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A Review of Resource Mobilization Efforts of Central Board of Revenue

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Foreword

The Central Board of Revenue has successfully achieved the assigned target of Rs. 835 billion for FY: 06-07. This is the fifth consecutive year that the start-of-the-year-target has been accomplished. The buoyant tax collection has not only enabled CBR to surpass its target, it has also resulted into marked improvement in Tax/GDP ratio from 9.4% in FY: 05-06 to 9.7% in FY: 06-07. In fact, this is the 2nd consecutive year that the Tax/GDP ratio has increased by 0.3% per year, which is consistent with the ten-year revenue vision of the organization. Surely, the unprecedented outcome signals an improvement in the tax structure, which unlike previous years is becoming more responsive to growth and discretionary tax measures. This performance also reflects superior voluntary tax compliance by taxpayers and improved tax effort by CBR employees.

The current issue of the CBR Quarter Review provides a comprehensive analysis of tax collection during 2006-07. An ex post analysis of budgetary measures of FY: 06-07 has also been undertaken to assess the strengths and/or weaknesses of policy framework. The continuous effort to improve Tax/GDP ratio is an important policy direction of CBR. In this vein, there has been an effort to learn from international experience. A review of Turkish model has been presented to draw lessons for Pakistan. In the Industry analysis segment, the performance of Edible Oil Industry has been the topic of research. Finally, the Quarterly also includes an update on audit initiatives within the National Audit Plan as part of the on-going Reform Program.

Towards the end, let me complement the team of researchers of the Fiscal Research and Statistics Wing of CBR for undertaking quality research and timely completion of CBR Quarterly Review for policy guidelines and general dissemination. I hope the current issue will be of great interest to our valued readers.

M. Abdullah Yusuf
Secretary General Revenue Division, and
Chairman, CBR

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CBR Tax Collection: An Analysis of FY: 06-07 Outcome[1]

The Economy

Despite concerted efforts to maintain high growth through fiscal consolidation and related measures, Pakistan's economy remains fragile and risky. There is no denying that important milestones have been reached during the arduous process of policy reforms and a number of corrections made to gain macroeconomic stability; however, it is also true that some of the critical fundamentals remain weak due to persisting imbalances. Furthermore, little progress has been made on social sectors that had lagged behind in a fairly noticeable manner. Thus, the natural question that arises is: what has been the reason for this apparent conflict between consistently high growth achievement coexisting with persistent fiscal and trade imbalances and stubborn inflation? Is it due to misplaced macroeconomic focus or does the blame lie on coordination failure? Let us review some of the areas of discomfort to offer remedies.

Within the fiscal domain, the resource mobilization by sub-national governments has been quite sub-optimal. The limited respite experienced so far has been on account of federal tax receipts. However, here too the resource generation effort is hampered by absence of tax culture and weak enforcement. The system of penalties is almost non-existent. It is true that nobody is interested in paying taxes voluntarily – not in Pakistan, not elsewhere, but a simple truth emerging from international experience is that adequate resources cannot be generated without effective enforcement, backed by strict penalties to serve as deterrence for tax evaders. At the same time, to complete the virtuous fiscal cycle, the resources so

[1] The analysis is carried out by the Research Team of the Fiscal Research Wing of CBR in collaboration with the Budget Wings of Direct & Indirect Taxes, and the DRS.

generated need judicious spending without which it is impossible to gain taxpayers' confidence. How prepared are we to catch the bull called tax evader by the horn and spend the hard earned money where it is needed the most? Needless to stress that fiscal imbalances are central to stable macroeconomic framework, which if not corrected could lead to a position of unmanageable fiscal deficit and there should be no surprises in such an outcome.

