setting a revenue target, CBR has fixed goals/ targets for other specific areas of the organization, like broadening of tax base, liquidation of refunds, dispute resolutions and tax reforms. Quantitative quarterly achievements of the goals/targets are given as Table 4.1. A brief description of these achievements is given below:

#### **Broadening of Tax Base.**

Pakistan's tax structure has been distinguished by a narrow base, over dependence on import related taxes, high tax rate on the one hand and tax concessions and exemptions on the other and weak tax administration, The combined effects of these structural weaknesses resulted in low and stagnant tax to GDP ratio, which severely hampered resource mobilization efforts in the past. Realizing these weaknesses a concerted reforms efforts was launched. Broadening of tax base was intended to ensure the fair distribution of the tax

burden among various sectors of the economy. Sales tax and income tax are the future taxes for which broadening of tax base measures have been initiated.

**Sales Tax:** In order to broaden the tax base, a number of steps have been taken such as allowing single exemption limit of Rs. 5 million, reduction in compliance cost, introduction of simplified schemes for small taxpayers and expanding scope of tax, i.e.; increase the number of services liable, similarly, legislation to allow presumptive taxation together with improving registration procedures to ensure a more compliant response for new business and develop an 'outreach' program in collaboration with trade associations to educate businessmen about their tax responsibility. With the help of these measures the registered persons has increased from 101,851 in 2003-04 to 115,702 in 2004-05, with a growth of around 14%.

**Income Tax:** In order to broaden the income tax base and encourage self-assessment, a number of reforms measures have been initiated in the income tax structure. Promulgation of the income tax ordinance 2001 was the first step of the reform process, followed by the introduction of a self-assessment scheme (USAS) for all categories of taxpayers, without any conditional ties has been a major breakthrough. Under this scheme all the taxpayers automatically qualify for self-assessment. Similarly model large and medium taxpayers units have also been established in major cities of the country with the objective to facilitate taxpayers. These measures have yielded positive results. The number of NTN holders that were 2.11 million in 2003-04 has increased to 2.28 million in

2004-05. On the other hand the return filers have also increased from 1 million to 1.23 million in this period.

### **Dispute Resolution**

Another marked achievement of the Government has been the disposal of pending appeals related to both direct and indirect taxes. The Prime Minister had assigned the target of 10% reduction in appeals and adjudication cases in each quarter. At the beginning of the year there was an opening balance of 46,537 of appeals both Direct & Indirect Taxes. By the end of the June, 2005, total disposal has been 54156 cases inclusive fresh cases. This extra-ordinary achievement has provided great relief to the taxpayers. This achievement had not been there without the active persuasion of the present government and active response by the Legal wing of CBR.

### **Liquidation of Refunds**

There have been numerous complaints both from the taxpayers and tax collectors regarding disposal of refunds. The taxpayers were concerned about the delayed disposal of refunds by the tax authorities and the collector's plea used to be the fake claims of refunds by the taxpayers. This situation was one of the causes of adversarial relationship between the taxpayers and tax administrators. The STARR/ STREAMS project implementation under the tax administration reforms program in the sales tax structure has settled this issue to a greater extent. However, efforts have been made during 2004-05 to further minimize the refund disposal, for this purpose the five major sector of leather, textile, surgical, sports and carpets have been zero-rated. Thus 'no duty no

refund' policy has been implemented. The CBR has also set target for quick disposal of income tax and sales tax refund, which constitute 72% of the total refund issued during the year 2004-05. With vigilant persuasion, the pendency has been reduced to a considerable level. The sales tax has issued refunds amounting to Rs. 55 billion during FY 2004-05, higher by around 5% over last year. Similarly refund issues by income tax has been Rs. 29.1 billion during 2004-05, up by around 40% as compared to previous year.

### **Tax Policy & Reforms**

The Executive Committee of the National Economic Council (ECNEC), in its meeting held on 25<sup>th</sup> February 2005, approved the PC-I of the CBR Tax Administration Reform Program which is being executed under the World Bank's Program on Tax Reform. This project aims at the automation of the functional areas of tax collection, capacity building of CBR officers/officials through extensive training, technical assistance and up-gradation of physical infrastructure of CBR field formations. The program is spread over a period of five years with a financial outlay of Rs. 9500 million, out of which an amount of Rs. 2520.00 million has already been provided in the current year's PSDP. The project is of considerable significance in the overall reform agenda of the Government.

Some of the Projects completed during last year under this program are reported as under:

- After the success of LTU at Karachi, another LTU was established at Lahore in June 2005.

- Three MTUs at Rawalpindi, Peshawar, and Karachi have started working. Work on MTU Faisalabad and Quetta MTUs shall be completed by December 2005.

### ***Customs Administration Reform (CARE) (Project)***

Another development that has reduced considerable hassle of the taxpayers is the speedy clearance of goods at Karachi port under the CARE Project inaugurated by the Prime Minister in April 2005. This project has introduced computerized Processing of Customs documents (PACCS) under which the “Goods Declarations” can be filed by an importer “on line” without physical interaction with customs officials. The processing has reduced the clearance time of goods to few hours from more than ten days. This is a major step towards customer facilitation that has reduced the up-front the cost of doing business considerably. With the success of pilot project, it will be replicated at other customs stations as well in near future.

This new system has revolutionized the working of Pakistan customs, which is now at par if not better than the best in the world. The containerized cargos are the major beneficiaries of this scheme.

### ***Installation of Scanners***

In view of the sensitivity of trade transactions after the 9-11 event, Pakistan has also taken serious steps towards safety and security of traded material. Under the directions of present government scanners have been installed at different entry and exit points in the country for scanning the containerized cargo. The introduction of this technology in examination of goods has made the system more effective & vigilant, resulting in customer facilitation and safety.

**Table 4.1: Goals/Targets Monitoring and Evaluation Report for Revenue Division  
Financial Year 2004-05**

S.No.	Goals/Targets	Q1	Q2	Q3	Q4	Comp. Status	Review
<b>G: 1</b>	<b>Revenue collection of Rs.580 billion</b>						
T: 1	Collection of Rs.110 billion	Collected Rs. 125.7 billion				Yes	The target has been exceeded by Rs.15.7 billion
T: 2	Additional Rs.140.1 billion		Collected Rs. 261.5 billion			Yes	Cumulative target has been exceeded by Rs.11.4 billion
T: 3	Additional Rs.145.8 billion			Collected Up to 3rd quarter Rs.401.3 billion			Target up to March = Rs.396.0 billion Collection up to March = Rs.401.3 (Target Achieved)
T: 4	Additional Rs.184.1 billion to achieve target of Rs.580 billion				Provisional collection up to June 2005 Rs.591.1 billion		The CBR has not only achieved start-of-the-year target of Rs.580 billion but has achieved the upwardly revised target of Rs.590 billion.
<b>G: 2</b>	<b>Broadening of Taxpayers Base: Increase income tax return filers by 20% (Filers End June 2004: 1 million)</b>						
T: 1	Increase in income tax return filers by 5%	1.1 million filers					Required 1.05m; Actual Filers 1.1m Target Achieved
T: 2	Ensure increase in income tax return filers by another 5%		1.14 million filers at the end of 2nd quarter				Required 1.1m; Actual Filers 1.14m Target Achieved
T: 3	Ensure increase in income tax return filers by another 5%			1.17 million filers at the end of 3rd quarter			Required 1.15m; Actual Filers 1.17m Target Achieved
T: 4	Increase in income tax return filers by 5% to achieve cumulative increase of 20%				1.23 million filers at the end of 4 <sup>th</sup> quarter		Required 1.20m Actual Filers 1.23m Target Achieved

.....Continued

**Table 4.1 (Continued)**

S.No.	Goals/Targets	Q1	Q2	Q3	Q4	Comp. Status	Review
<b>G: 3</b>	<b>Broadening of Taxpayers Base: Increase sales tax return filers by 15% (Base:88 Thousand)</b>						
T: 1	Increase in sales tax return filers by 3%	new registration issued to 3176				Yes	Required = 2640; issued = 3176 Target Achieved
T: 2	Ensure increase in income tax return filers by another 4%		new registration issued to 3836			Yes	Required = 3520; issued = 3860 Cumulative new registration of 7012 issued - Target Achieved
T: 3	Ensure increase in income tax return filers by another 4%			new registration issued to 2728			Required =3520; issued = 2728 Cumulative new registration of 9740 issued - Target Achieved
T: 4	Increase in income tax return filers by 4% to achieve cumulative increase of 15%				new registration issued at the end of FY 2004-05 = 13851		Required = 3520; issued = 4087 Target Achieved
<b>G: 4</b>	<b>Liquidation of Refunds: Reduce stocks of available refunds of income tax. Opening Balance (Rs.9.2 billion)</b>						*Non-Bank Pendency only.
T: 1	Reduce stock of available refunds by 10%	Refund issued Rs.3.273 billion				Yes	Target Achieved
T: 2	Reduce stock of available refunds by additional 10%		Refund issued Rs.4.625 billion			Yes	Total of Rs.7.898 billion refund issued excluding new addition
T: 3	Reduce stock of available refunds by additional 10%			Refund issued Rs.6.863 billion			Total of Rs. 14.761 billion refund issued excluding new addition
T: 4	Reduce stock of available refunds by additional 10%				Refund issued during Q4: Rs.10.639 billion		Total of Rs.25.4 billion refund have been issued. Target Achieved
<b>G: 5</b>	<b>Liquidation of Refunds: Reduce stocks of available refunds of sales tax. Opening Balance (Rs.9.2 billion)</b>						
T: 1	Reduce stock of available refunds by 10%	Closing Balance Rs.7.2 billion				Yes	Target Achieved.
T: 2	Reduce stock of available refunds by additional 10%		Closing Balance Rs.4.2 billion			Yes	Target Achieved.
T: 3	Reduce stock of available refunds by additional 10%			Closing Balance Rs.4.3 billion			Cumulative Target Achieved
T: 4	Reduce stock of available refunds by additional 10%				Closing Balance Rs.5.35 billion		Required closing balance at the end of the year of Rs.5.52 billion Actual closing balance Rs.5.35 billion. The target has been achieved.

.....Continued



**Table 4.1 (Continued)**

S.No.	Goals/Targets	Q1	Q2	Q3	Q4	Comp. Status	Review
<b>G: 6</b>	<b>Improvement of efficiency of organization and promote taxpayer facilitation: Establishment of model tax units.</b>						
T: 1	Establish MTU at Rawalpindi & Peshawar	To be completed in the Q1.				Yes	Goal Achieved
T: 2	Establish MTU at Karachi and Lahore			To be completed in the Q3		Yes	Goal Achieved
T: 3	Establish MTU at Quetta			To be completed in the Q3			Goal Achieved
<b>G: 7</b>	<b>Efficient and effective sales tax refund mechanism: Project STARR/STREAMS.</b>						
T: 1	Pilot project for electronic verification of refund claims and centralized payment						On Target
T: 2	Full operationalization of the electronic verification of refund claims and centralized payment						On Target
<b>G: 8</b>	<b>Trade facilitation by reducing the time of customs clearance to 24 hours: PROJECT CARE</b>						
T: 1	Establishment of the pilot project at KCIT.				Pilot project formally launched in April 2005		On Target
<b>G: 9</b>	<b>Effective dispute resolution (all taxes): Reduce the pending appeals (at all stages) (Baseline: Number of cases as of July 1, 2004: 46,537</b>						*Excluding Supreme Court, High Court & Appellate Tribunal cases.
T: 1	Reduce the pending appeals (at all stages) by 10%	5261 cases disposed of				Yes	Target Achieved
T: 2	Reduce the pending appeals (at all stages) by additional 10%		15840 cases disposed of			Yes	Total 21101 cases disposed of at the end of 2nd quarter.
T: 3	Reduce the pending appeals (at all stages) by additional 10%			14856 cases disposed of			Total 35,957 cases disposed of at the end of 3rd quarter.
T: 4	Reduce the pending appeals (at all stages) by additional 10%				18199 cases disposed of		Against the target of 46537 for FY 2004-05, the achievement has been 54156. Thus the target has been exceeded by 7619 cases.

## **Chapter 5**

### **Tax Administration Reform Program (TARP): An Update\***

The fundamental strategy drive of the CBR is to generate revenues required for financing the Government expenditure on development and social services sectors. This objective is being achieved through the introduction of wide ranging reforms in the tax machinery like simplification of laws and procedures, greater emphasis on taxpayer education and facilitation, and re-engineering of processes to reduce interface between taxpayers and tax collectors. The reform process also aspires at reducing a variety of exemptions and steadily reducing the corporate income tax rates. CBR is devoted not to bring in any new exemptions or to extend the coverage or the period of time bound exemptions, which earlier on-introduced distortions in the taxation structure.

In its reform program, CBR has taken a number of steps. These, among others, comprise of introduction of universal self-assessment system for income tax, development of Custom Administrative Reform (CARE), intensification of GST management, streamlining of refund system of sales tax, introduction of the DTRE Scheme, and establishment of Large Taxpayers Units (LTUs) and Medium Taxpayers Units (MTUs) in the country. Similarly, CBR has been successful in developing a basic model of human resource information system (HRIS) for its internal use. The system will

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\* This up-date has been provided by the Tax Policy and Reform Wing.

provide a major breakthrough towards establishment of a paperless e. governance office in the public sector.

### **Major Projects Recently Completed**

#### *i) Large Taxpayers Unit (LTU), Karachi*

As part of the reform project, CBR w.e.f. July 01, 2002 has established a pilot Large Taxpayers Unit (LTU) at Karachi. The Unit is based on functional organization encompassing all the three domestic taxes i.e., sales tax, federal excise duty and income tax. It has an open-floor layout with a large reception and facilitation area for the taxpayers. The Unit caters to the needs of 600 Karachi-based large taxpayers.

#### *ii) Establishment of LTU at Lahore*

The successful experience of establishment of LTU at Karachi and the positive feedback from the community of large taxpayers convinced CBR to move ahead with the establishment of another LTU to facilitate the Lahore-based large taxpayers. LTU at Lahore has started functioning from June 2005.

#### *iii) Medium Taxpayers Unit (MTU), Lahore*

A Model Medium Taxpayers started working in Lahore w.e.f. October 01, 2002. The Unit was set up to test the re-engineered income tax system based on functional organization structure. The total taxpayer population of this Unit was initially around 10,000. The tax base has now been increased to approximately 1,20,000 taxpayers.

*iv) Establishment of Three Additional MTUs*

Acknowledging the success of MTU Lahore, three more MTUs at Rawalpindi, Peshawar, and Karachi have also started working. MTUs at Quetta and Faisalabad will also become operational by December 2005. These five MTUs will be part of future Regional Tax Offices (RTOs). Seven more RTOs are planned for 2005-06 at Hyderabad, Sukkur, Multan, Lahore Gujranwala, Sialkot, and Abbottabad.

These MTUs have successfully demonstrated the new income tax functional organizational structure for integrated unit catering to the specific needs of medium and small taxpayers. Moreover, they have also given a fair idea of the level of automation and communication infrastructure required for launching of RTOs.

In the reform project of CBR, these MTUs have a pivotal role for determining the future organizational structure of income tax. The present system of collection of income tax is circle based. In this system the circle staff headed by Income Tax Officer performs all functions of collection, assessment, appeal, recovery enforcement, survey etc. The re-engineered system based on functional organization is expected to overcome the deficiencies of the existing system.

*v) Model Sales Tax Office, Karachi*

Although Sales Tax operations in Karachi were organized along functional lines, but the offices were located at diverse places. This spatial location had disrupted the required level

of coordination and information sharing in a functional setup like sales tax. Therefore, the existing offices were consolidated into a single unit. This has also supported the intended efficiencies to be gained from introduction of latest computing and communication technologies.

*vi) Universal Self-Assessment System*

The obsolete income tax system has been abandoned and replaced by Universal Self-Assessment System (USAS) from July 01,2002. In the USAS all taxpayers automatically qualify for self-assessment. The returns received are treated as final. However, a certain percentage of cases are selected for audit based on risk assessment for various classes of taxpayers.