The monetary policy is being keenly contested these days. It appears that the primary focus of tighter monetary stance has been to restrict inflation at 'desired' level. However, it is high time to re-assess the gains and/or losses on account of a policy being pursued for the past 18-20 months. [2] Despite all the conflicting arguments, it is more than evident that the banking sector is thriving at the cost of savers. With the formal banking sector so little to offer, and the non-availability of publically guaranteed alternative saving instruments, improving the domestic savings rate remains a fundamental concern. Furthermore, the way small savers have lost their money in the past through murky saving schemes should also be a part of the overall monetary policy design to boost savings in the country. For the sake of completeness, there is no harm in repeating the classical argument that without adequate savings there cannot be adequate investment to promote economic growth.

The wayward performance of the manufacturing sector is yet another disturbing area. Some relate it to increasing costs of doing business, but the more pragmatic ones blame this malaise to inherent inefficiencies firmly engraved in the industrial sector. Very few realize that the root-cause of this problem has been lack of complete understanding of industrial activities in Pakistan. It is hard to deny that there are premeditated attempts of mis-declaration and non-

[2] Notwithstanding the long lag that money takes to influence inflation in Pakistan, there is a more serious issue that relates to limited effectiveness of money in stabilizing and lowering food inflation. Unfortunately, this concern gets only a casual reference in the entire debate.

documentation of industrial accounts by the private sector. To make this situation worse, the manufacturing sector statistics are being badly managed by the State organizations. Consequently, there is improper and incomplete monitoring of this vital sector of the economy. In fact, few would contest that it is indeed hard to know what exactly is being produced and consumed in the country. In this scenario, not only the discussion of determination of exportable surpluses or import requirements becomes meaningless, it is also difficult to design an effective human resource policy in line with the installed capital capacity. Going a little further, even education and labor policies lose significance when the ultimate objective gets so blurred!

On the international trade front, notwithstanding the absolute increases, exports relative to GDP have remained stagnant around 12% for quite sometime. However, more recently, the ratio has declined sharply to 8%, the level of 1984-85. Similarly, on average, the Import/GDP ratio during past few years has been hovering around 16%, with unprecedented spikes witnessed during 2003-04 and 2004-05. On top of this, the rapid increase in the magnitude of imported petroleum products for consumer and energy needs and gradual escalation in fuel prices have put extra pressure on foreign exchange earnings. Thus, there has been recurrence of imbalances in foreign trade transactions. Two additional factors, often gone unnoticed, are the gradual worsening of manufacturing sector terms of trade position and virtual stagnation of economic classification of exports. It may be added that the difficulty encountered in foreign trade accounts is linked directly with the performance of the industrial sector that has to produce enough not only to meet domestic demand but also to generate exportable surpluses.

Surely, the discussion so far has been a blend of optimism and despondency. It is true that, at times, despair has dominated hope. However, it is clear that the situation is not sustainable and warrants suitable remedial action. The critics would always see the glass half-empty, but for others traversing the grueling path of change it is half-full. To completely fill the glass, there is an urgent need for re-assessing the strengths and weaknesses of the existing macroeconomic policies. Therefore, for attaining an across-the-board and all-encompassing favorable impact, a thorough review is required of fiscal and monetary policies on the one hand, and transparent appraisal of the processes of institutional restructuring and human resource planning and management on the other. While there is nothing wrong with relentless persuasion of the on-going policies on 'continuity of the policy' argument, yet there is no harm in exploiting the 'learning by doing' argument to make necessary adjustments wherever needed. It appears that the vital missing link between isolated islands of successes and the overall state of the economy is improper coordination and lack of integration between various policy initiatives that require careful but focused handling. This means that without being complacent the reformers will have to keep treading the difficult 'untaken road' realizing that for purists, success is always hard-earned. Meanwhile, healthy criticism should serve as lamp-posts in the darkness that must also continue to strengthen the resolve of the managers of change.

CBR Revenue Collection Relative to Target

The provisional collection (as per reconciliation certificates) of Rs. 846.4 billion during FY: 06-07 exceeds the target of Rs. 835 billion by Rs. 11.4 billion or 1.4% (Table 1). The feature that CBR has surpassed the start-of-the-year revenue target for the fifth year in a row is not only encouraging from effective economic management standpoint, it is even more inspiring as it reflects improved tax management and compliance without putting undue burden on taxpayers. Nonetheless, it is also pertinent to mention that in view of the unprecedented performance of income and corporate taxes during FY: 06-07 and sluggish growth of GST and customs duties, the start-of-the-year targets of individual taxes were revised during the year without altering the overall target. The outcome reveals that the provisional net collection of direct taxes has exceeded the original target by 26% and the upwardly revised target has also been surpassed by 4.1%. Regrettably, a similar performance could not be recorded for indirect taxes. Whereas the collection of excise duties exceeded the original target by 3.5%, it remained short of the revised target by a small margin of Rs. 0.5 billion only. On the other hand, the year-end collection of GST and customs duties missed the respective original as well as revised targets due to constantly shrinking base.

Table 1: A Comparison of Collection vis-à-vis Original and Revised Targets

	Original Targets *(Rs. Billion)*	Revised Targets *(Rs. Billion)*	Collection: 06-07	Difference from Revised Targets	
				Absolute	Percent
Direct Taxes	264.7	318.0	333.4	15.4	4.8
Sales Tax (GST)	343.5	311.0	309.3	-1.7	-0.6
Federal Excise	69.1	72.0	71.5	-0.5	-0.7
Customs Duties	157.7	134.0	132.2	-1.8	-1.3
All Taxes	835.0	835.0	846.4	11.4	1.4

Source: CBR Data Bank

Revenue Collection in FY: 06-07 vis-à-vis FY: 05-06

The gross and net collection during FY: 06-07 has been Rs. 928.6 billion and Rs. 846.4 billion, showing an increase of 15.8% and 18.6%, respectively over FY: 05-06 (Table 2). In the process of crossing the Rs. 800 billion threshold, several interesting features have emerged, some of which are presented below.

Firstly, the net collection has more than doubled within a short span of six years starting from Rs. 404.6 billion in FY: 01-02. The increase of Rs. 133 billion over and above last year's net collection of Rs. 713.4 billion has been the highest in a single year since FY: 47-48. Previously an increase of Rs. 123 billion was observed during FY: 05-06. This confirms that there is a definite improvement in tax effort.

Secondly, the buoyant tax collection has not only enabled CBR to surpass its target, it has also resulted into marked improvement in Tax/GDP ratio from 9.4% in FY: 05-06 to 9.7% in FY: 06-07. In fact, this is the 2nd consecutive year that the Tax/GDP ratio has increased by 0.3% per year, which is consistent with the ten-year revenue vision of the organization. Surely, the unprecedented outcome signals an improvement in the tax structure, which unlike previous years is becoming more responsive to growth and discretionary tax measures.

Thirdly, the income and corporate taxes have emerged as the leading contributors to federal tax receipts followed fairly closely by GST. There is a subtle change in the tax mix as 76% of entire net collection now originates from income and consumption taxes.

Fourthly, riding on the overwhelming performance of the corporate sector, especially banking and, oil and gas sectors, the direct taxes have recorded an unprecedented growth of 48.2% during the year. In fact, this high growth performance was sustained all through the year. Similarly, the continuous strong domestic demand was largely instrumental in achieving 29.4% growth in excise duties. However, a similar strength was not achieved in the case of domestic sales tax, as quite unexpectedly, the growth in gross as well as net collection remained below 10%. Regarding import related taxes, namely, sales tax at import stage and customs duties, there has been an adverse revenue impact of slowdown of imports and dutiable imports, even though some might appreciate this decline on account of improvement in the balance of trade position.

Finally, it will not be out of merit to mention that a number of additional factors have also been responsible for improved revenue performance during the past few years. These include the lowering of tax and tariff rates of capital goods to promote investment and boost economic activity in the country, reduction of up-front cost of doing business through automation of business processes, continuous reduction in corporate tax rates to cultivate corporate culture, drastic reduction in litigation burden, and most importantly, offering a hassle-free environment to the taxpayers through dedicated tax units and efficient workforce.