While the USAS has helped to minimize direct contact between tax officers and taxpayers, it has also enhanced voluntary compliance. The system has been designed to apply stiff penalties for willful evasion.

**Major On-going Projects**

*i) Taxpayers Facilitation Centers*

With the move towards universal self-assessment, introduction of large-scale changes in tax laws and procedures, introduction of new forms and record keeping requirements and functional reorganization of income tax, the need for a dedicated taxpayers facilitation and education setup has been realized. This will usher in a new era of

productive cooperation between tax administration and taxpayers for timely addressal of their queries. The function will be staffed by personnel bearing friendly disposition.

Currently CBR has set up Taxpayers Facilitation Centers (TFCs) as a part of LTUs, and MTUs at various locations across the country to address queries/routine question of the taxpayers.

#### *ii) Customs Administration Reform (CARE)*

To overcome inefficiency of the existing system, CBR has developed a Customs Administration Reform Program (CARE). The Project was launched by the Prime Minister of Pakistan on 18<sup>th</sup> April 2005. The program shall be rolled out to 10 Customs stations in the next 18 months.

The CARE pilot project is covered under the capacity building project for the federal government being financed by the World Bank. After extensive deliberations at the highest level in CBR and with the Consultants and the World Bank, it was decided to customize an off-the-shelf comprehensive customs solution, which covers the entire end-to-end customs clearance procedures.

#### *Expected Benefits*

- Trade facilitation, which will reduce the cost of doing business in Pakistan.

- Self-assessment with risk analysis, which will reduce interaction of customer with tax officials.
- Standardization of customs procedures as per best international practices.

### *iii) Sales Tax Risk Evaluation and Management System (STREAMS)*

The enhanced version of STARR called STREAMS has been designed to undertake Business Process Re-engineering to support the new automated environment for refunds processing. This system maintains profiles of the taxpayers based on multi tax data of the regular refund claimants and their suppliers. It has introduced for the first time a comprehensive risk analysis and risk management module. Accordingly, the refund claim is categorized either into a “green channel”(refund are instantly issued), “yellow channel” (resulting in further scrutiny) or into a “red channel” (suspending the payment and initiation of audit).

### *iv) Dispute Resolution Complex, Karachi*

This involves co-location of all indirect taxes adjudication offices in single premises where the taxpayers and their lawyers are facilitated through improved facilities. The tax collectors will also benefit from the consolidation of legal cases record and prompt access to them. This arrangement will facilitate the independence of adjudication offices from the executive collectorates, there by allowing them to exercise their mind in a judicious and fair manner.

v) *Human Resource Related Training Program*

The defined vision and mission of CBR envisages skilled and properly trained personnel to perform their work on professional lines. To support the introduction of modern management techniques and organization improvement practices in various model tax offices, a comprehensive sequence of training modules have been outlined for various categories of officers/officials. MOUs have been signed with reputed educational/professional institutions like LUMS, IBA, and NUST etc. to impart quality training. The strategy has been endorsed by the World Bank. At present a group of 58 officers is undergoing training at IBA Karachi to attain Masters degree in Tax Management. The HRM Wing at CBR is in process of contacting with other institutions for the training of in-service officers.



## **Chapter 6**

### **Human Resources Management\***

The CBR reform strategy envisaged a fully functional structure at the headquarters at the inception of the change process. The concept was to disaggregate the core revenue related tasks of the Board from the support / functional activities in line with the modern management structures with a view to enable the CBR line management to focus on the real objectives of optimizing revenue mobilization. Under the scheme, therefore, the CBR management inducted five functional members from private sector for bringing in a professional approach and input to the Audit, Taxpayer Facilitation, Fiscal Research, Information Management and Human Resource Management (HRM) functions. Accordingly the Human Resource Management wing started functioning at CBR since April 2002 from a zero base.

Setting up a fully functional HRM function has been a very interesting and difficult professional challenge. The strong commitment of the government and unequivocal support of the CBR management, despite all conceivable internal and external odds, it has been possible to make successful inroads during the last three years. Some of the highlights of HRM successes include the following initiatives:

- 1) With little awareness of the concept and the role of modern HR management within the CBR hierarchy and its officers,

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\* This Note has been contributed by the HRM Wing.

success was achieved in setting up a fully functional proper HRM Wing within the first year. Relying wholly on the internal resources i.e., identifying officers from within CBR service groups, the HRM function is now staffed with an excellent team of officers, without resorting to any external recruitment or support. The team has been selected through a rigorous induction process and trained on modern HR concepts and practices with support from top institutions within Pakistan and abroad. It is satisfying to note that the HRM function is now institutionalized at CBR with highly motivated officers who have already established their credentials by the quality of their professional output.

- 2) With the active involvement of all the officers of the department within the CBR and the field formations, Change Management Workshops were conducted by the CBR at all locations in the country. Based on the stakeholders' analysis, the teams of workshop participants identified the gaps between stakeholders' expectations and CBR delivery at the time of starting the reform process. Thus a consensus was achieved on the criticality of the need for tax reforms, CBR vision, mission, and values followed by a broad based strategy for the reform was evolved. This exercise was again repeated with a new Change Management Workshops II. The module for this workshop was designed by the HRM with focus on intensive interaction and perception evaluation of the field officers on the various reform initiatives implemented so far along with identifying their expectations of the future challenges and proposed solutions for effective management of the process going forward. The roll over of the Change

Management Workshop II has been achieved at all major locations with active partnership of the field leaders who have been trained as trainers to facilitate the program down the line to demonstrate a broad based involvement and commitment on the CBR reforms across all levels of employees. Some very valuable feedback and suggestions have been floated in these sessions, which have to be taken in account for further aligning the reform strategy for the future.

- 3) In active partnership with the field leaders (Income Tax Commissioners and the Collectors of Customs, Sales Tax and Federal Excise), the HRM team has successfully evolved and implemented several broad based HR Processes and Strategies. Some of the major processes are as under:
  - a) After a critical review and deliberation by the team of senior officers, departing from the standard practice for other federal services, the Recruitment Process for CBR officers has been modified significantly by introducing a one year (two semesters) segment of specialized training leading to Master in Tax Management in coordination with the Institute of Business Administration (IBA) Karachi. The first batch of 58 officers enrolled at the campus at Karachi since January 3, 2005 has already completed the first semester. After graduation, these officers will form an invaluable internal resource equipped with modern management skills and play significant role in the ongoing reform process.
  - b) An interim Compensation Strategy, providing a 100% special pay to the officers and staff of Large & Medium

Taxpayers Units, Model Customs Collectorate, Karachi and the functions actively involved in reforms e.g., Audit, IMS, HRM, Taxpayer facilitation and Fiscal Research units, has already been implemented. The scheme is designed to gradually extend to all units, which go through process reengineering and automation operating under a new staff structure with minimum support staff and hands on work approach. The future strategy is to replicate the LTU & MTU models gradually across the board to cover the entire organization of CBR. New units added under the scheme include all remaining line functions of CBR (HQ), Training Directorates and new Regional Tax Offices (RTOs) scheduled to be on line during 2005-06.

- c) A detailed mid to long term Staffing Plan has also been evolved with a broad based strategy for aligning the CBR staffing needs according to its actual required strength, levels and skills during and after the implementation of the reform process. The strategy will be considered at the appropriate time after the automation and process re-engineering objectives been achieved at the CBR.
- 4) In order to ensure a transparent internal recruitment process (Internal Job Posting System) has also been successfully implemented since the introduction of special pay positions in 2002. The process is now fully web based. Under the scheme special pay positions are opened to all eligible employees detailing the level of the open position, its location, skills, competencies and required number of vacancies. The selection is made through evaluating competencies, personal strengths/behavioral match for the specific positions by using the

modern Competency Based Selection approach by a cross functional team of senior officers. Over ninety senior field and CBR head quarter officers have been trained as interviewers by HRM across the country.