Table 2: A Comparison of Net Collection in FY: 06-07 vis-à-vis FY: 05-06

	Collection (Rs. Billion)		Difference	
	FY: 06-07	FY: 05-06	Absolute	Percent
Direct Taxes	333.4	225.0	108.4	48.2
Sales Tax (GST)	309.3	294.8	14.5	4.9
Federal Excise	71.5	55.3	16.3	29.4
Customs Duties	132.2	138.4	-6.2	-4.4
All Taxes	846.4	713.4	133.0	18.6

Source: CBR Data Bank

Detailed Analysis of Individual Taxes

Direct Taxes: The direct taxes have surpassed the original as well as upwardly revised targets of Rs. 264.7 billion and Rs. 318 billion, respectively. The provisional net collection so far has recorded an all time high growth of 48.2% whereas the overall growth in gross collection has been 41.2% (Table 3). In terms of value, the net collection has reached Rs. 333.4 billion, which is Rs. 108.4 billion higher than last year. Some of the important features of direct taxes are as follows.

Firstly, compared to 2003-04 when the net collection was Rs. 165 billion, there has been more than 100% increase in net collection within a short span of three years, which is a sure sign of improvement in the taxation system in general and of direct taxes in particular. Consequently, the direct tax to GDP ratio has increased from 3% in FY: 05-06 to 3.8% in FY: 06-07.

Table 3: Head-wise Performance of Direct Taxes

(Rs. Billion)

	2006-07	2005-06	Change (%)
Voluntary Payments	165.2	87.4	89.0
Collection on Demand	11.0	16.8	-34.5
Deductions at Source (WHT)	170.7	139.6	22.3
Gross Receipts	346.9	243.7	42.3
Refunds	32.2	34.0	-5.3
Other DT	18.7	15.3	22.2
Net Direct Taxes	333.4	225.0	48.2

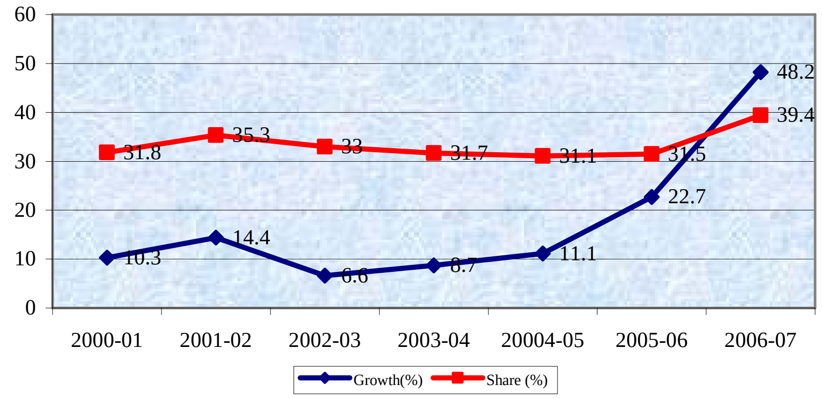
Secondly, the refund pendency of direct taxes has almost been exhausted. To completely liquidate pending refunds, Rs. 32.2 billion have been paid back to taxpayers during FY: 06-07 in addition to Rs. 34 billion paid during FY: 05-06. This change is expected to have a favorable impact on corporate performance in coming years.

Thirdly, with improved tax effort and effective implementation of tax policy and administrative reforms, the share of direct taxes in federal tax receipts has increased from around 15% in early 1990s to 32% in 2000-01. It has now touched new heights of 39.4% in 2006-07 (Graph 1). One of the implications of this change has been that direct taxes have now emerged as the leading revenue contributors of federal taxation receipts – a transition that had always been desired on equity and efficiency grounds.

Fourthly, through a combination of policy interventions, such as the introduction of Universal Self-assessment (USAS) and revised regime of advance tax Payments on the one hand, and better human resource management on the other, the voluntary compliance has improved tremendously.

Fifthly, with improvement in voluntary compliance, the reliance of income and corporate taxes on withholding taxes (WHT) has decreased from 57.3% in FY: 05-06 to 49.2% in FY: 06-07. This feature together with improvement in the share of direct taxes in total federal tax receipts confirms that the overall taxation system in Pakistan is becoming less and less regressive as compared to earlier years.

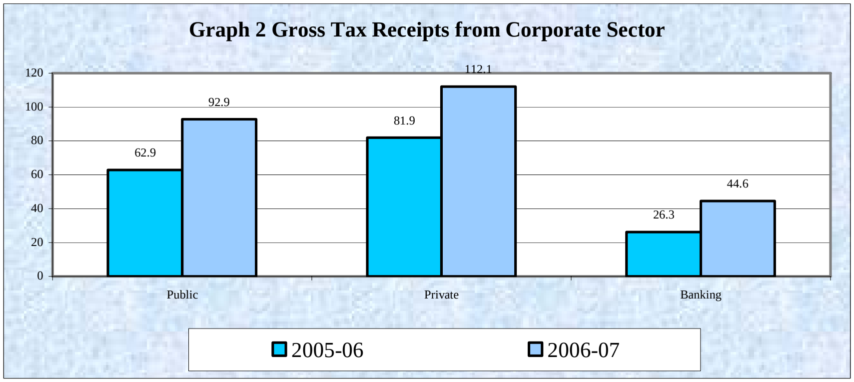
Graph-1 Historical Performance of Direct Taxes



Finally, two additional achievements during FY: 06-07 are the enhancement of direct tax base and the completion of the process of re-organization of field offices on functional lines. With 20% increase in tax base, the number of NTN holders has jumped from 2.1 million to 2.52 million during the last two years.

Contribution of Corporate Sector in Income and Corporate Taxes: The income tax collection from corporate sector has increased at an accelerated pace during the past few years despite the continuous reduction of corporate rates for banking and private companies. Due to enhanced profitability of this important sector, the gross income tax collection has increased from around 60% in FY: 04-05 to 76% in FY: 05-06. According to provisional collection, it has maintained its share of around 76% during 2006-07 as well.

The breakup of the corporate sector contribution is quite interesting. To start with the overall contribution has increased from Rs. 171 billion during PFY to Rs. 250 billion during CFY. The collection from public, private and banking companies has increased by 47.6%, 36.9%, and 69.6% respectively, reaching Rs. 92.9 billion, Rs.112.1 billion and Rs. 44.6 billion (Graph 2). Whereas the improved profitability of the banking sector has been instrumental for improved performance of banking companies, the robust growth of public companies has mainly originated from the oil and gas sector. On the other hand, private companies have registered the weakest growth among the corporate sector. In fact, the share of private companies in total corporate sector contribution has declined to 45% in FY: 06-07 from 48% in FY: 05-06. This outcome highlights the need of revisiting the extent of tax compliance by the private sector, which incidentally is quite appalling in view of the fact that only 1/3rd of the corporations in the past have declared taxable income.



Voluntary Compliance: As stated above, with the passage of time voluntary compliance has shown dramatic improvement. The gains so accrued is a reflection of many factors including superior tax effort and better facilitation, simplification of returns, implementation of self-assessment, and introduction of a simplified procedure of advance tax payments. As a result, there is a tremendous increase in payments with returns and advance taxes. On the whole, the voluntary payments have increased by 89% -- an increase from Rs. 87.4 billion in FY: 05-06 to Rs. 165.1 billion in FY: 06-07. Of the two components of voluntary compliance, payments with returns have increased by 100.8% and the advance tax payments have reached Rs. 117.9 billion during CFY compared to Rs. 63.4 billion during PFY (Table 4).

Table 4: Collection of Income Tax by Voluntary Compliance

(Rs. Billion)

	Collection 2006-07	Collection 2005-06	Change (%)
Voluntary Payments (A+B)	165.2	87.4	89.0
A) With Returns	48.2	24	100.8
B) Advance Tax	117.0	63.4	84.5

Within the advance tax payments category, the combined share of banking, oil and gas, and telecom companies has increased from 48.6% during PFY to 54% during CFY. Nonetheless, major improvement has come from banking companies whose share has jumped to 27.5% during 2006-07 from 13.9%, showing a remarkable increase of about 265% (Table 5).