- 5) CBR takes great pride in pioneering the process of developing professional high quality Generic Job Descriptions. This exercise was wholly conducted internally by the officers of CBR and the HRM team. With a view use them as an effective tool for changing the mind set challenge, these JD's were evolved defining the new focus for each position in the organization shifting the job focus from 'revenue' only to a new paradigm encompassing 'revenue' with equal emphasis on 'taxpayer facilitation' and accomplishment of 'reform and HR goals'. The CBR JD's also highlight the purpose of the job, key results area, knowledge and skills needed and most importantly, the tasks with measurable performance standards for each position. Subsequently, the generic positions have been extended to all the employees. Today, all (over 24,000) employees individually have their specific JDs. The performance benchmark section has now been made integral attachment to the annual performance evaluation system, the ACRs. It is gratifying to note that looking into the high professional quality and structure of CBR Job Descriptions, the Establishment Division has directed all the Ministries, Departments and subordinate offices to use them as a role model for developing JDs in their respective organizations.
- 6) Taking into consideration the knowledge, skills and personal attributes required for various benchmark positions and an evaluation of the current strengths and weaknesses of CBR

employees, an extensive Training Needs Analysis (TNA) has been completed for all the critical positions for all tax groups. This analysis has been conducted by the HRM in active coordination and involvement of the field Collectors and Commissioners. The TNA is now being used for defining specific needs, designing the programs and to be used as a guideline for conducting the future Training programs.

- 7) In order to start addressing the integrity management issues at the CBR, as per the reform strategy, a simplified Code of Conduct has been developed by the HRM team, finalized in consultation with the field officers and fully rolled out at all locations covering each and every employee of the CBR. In order to make it easy to understand by employees at all levels, the booklet has been published in three languages i.e., English, Urdu and Sindhi.
- 8) New Performance Management System has been developed by HRM through extensive interaction and feedback from the taskforces at different major locations of the country. The task forces included senior/middle level officers of both Tax Groups. All the participants were briefed on the modern performance Management systems and the transitions already experienced during the change in both the public and private sector companies through presentations made by the senior executives of Institutions like SBP, PSO, NBP, and Shell Pakistan etc. The HRM team also visited the Pakistan Army GHQ, to have insight of their PMS for incorporating in to CBR PMS. The new PMS, which is under circulations with the top hierarchy of CBR for final review, is one of the critical steps towards bringing in the cultural change through a

management tool, which will provide CBR management the ability to distinguish between outstanding, good and poor performers and recognize and reward and compensate them accordingly. The PMS will help CBR in moving the organization towards a result oriented work culture.

- 9) Establishing an effective communication between the employees and the Board management had been one of the identified initiatives of the reforms strategy. As one of the initiatives of the overall comprehensive communication strategy, HRM has made an attempt to partially achieve the objective by rolling out regular staff newsletter. The newsletter called REVENUE NEWS is now a regular feature and is the basic vehicle of regular interaction with employees all over the country. To enhance its effectiveness across the junior levels, the newsletter has a section in Urdu language giving the highlights for easy comprehension by all. Growing interest of employees is being noticed now.
- 10) *Administrative and Financial Autonomy:* so far some partial autonomy have been allowed to the CBR. Chairman now can; reallocate funds from one establishment to other or from one head of account to other, sanction bonuses and rewards, approve special Allowance in (100% of salary) in consultation with Secretary Finance, create short term positions and make short term contract appointments of experts and technical people from the open market at market salaries.
- 11) Last but not the least, CBR HRM, purely using the indigenous resources, has been successful in developing a basic model of Human Resource Information System (HRIS) for its internal

use. The software has the capability to provide all critical information needed for decision-making in context of employees' transfers, postings, training and career planning. This has been possible as a result of massive exercise involving building of the database of over 24,000 employees across Pakistan. This exercise has been completed by the HRM team with great commitment, dedication and hard work during a period of over two years. The capability of the system will be significantly enhanced with help of international software consultants. For the purpose the Expression of Interest (EOI), already floated in the press, and Request for Proposal (RFP) totally prepared by the HRMS team is under evaluation by the experts and the internal stakeholders. The system will provide a major breakthrough toward establishment of a paperless e. governance office in the public sector.

### **Going Forward**

With the background of the challenging environment and the ground realities historically limiting the possibility of the success of CBR reforms, the CBR reforms accomplishments in the first three years especially in HRM initiatives are very encouraging. Addressing the most difficult challenge of changing the mindset has been addressed to some extent as the strong believe in continuation of status quo is visibly eroding now. The apprehensions about eventual turn around of the reform process are dying down giving a lot of hope and encouragement to the forces within the system that believe in change and look forward to add value to the process. It is also very



encouraging that there is a critical mass of such believers within the system. They include officers and employees at all levels that, in spite of the resistance and limitations, have openly committed themselves with the reform process and made substantial contributions.

The critical success factors going forward will include:

- a) continued visible commitment from the top including the government level as well as CBR Management e.g. Chairman and Members
- b) availability of required resources with adequate autonomy to operate
- c) support and encouragement of officers playing active role in the reform process with recognition and rewards for them
- d) providing greater financial and operational flexibility to the reform units
- e) Staying on track and reinforcing and replicating success stories with enhanced communication with all stakeholders.

The future of CBR reform looks very promising and Pakistan has all the potentials of emerging as a success story of institutional reforms in revenue in the developing countries.

## **Chapter 7**

### **Concluding Observations**

CBR has achieved its start of the year target for the third year running. The hallmark of this achievement is the performance of individual federal taxes that have surpassed their respective targets. Against all expectations, the underdog labeled as excise duties has performed exceptionally well. FY 04-05 had been a special year for Income and Corporate Taxes as well, as the system of self-assessment has started to take roots. Despite the change in advance tax regime the voluntary compliance has improved. It is encouraging to note that fundamental changes introduced in the Federal Budget 04-05 in the shape of rationalization of tariff structure, reduction of duty on plant, machinery and equipment etc. have encouraged capital formation leading to high GDP growth of 8.4%. Even though there was a loss of revenue on account of abolition of further tax and higher tax, but this correction was necessary to remove distortions in the system. Incidentally, the loss has been compensated by buoyant economy. Finally, backed by intensive international trade activities, the collection from customs duties also increased significantly.

However, notwithstanding the gains in absolute terms, the tax/GDP ratio has fallen to 9%, which is the lowest level recorded so far. More serious is the concern about the decline in the ratio of the two leading taxes, i.e., income and corporate taxes, and sales tax. While there are valid reasons to justify low level of tax/GDP ratio, it is rather difficult to rationalize the fall. This situation highlights the need for widening of tax base as well as turning the existing base to

an effective base. It is now well established through the analysis of income tax returns that the compliance level of the corporate sector is awfully low. Similarly, the collection of sales tax (domestic) was inconsistent with the overall growth in the economy. Realizing this precarious state of affairs, bold budgetary measures have been introduced at the time of Federal Budget 2005-06. The most significant among them is the zero-rating of the entire chains of five export-oriented industries. It is anticipated that this move will enable the authorities to effectively tackle the refund/ rebate problem.

Within the context of low tax/GDP ratio, the continuity of tax policy and administrative reforms cannot be over emphasized to ensure that the reshaping of the taxation system on modern lines is completed within the stipulated time. As a result, the efficiency gains are materialized sooner than later. The projected gain in the shape of increase in tax/GDP ratio by 0.2 percentage points each year is not small enough to be ignored. While the 'reformed' model units are performing better than their predecessors in terms of facilitation and service delivery, it is relevant to ask why their resource mobilization has not been as effective as originally perceived.

Regarding three other goals and targets, i.e., broadening of tax base, liquidation of refund pendency, and reducing the number of cases under litigation, a fair amount of progress has been achieved so far. Consequently, the revenue organization has been able to win the confidence of its various stakeholders, particularly the taxpayers. However, given the deep-rooted nature of the problem, consistent

and committed effort is required to further improve upon the situation. The quarterly monitoring and regular evaluation keeps the required pressure and the concentration on reforms remains focused. CBR is pleased to have achieved the assigned targets of fiscal year 2004-05. However, there is no complacency at this stage. We remain committed to perform well again and achieve the targets of fiscal year 2005-06.

## ***STATISTICAL APPENDIX***

### **Comparative Statements of Month-to-Month and Progressive Provisional Collection of Federal Taxes 2004-05**

**ALL TAXES**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	31,042	7,685	23,357	38,431	7,756	30,675	7,389	71	7,318	23.8%	0.9%	31.3%
AUGUST	M	36,115	5,987	30,128	41,415	7,227	34,188	5,300	1,240	4,060	14.7%	20.7%	13.5%
	P	67,157	13,672	53,485	79,846	14,983	64,863	12,689	1,311	11,378	18.9%	9.6%	21.3%
SEPTEMBER	M	45,814	5,237	40,577	68,460	7,614	60,846	22,646	2,377	20,269	49.4%	45.4%	50.0%
1st Quarter		112,971	18,909	94,062	148,306	22,597	125,709	35,335	3,688	31,647	31.3%	19.5%	33.6%
OCTOBER	M	47,856	5,868	41,988	48,025	7,103	40,922	169	1,235	-1,066	0.4%	21.0%	-2.5%
	P	160,827	24,777	136,050	196,331	29,700	166,631	35,504	4,923	30,581	22.1%	19.9%	22.5%
NOVEMBER	M	39,751	5,996	33,755	46,436	7,946	38,490	6,685	1,950	4,735	16.8%	32.5%	14.0%
	P	200,578	30,773	169,805	242,767	37,646	205,121	42,189	6,873	35,316	21.0%	22.3%	20.8%
DECEMBER	M	66,916	6,293	60,623	66,543	9,174	57,369	-373	2,881	-3,254	-0.6%	45.8%	-5.4%
2nd Quarter		154,523	18,157	136,366	161,004	24,223	136,781	6,481	6,066	415	4.2%	33.4%	0.3%
Up to 2nd Qtr		267,494	37,066	230,428	309,310	46,820	262,490	41,816	9,754	32,062	15.6%	26.3%	13.9%
JANUARY	M	52,041	8,295	43,746	50,424	9,172	41,252	-1,617	877	-2,494	-3.1%	10.6%	-5.7%
	P	319,535	45,361	274,174	359,734	55,992	303,742	40,199	10,631	29,568	12.6%	23.4%	10.8%
FEBRUARY	M	46,660	7,397	39,263	45,529	8,288	37,241	-1,131	891	-2,022	-2.4%	12.0%	-5.1%
	P	366,195	52,758	313,437	405,263	64,280	340,983	39,068	11,522	27,546	10.7%	21.8%	8.8%
MARCH	M	48,658	8,700	39,958	71,572	11,284	60,288	22,914	2,584	20,330	47.1%	29.7%	50.9%
3rd Quarter		147,359	24,392	122,967	167,525	28,744	138,781	20,166	4,352	15,814	13.7%	17.8%	12.9%
Up to 3rd Qtr		414,853	61,458	353,395	476,835	75,564	401,271	61,982	14,106	47,876	14.9%	23.0%	13.5%
APRIL	M	51,682	7,828	43,854	57,388	7,547	49,841	5,706	-281	5,987	11.0%	-3.6%	13.7%
	P	466,535	69,286	397,249	534,223	83,111	451,112	67,688	13,825	53,863	14.5%	20.0%	13.6%
MAY	M	53,348	10,066	43,282	58,771	9,339	49,432	5,423	-727	6,150	10.2%	-7.2%	14.2%
	P	519,883	79,352	440,531	592,994	92,450	500,544	73,111	13,098	60,013	14.1%	16.5%	13.6%
JUNE	M	88,072	7,760	80,312	97,938	7,397	90,541	9,866	-363	10,229	11.2%	-4.7%	12.7%
4th Quarter		193,102	25,654	167,448	214,097	24,283	189,814	20,995	-1,371	22,366	10.9%	-5.3%	13.4%
Up to 4th Qtr		607,955	87,112	520,843	690,932	99,847	591,085	82,977	12,735	70,242	13.6%	14.6%	13.5%

**DIRECT TAXES**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	7,074	900	6,174	7,040	825	6,215	-34	-75	41	-0.5%	-8.3%	0.7%
AUGUST	M	7,379	602	6,777	7,605	949	6,656	226	347	-121	3.1%	57.6%	-1.8%
	P	14,453	1,502	12,951	14,645	1,774	12,871	192	272	-80	1.3%	18.1%	-0.6%
SEPTEMBER	M	12,927	300	12,627	30,362	1,499	28,863	17,435	1,199	16,236	134.9%	399.7%	128.6%
1st Quarter		27,380	1,802	25,578	45,007	3,273	41,734	17,627	1,471	16,156	64.4%	81.6%	63.2%
OCTOBER	M	13,458	1,158	12,300	8,575	1,821	6,754	-4,883	663	-5,546	-36.3%	57.3%	-45.1%
	P	40,838	2,960	37,878	53,582	5,094	48,488	12,744	2,134	10,610	31.2%	72.1%	28.0%
NOVEMBER	M	9,850	1,350	8,500	9,672	2,296	7,376	-178	946	-1,124	-1.8%	70.1%	-13.2%
	P	50,688	4,310	46,378	63,254	7,390	55,864	12,566	3,080	9,486	24.8%	71.5%	20.5%
DECEMBER	M	24,218	600	23,618	25,611	3,088	22,523	1,393	2,488	-1,095	5.8%	414.7%	-4.6%
2nd Quarter		47,526	3,108	44,418	43,858	7,205	36,653	-3,668	4,097	-7,765	-7.7%	131.8%	-17.5%
Up to 2nd Qtr		74,906	4,910	69,996	88,865	10,478	78,387	13,959	5,568	8,391	18.6%	113.4%	12.0%
JANUARY	M	13,900	1,700	12,200	12,052	2,985	9,067	-1,848	1,285	-3,133	-13.3%	75.6%	-25.7%
	P	88,806	6,610	82,196	100,917	13,463	87,454	12,111	6,853	5,258	13.6%	103.7%	6.4%
FEBRUARY	M	13,894	3,714	10,180	10,721	1,851	8,870	-3,173	-1,863	-1,310	-22.8%	-50.2%	-12.9%
	P	102,700	10,324	92,376	111,638	15,314	96,324	8,938	4,990	3,948	8.7%	48.3%	4.3%
MARCH	M	13,291	1,248	12,043	27,630	4,481	23,149	14,339	3,233	11,106	107.9%	259.1%	92.2%
3rd Quarter		41,085	6,662	34,423	50,403	9,317	41,086	9,318	2,655	6,663	22.7%	39.9%	19.4%
Up to 3rd Qtr		115,991	11,572	104,419	139,268	19,795	119,473	23,277	8,223	15,054	20.1%	71.1%	14.4%
APRIL	M	15,300	1,000	14,300	15,742	2,270	13,472	442	1,270	-828	2.9%	127.0%	-5.8%
	P	131,291	12,572	118,719	155,010	22,065	132,945	23,719	9,493	14,226	18.1%	75.5%	12.0%
MAY	M	18,651	4,011	14,640	16,126	2,662	13,464	-2,525	-1,349	-1,176	-13.5%	-33.6%	-8.0%
	P	149,942	16,583	133,359	171,136	24,727	146,409	21,194	8,144	13,050	14.1%	49.1%	9.8%
JUNE	M	35,879	4,159	31,720	41,085	4,395	36,690	5,206	236	4,970	14.5%	5.7%	15.7%
4th Quarter		69,830	9,170	60,660	72,953	9,327	63,626	3,123	157	2,966	4.5%	1.7%	4.9%
Up to 4th Qtr		185,821	20,742	165,079	212,221	29,122	183,099	26,400	8,380	18,020	14.2%	40.4%	10.9%