Table 5: Comparison of Advance Tax Payments

(Rs. Billion)

Sectors	Payments 2006-07	Share (%)	Payments 2005-06	Share (%)	Growth (%)
Banking	32.1	27.5	8.8	13.9	264.8
Oil &Gas	23.9	20.4	14.7	23.2	62.6
Telecommunication	6.9	5.9	7.3	11.5	-5.5
Fertilizer	2.2	1.9	2.4	3.8	-8.3
Tobacco	1.7	1.5	0.8	1.3	112.5
Pharmaceutical	1.7	1.5	1	1.6	70
Textile	0.2	0.2	0.2	0.3	0
Sub Total	*68.7*	*58.8*	*35.2*	*55.6*	*95.2*
Others	48.2	41.2	28.1	44.4	71.5
Total	116.9	100	63.3	100	84.7

The oil and gas sector has also recoded a healthy growth of 63%, but the same has not been the case for the telecom sector where advance tax payments have declined despite a strong growth in the telecom business. Whereas the overall performance of the corporate sector has been encouraging, the narrowness of tax base remains a concern that is being sorted out actively.

Another indicator of voluntary compliance is the number of returns and statements filed by the taxpayers during the year. There has been an increase of 21% in this area against the target of 20% set under the Prime Minister's Goal–Target initiative (Table 6).

Table 6: Analysis of Returns/Statements

	2006-07	2005-06	Growth (%)
Returns			
Corporate	15481	14191	9.1
AOP	34735	31742	9.4
Salary	76465	74891	2.1
Non-Salary	655876	581877	12.7
Sub-total Returns	*782557*	*702701*	*11.4*
Statements			
Salary Certificates	248261	152607	62.7
Employers Statements	542389	520163	8.1
Employer/Employee Response	*790650*	*672770*	*17.5*
Importers	12652	11067	14.3
Exporters	14561	12877	13.1
Retailers	37310	34105	9.4
Contractors/ Suppliers	58363	53987	8.1
Other	16258	10310	57.7
Sub-total Statements	*1029794*	*795116*	*29.5*
Grand Total	**1812351**	**1497817**	**21.0**

Note: Figures for FY: 2006-07 are provisional and subject to revision.

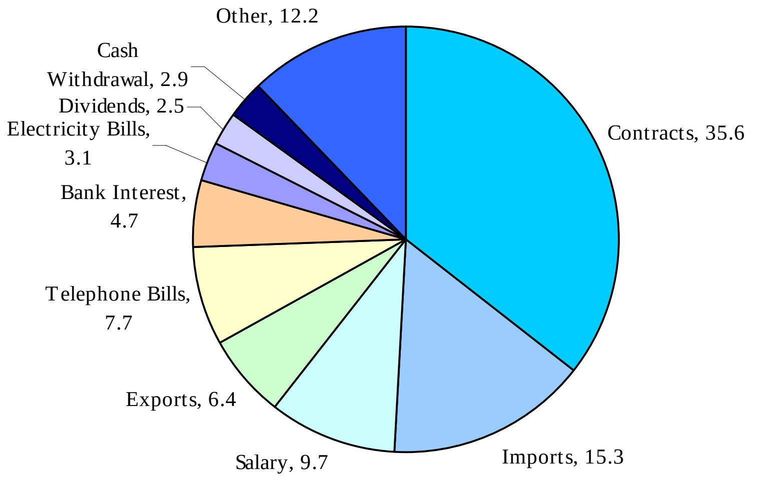
Whereas the returns have registered a growth of 11.4%, the statements have increased by 29.5% during the year. Within the returns-category, while the voluntarily submitted corporate returns have increased by about 9%, this number continues to remain short of the corporate NTN base by a wide margin. Regarding statements, the largest increase has been on account of salary certificates. On the other hand, the statements submitted by traders and retailers have maintained a normal growth trend.