**INDIRECT TAXES**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	23,968	6,785	17,183	31,391	6,931	24,460	7,423	146	7,277	31.0%	2.2%	42.3%
AUGUST	M	28,736	5,385	23,351	33,810	6,278	27,532	5,074	893	4,181	17.7%	16.6%	17.9%
	P	52,704	12,170	40,534	65,201	13,209	51,992	12,497	1,039	11,458	23.7%	8.5%	28.3%
SEPTEMBER	M	32,887	4,937	27,950	38,098	6,115	31,983	5,211	1,178	4,033	15.8%	23.9%	14.4%
1st Quarter		85,591	17,107	68,484	103,299	19,324	83,975	17,708	2,217	15,491	20.7%	13.0%	22.6%
OCTOBER	M	34,398	4,710	29,688	39,450	5,282	34,168	5,052	572	4,480	14.7%	12.1%	15.1%
	P	119,989	21,817	98,172	142,749	24,606	118,143	22,760	2,789	19,971	19.0%	12.8%	20.3%
NOVEMBER	M	29,901	4,646	25,255	36,764	5,650	31,114	6,863	1,004	5,859	23.0%	21.6%	23.2%
	P	149,890	26,463	123,427	179,513	30,256	149,257	29,623	3,793	25,830	19.8%	14.3%	20.9%
DECEMBER	M	42,698	5,693	37,005	40,932	6,086	34,846	-1,766	393	-2,159	-4.1%	6.9%	-5.8%
2nd Quarter		106,997	15,049	91,948	117,146	17,018	100,128	10,149	1,969	8,180	9.5%	13.1%	8.9%
Up to 2nd Qtr		192,588	32,156	160,432	220,445	36,342	184,103	27,857	4,186	23,671	14.5%	13.0%	14.8%
JANUARY	M	38,141	6,595	31,546	38,372	6,187	32,185	231	-408	639	0.6%	-6.2%	2.0%
	P	230,729	38,751	191,978	258,817	42,529	216,288	28,088	3,778	24,310	12.2%	9.7%	12.7%
FEBRUARY	M	32,766	3,683	29,083	34,808	6,437	28,371	2,042	2,754	-712	6.2%	74.8%	-2.4%
	P	263,495	42,434	221,061	293,625	48,966	244,659	30,130	6,532	23,598	11.4%	15.4%	10.7%
MARCH	M	35,367	7,452	27,915	43,942	6,803	37,139	8,575	-649	9,224	24.2%	-8.7%	33.0%
3rd Quarter		106,274	17,730	88,544	117,122	19,427	97,695	10,848	1,697	9,151	10.2%	9.6%	10.3%
Up to 3rd Qtr		298,862	49,886	248,976	337,567	55,769	281,798	38,705	5,883	32,822	13.0%	11.8%	13.2%
APRIL	M	36,382	6,828	29,554	41,646	5,277	36,369	5,264	-1,551	6,815	14.5%	-22.7%	23.1%
	P	335,244	56,714	278,530	379,213	61,046	318,167	43,969	4,332	39,637	13.1%	7.6%	14.2%
MAY	M	34,697	6,055	28,642	42,645	6,677	35,968	7,948	622	7,326	22.9%	10.3%	25.6%
	P	369,941	62,769	307,172	421,858	67,723	354,135	51,917	4,954	46,963	14.0%	7.9%	15.3%
JUNE	M	52,193	3,601	48,592	56,853	3,002	53,851	4,660	-599	5,259	8.9%	-16.6%	10.8%
4th Quarter		123,272	16,484	106,788	141,144	14,956	126,188	17,872	-1,528	19,400	14.5%	-9.3%	18.2%
Up to 4th Qtr		422,134	66,370	355,764	478,711	70,725	407,986	56,577	4,355	52,222	13.4%	6.6%	14.7%



**SALES TAX (TOTAL)**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	15,538	5,285	10,253	20,261	5,474	14,787	4,723	189	4,534	30.4%	3.6%	44.2%
AUGUST	M	18,672	3,901	14,771	20,997	4,896	16,101	2,325	995	1,330	12.5%	25.5%	9.0%
	P	34,210	9,186	25,024	41,258	10,370	30,888	7,048	1,184	5,864	20.6%	12.9%	23.4%
SEPTEMBER	M	20,412	3,839	16,573	24,255	4,793	19,462	3,843	954	2,889	18.8%	24.9%	17.4%
1st Quarter		54,622	13,025	41,597	65,513	15,163	50,350	10,891	2,138	8,753	19.9%	16.4%	21.0%
OCTOBER	M	22,390	3,497	18,893	23,842	4,127	19,715	1,452	630	822	6.5%	18.0%	4.4%
	P	77,012	16,522	60,490	89,355	19,290	70,065	12,343	2,768	9,575	16.0%	16.8%	15.8%
NOVEMBER	M	20,240	3,584	16,656	23,855	4,536	19,319	3,615	952	2,663	17.9%	26.6%	16.0%
	P	97,252	20,106	77,146	113,210	23,826	89,384	15,958	3,720	12,238	16.4%	18.5%	15.9%
DECEMBER	M	28,364	4,768	23,596	25,017	5,050	19,967	-3,347	282	-3,629	-11.8%	5.9%	-15.4%
2nd Quarter		70,994	11,849	59,145	72,714	13,713	59,001	1,720	1,864	-144	2.4%	15.7%	-0.2%
Up to 2nd Qtr		125,616	24,874	100,742	138,227	28,876	109,351	12,611	4,002	8,609	10.0%	16.1%	8.5%
JANUARY	M	25,039	5,349	19,690	23,918	4,668	19,250	-1,121	-681	-440	-4.5%	-12.7%	-2.2%
	P	150,655	30,223	120,432	162,145	33,544	128,601	11,490	3,321	8,169	7.6%	11.0%	6.8%
FEBRUARY	M	22,529	2,938	19,591	21,671	5,100	16,571	-858	2,162	-3,020	-3.8%	73.6%	-15.4%
	P	173,184	33,161	140,023	183,816	38,644	145,172	10,632	5,483	5,149	6.1%	16.5%	3.7%
MARCH	M	21,942	6,277	15,665	25,513	5,306	20,207	3,571	-971	4,542	16.3%	-15.5%	29.0%
3rd Quarter		69,510	14,564	54,946	71,102	15,074	56,028	1,592	510	1,082	2.3%	3.5%	2.0%
Up to 3rd Qtr		195,126	39,438	155,688	209,329	43,950	165,379	14,203	4,512	9,691	7.3%	11.4%	6.2%
APRIL	M	22,758	5,434	17,324	25,342	3,910	21,432	2,584	-1,524	4,108	11.4%	-28.0%	23.7%
	P	217,884	44,872	173,012	234,671	47,860	186,811	16,787	2,988	13,799	7.7%	6.7%	8.0%
MAY	M	22,465	4,760	17,705	26,196	5,253	20,943	3,731	493	3,238	16.6%	10.4%	18.3%
	P	240,349	49,632	190,717	260,867	53,113	207,754	20,518	3,481	17,037	8.5%	7.0%	8.9%
JUNE	M	31,040	2,590	28,450	34,038	1,808	32,230	2,998	-782	3,780	9.7%	-30.2%	13.3%
4th Quarter		76,263	12,784	63,479	85,576	10,971	74,605	9,313	-1,813	11,126	12.2%	-14.2%	17.5%
Up to 4th Qtr		271,389	52,222	219,167	294,905	54,921	239,984	23,516	2,699	20,817	8.7%	5.2%	9.5%

**SALES TAX (IMPORTS)**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	8,226	34	8,192	10,617	3	10,614	2,391	-31	2,422	29.1%	-91.2%	29.6%
AUGUST	M	9,604	7	9,597	11,273	1	11,272	1,669	-6	1,675	17.4%	-85.7%	17.5%
	P	17,830	41	17,789	21,890	4	21,886	4,060	-37	4,097	22.8%	-90.2%	23.0%
SEPTEMBER	M	9,496	25	9,471	11,288	1	11,287	1,792	-24	1,816	18.9%	-96.0%	19.2%
1st Quarter		27,326	66	27,260	33,178	5	33,173	5,852	-61	5,913	21.4%	-92.4%	21.7%
OCTOBER	M	10,919	1	10,918	11,354	5	11,349	435	4	431	4.0%	400.0%	3.9%
	P	38,245	67	38,178	44,532	10	44,522	6,287	-57	6,344	16.4%	-85.1%	16.6%
NOVEMBER	M	8,553	1	8,552	11,814	2	11,812	3,261	1	3,260	38.1%	100.0%	38.1%
	P	46,798	68	46,730	56,346	12	56,334	9,548	-56	9,604	20.4%	-82.4%	20.6%
DECEMBER	M	12,412	15	12,397	13,007	2	13,005	595	-13	608	4.8%	-86.7%	4.9%
2nd Quarter		31,884	17	31,867	36,175	9	36,166	4,291	-8	4,299	13.5%	-47.1%	13.5%
Up to 2nd Qtr		59,210	83	59,127	69,353	14	69,339	10,143	-69	10,212	17.1%	-83.1%	17.3%
JANUARY	M	11,762	3	11,759	11,574	1	11,573	-188	-2	-186	-1.6%	-66.7%	-1.6%
	P	70,972	86	70,886	80,927	15	80,912	9,955	-71	10,026	14.0%	-82.6%	14.1%
FEBRUARY	M	9,263	1	9,262	11,080	25	11,055	1,817	24	1,793	19.6%	2400.0%	19.4%
	P	80,235	87	80,148	92,007	40	91,967	11,772	-47	11,819	14.7%	-54.0%	14.7%
MARCH	M	11,242	8	11,234	14,028	2	14,026	2,786	-6	2,792	24.8%	-75.0%	24.9%
3rd Quarter		32,267	12	32,255	36,682	28	36,654	4,415	16	4,399	13.7%	133.3%	13.6%
Up to 3rd Qtr		91,477	95	91,382	106,035	42	105,993	14,558	-53	14,611	15.9%	-55.8%	16.0%
APRIL	M	11,688	2	11,686	12,551	4	12,547	863	2	861	7.4%	100.0%	7.4%
	P	103,165	97	103,068	118,586	46	118,540	15,421	-51	15,472	14.9%	-52.6%	15.0%
MAY	M	10,393	6	10,387	12,947	4	12,943	2,554	-2	2,556	24.6%	-33.3%	24.6%
	P	113,558	103	113,455	131,533	50	131,483	17,975	-53	18,028	15.8%	-51.5%	15.9%
JUNE	M	12,444	24	12,420	13,775	5	13,770	1,331	-19	1,350	10.7%	-79.2%	10.9%
4th Quarter		34,525	32	34,493	39,273	13	39,260	4,748	-19	4,767	13.8%	-59.4%	13.8%
Up to 4th Qtr		126,002	127	125,875	145,308	55	145,253	19,306	-72	19,378	15.3%	-56.7%	15.4%

**SALES TAX (DOMESTIC)**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	7,312	5,251	2,061	9,644	5,471	4,173	2,332	220	2,112	31.9%	4.2%	102.5%
AUGUST	M	9,068	3,894	5,174	9,724	4,895	4,829	656	1,001	-345	7.2%	25.7%	-6.7%
	P	<b>16,380</b>	<b>9,145</b>	<b>7,235</b>	<b>19,368</b>	<b>10,366</b>	<b>9,002</b>	<b>2,988</b>	<b>1,221</b>	<b>1,767</b>	<b>18.2%</b>	<b>13.4%</b>	<b>24.4%</b>
SEPTEMBER	M	10,916	3,814	7,102	12,967	4,792	8,175	2,051	978	1,073	18.8%	25.6%	15.1%
1st Quarter		<b>27,296</b>	<b>12,959</b>	<b>14,337</b>	<b>32,335</b>	<b>15,158</b>	<b>17,177</b>	<b>5,039</b>	<b>2,199</b>	<b>2,840</b>	<b>18.5%</b>	<b>17.0%</b>	<b>19.8%</b>
OCTOBER	M	11,471	3,496	7,975	12,488	4,122	8,366	1,017	626	391	8.9%	17.9%	4.9%
	P	<b>38,767</b>	<b>16,455</b>	<b>22,312</b>	<b>44,823</b>	<b>19,280</b>	<b>25,543</b>	<b>6,056</b>	<b>2,825</b>	<b>3,231</b>	<b>15.6%</b>	<b>17.2%</b>	<b>14.5%</b>
NOVEMBER	M	11,687	3,583	8,104	12,041	4,534	7,507	354	951	-597	3.0%	26.5%	-7.4%
	P	<b>50,454</b>	<b>20,038</b>	<b>30,416</b>	<b>56,864</b>	<b>23,814</b>	<b>33,050</b>	<b>6,410</b>	<b>3,776</b>	<b>2,634</b>	<b>12.7%</b>	<b>18.8%</b>	<b>8.7%</b>
DECEMBER	M	15,952	4,753	11,199	12,010	5,048	6,962	-3,942	295	-4,237	-24.7%	6.2%	-37.8%
2nd Quarter		<b>39,110</b>	<b>11,832</b>	<b>27,278</b>	<b>36,539</b>	<b>13,704</b>	<b>22,835</b>	<b>-2,571</b>	<b>1,872</b>	<b>-4,443</b>	<b>-6.6%</b>	<b>15.8%</b>	<b>-16.3%</b>
Up to 2nd Qtr		<b>66,406</b>	<b>24,791</b>	<b>41,615</b>	<b>68,874</b>	<b>28,862</b>	<b>40,012</b>	<b>2,468</b>	<b>4,071</b>	<b>-1,603</b>	<b>3.7%</b>	<b>16.4%</b>	<b>-3.9%</b>
JANUARY	M	13,277	5,346	7,931	12,344	4,667	7,677	-933	-679	-254	-7.0%	-12.7%	-3.2%
	P	<b>79,683</b>	<b>30,137</b>	<b>49,546</b>	<b>81,218</b>	<b>33,529</b>	<b>47,689</b>	<b>1,535</b>	<b>3,392</b>	<b>-1,857</b>	<b>1.9%</b>	<b>11.3%</b>	<b>-3.7%</b>
FEBRUARY	M	13,266	2,937	10,329	10,591	5,075	5,516	-2,675	2,138	-4,813	-20.2%	72.8%	-46.6%
	P	<b>92,949</b>	<b>33,074</b>	<b>59,875</b>	<b>91,809</b>	<b>38,604</b>	<b>53,205</b>	<b>-1,140</b>	<b>5,530</b>	<b>-6,670</b>	<b>-1.2%</b>	<b>16.7%</b>	<b>-11.1%</b>
MARCH	M	10,700	6,269	4,431	11,485	5,304	6,181	785	-965	1,750	7.3%	-15.4%	39.5%
3rd Quarter		<b>37,243</b>	<b>14,552</b>	<b>22,691</b>	<b>34,420</b>	<b>15,046</b>	<b>19,374</b>	<b>-2,823</b>	<b>494</b>	<b>-3,317</b>	<b>-7.6%</b>	<b>3.4%</b>	<b>-14.6%</b>
Up to 3rd Qtr		<b>103,649</b>	<b>39,343</b>	<b>64,306</b>	<b>103,294</b>	<b>43,908</b>	<b>59,386</b>	<b>-355</b>	<b>4,565</b>	<b>-4,920</b>	<b>-0.3%</b>	<b>11.6%</b>	<b>-7.7%</b>
APRIL	M	11,070	5,432	5,638	12,791	3,906	8,885	1,721	-1,526	3,247	15.5%	-28.1%	57.6%
	P	<b>114,719</b>	<b>44,775</b>	<b>69,944</b>	<b>116,085</b>	<b>47,814</b>	<b>68,271</b>	<b>1,366</b>	<b>3,039</b>	<b>-1,673</b>	<b>1.2%</b>	<b>6.8%</b>	<b>-2.4%</b>
MAY	M	12,072	4,754	7,318	13,249	5,249	8,000	1,177	495	682	9.7%	10.4%	9.3%
	P	<b>126,791</b>	<b>49,529</b>	<b>77,262</b>	<b>129,334</b>	<b>53,063</b>	<b>76,271</b>	<b>2,543</b>	<b>3,534</b>	<b>-991</b>	<b>2.0%</b>	<b>7.1%</b>	<b>-1.3%</b>
JUNE	M	18,596	2,566	16,030	20,263	1,803	18,460	1,667	-763	2,430	9.0%	-29.7%	15.2%
4th Quarter		<b>41,738</b>	<b>12,752</b>	<b>28,986</b>	<b>46,303</b>	<b>10,958</b>	<b>35,345</b>	<b>4,565</b>	<b>-1,794</b>	<b>6,359</b>	<b>10.9%</b>	<b>-14.1%</b>	<b>21.9%</b>
Up to 4th Qtr		<b>145,387</b>	<b>52,095</b>	<b>93,292</b>	<b>149,597</b>	<b>54,866</b>	<b>94,731</b>	<b>4,210</b>	<b>2,771</b>	<b>1,439</b>	<b>2.9%</b>	<b>5.3%</b>	<b>1.5%</b>

**CENTRAL EXCISE**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	1,998	1	1,997	3,129	1	3,128	1,131	0	1,131	56.6%	0.0%	56.6%
AUGUST	M	3,206	0	3,206	3,855	0	3,855	649	0	649	20.2%	#DIV/0!	20.2%
	P	5,204	1	5,203	6,984	1	6,983	1,780	0	1,780	34.2%	0.0%	34.2%
SEPTEMBER	M	3,799	3	3,796	4,256	9	4,247	457	6	451	12.0%	200.0%	11.9%
1st Quarter		9,003	4	8,999	11,240	10	11,230	2,237	6	2,231	24.8%	150.0%	24.8%
OCTOBER	M	3,931	59	3,872	4,278	4	4,274	347	-55	402	8.8%	-93.2%	10.4%
	P	12,934	63	12,871	15,518	14	15,504	2,584	-49	2,633	20.0%	-77.8%	20.5%
NOVEMBER	M	3,004	0	3,004	3,778	0	3,778	774	0	774	25.8%	#DIV/0!	25.8%
	P	15,938	63	15,875	19,296	14	19,282	3,358	-49	3,407	21.1%	-77.8%	21.5%
DECEMBER	M	3,557	1	3,556	4,276	0	4,276	719	-1	720	20.2%	-100.0%	20.2%
2nd Quarter		10,492	60	10,432	12,332	4	12,328	1,840	-56	1,896	17.5%	-93.3%	18.2%
Up to 2nd Qtr		19,495	64	19,431	23,572	14	23,558	4,077	-50	4,127	20.9%	-78.1%	21.2%
JANUARY	M	3,627	0	3,627	4,223	2	4,221	596	2	594	16.4%	#DIV/0!	16.4%
	P	23,122	64	23,058	27,795	16	27,779	4,673	-48	4,721	20.2%	-75.0%	20.5%
FEBRUARY	M	3,217	5	3,212	3,752	15	3,737	535	10	525	16.6%	200.0%	16.3%
	P	26,339	69	26,270	31,547	31	31,516	5,208	-38	5,246	19.8%	-55.1%	20.0%
MARCH	M	4,173	0	4,173	4,824	9	4,815	651	9	642	15.6%	#DIV/0!	15.4%
3rd Quarter		11,017	5	11,012	12,799	26	12,773	1,782	21	1,761	16.2%	420.0%	16.0%
Up to 3rd Qtr		30,512	69	30,443	36,371	40	36,331	5,859	-29	5,888	19.2%	-42.0%	19.3%
APRIL	M	4,853	0	4,853	5,276	0	5,276	423	0	423	8.7%	#DIV/0!	8.7%
	P	35,365	69	35,296	41,647	40	41,607	6,282	-29	6,311	17.8%	-42.0%	17.9%
MAY	M	4,335	1	4,334	5,450	5	5,445	1,115	4	1,111	25.7%	400.0%	25.6%
	P	39,700	70	39,630	47,097	45	47,052	7,397	-25	7,422	18.6%	-35.7%	18.7%
JUNE	M	5,923	1	5,922	5,809	4	5,805	-114	3	-117	-1.9%	300.0%	-2.0%
4th Quarter		15,111	2	15,109	16,535	9	16,526	1,424	7	1,417	9.4%	350.0%	9.4%
Up to 4th Qtr		45,623	71	45,552	52,906	49	52,857	7,283	-22	7,305	16.0%	-31.0%	16.0%

**CUSTOMS**  
**TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION**

( Rs. In Million )

MONTHS		FY 2003-04			FY 2004-05			COMPARISON			COMPARISON AS % AGE		
		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
JULY	M	6,432	1,499	4,933	8,001	1,456	6,545	1,569	-43	1,612	24.4%	-2.9%	32.7%
AUGUST	M	6,858	1,484	5,374	8,958	1,382	7,576	2,100	-102	2,202	30.6%	-6.9%	41.0%
	P	13,290	2,983	10,307	16,959	2,838	14,121	3,669	-145	3,814	27.6%	-4.9%	37.0%
SEPTEMBER	M	8,676	1,095	7,581	9,587	1,313	8,274	911	218	693	10.5%	19.9%	9.1%
1st Quarter		21,966	4,078	17,888	26,546	4,151	22,395	4,580	73	4,507	20.9%	1.8%	25.2%
OCTOBER	M	8,077	1,154	6,923	11,330	1,151	10,179	3,253	-3	3,256	40.3%	-0.3%	47.0%
	P	30,043	5,232	24,811	37,876	5,302	32,574	7,833	70	7,763	26.1%	1.3%	31.3%
NOVEMBER	M	6,657	1,062	5,595	9,131	1,114	8,017	2,474	52	2,422	37.2%	4.9%	43.3%
	P	36,700	6,294	30,406	47,007	6,416	40,591	10,307	122	10,185	28.1%	1.9%	33.5%
DECEMBER	M	10,777	924	9,853	11,639	1,036	10,603	862	112	750	8.0%	12.1%	7.6%
2nd Quarter		25,511	3,140	22,371	32,100	3,301	28,799	6,589	161	6,428	25.8%	5.1%	28.7%
Up to 2nd Qtr		47,477	7,218	40,259	58,646	7,452	51,194	11,169	234	10,935	23.5%	3.2%	27.2%
JANUARY	M	9,475	1,246	8,229	10,231	1,517	8,714	756	271	485	8.0%	21.7%	5.9%
	P	56,952	8,464	48,488	68,877	8,969	59,908	11,925	505	11,420	20.9%	6.0%	23.6%
FEBRUARY	M	7,020	740	6,280	9,385	1,322	8,063	2,365	582	1,783	33.7%	78.6%	28.4%
	P	63,972	9,204	54,768	78,262	10,291	67,971	14,290	1,087	13,203	22.3%	11.8%	24.1%
MARCH	M	9,252	1,175	8,077	13,605	1,488	12,117	4,353	313	4,040	47.0%	26.6%	50.0%
3rd Quarter		25,747	3,161	22,586	33,221	4,327	28,894	7,474	1,166	6,308	29.0%	36.9%	27.9%
Up to 3rd Qtr		73,224	10,379	62,845	91,867	11,779	80,088	18,643	1,400	17,243	25.5%	13.5%	27.4%
APRIL	M	8,771	1,394	7,377	11,028	1,367	9,661	2,257	-27	2,284	25.7%	-1.9%	31.0%
	P	81,995	11,773	70,222	102,895	13,146	89,749	20,900	1,373	19,527	25.5%	11.7%	27.8%
MAY	M	7,897	1,294	6,603	10,999	1,419	9,580	3,102	125	2,977	39.3%	9.7%	45.1%
	P	89,892	13,067	76,825	113,894	14,565	99,329	24,002	1,498	22,504	26.7%	11.5%	29.3%
JUNE	M	15,230	1,010	14,220	17,006	1,190	15,816	1,776	180	1,596	11.7%	17.8%	11.2%
4th Quarter		31,898	3,698	28,200	39,033	3,976	35,057	7,135	278	6,857	22.4%	7.5%	24.3%
Up to 4th Qtr		105,122	14,077	91,045	130,900	15,755	115,145	25,778	1,678	24,100	24.5%	11.9%	26.5%