Collection through Demand Creation: The collection on account of demand creation has reduced to a minor component. It has declined during FY: 06-07 by 34.5% compared to preceding year.

Withholding Taxes: WHT is the second important component of income and corporate taxes. Even though its share in gross income tax collection has declined from 57.3% in FY: 05-06 to 49.2% in FY: 06-07, the magnitude of the overall collection has increased since 2005-06. In absolute terms, Rs. 170.7 billion have been collected from this source against Rs. 139.6 billion during last year, showing a growth of 22.3%. The decline in the share of WHT in total gross income tax has been due to the fact that voluntary compliance has improved at much faster rate than the increase in WHT. However, notwithstanding this rationale, the outcome is consistent with the overall policy environment that envisions less and less reliance on WHT and promotion of voluntary compliance.

The relative significance of various WHT heads is depicted in Graph 3. It is evident that deduction on contracts and supplies is the major source of revenue generation. Given that the pace of economic development and government spending is expected to increase further in coming years due to higher PSDP allocations, this source will continue to hold dominating position for quite some time to come. This source is followed by deductions on international trade activities. The combined share of WHT on imports and exports of about 22% is indicative of a position that, by and large, traders are 'satisfied' with the present presumptive and adjustable WHT regimes. Deductions on salaries continue to constitute nearly 10% of WHT receipts. Finally, deductions on electricity bills and telephones on one hand, and on cash withdrawal and bank interest on the other do confirm that there is a large undocumented sector in the economy that prefers compulsory deductions at source rather than becoming a part of the taxation system by submitting regular returns.

Graph 3: Share of Major WHT Components



The revenue analysis of the components of WHT confirms that most of the WHT heads have performed according to their respective tax bases. For instance, the robust growth in WHT deductions at source on account of contracts and supplies is consistent with increased federal and provincial government spending on infrastructure development and social sector projects to reduce the incidence of poverty in the country. Similarly, the decline in WHT on imports is aligned with the deceleration import growth. The higher growth in deductions on telephone reflects the ever-expanding use of mobile phones and the general growth in the telecom sector. The improved corporate profitability has been instrumental in higher collection from dividends. Finally, deductions on savings instruments have increased due to enhanced profits (Table 7).

Table 7: Deductions at Source:
A Comparison of FY: 06-07 & FY: 05-06 Collection

(Rs .Billion)

	2006-07	2005-06	Change (%)
Contracts	60.7	46.8	29.7
Imports	26.1	26.9	-3.0
Salary	16.5	15.6	5.8
Exports	10.9	9.9	10.1
Telephone Bills	13.1	7.6	72.4
Bank Interest	8.1	6.5	24.6
Electricity Bills	5.3	5.1	3.9
Dividends	4.2	3.2	31.3
Sub-Total	*144.9*	*121.6*	19.2
Other WHT	25.8	18	43.3
Total WHT	**170.7**	**139.6**	**22.3**

Sales Tax: GST is now operating as a value added tax and a vital source of federal tax revenues collection. The gross and net collection of sales tax during FY: 06-07 stood at Rs. 346.9 billion and Rs. 309.3 billion, entailing growth of 5.8% and 4.9% respectively over last year. Although the revised target of sales tax has been achieved to the extent of 99.6%, but the overall collection has remained below the expected level – for both of the components of sales tax i.e., sales tax domestic and sales tax imports. Consequently, the share of sales tax in CBR tax collection has also declined from 41.3% in FY: 05-06 to 36.5% in FY: 06-07. Some of the factors that have impeded the desired outcome were: (a) less than expected growth in imports, (b) decline in collection from two leading revenue spinners, namely, the automobile industry and the iron & steel sector, and (c) huge refund payments to energy sector combined with significant refunds to textile sector despite zero-rating of export oriented five industries (Table 8).

Table 8: Collection and Growth of GST: FY: 06-07

(Rs. Billion)

Sources of GST	Collection/ Refunds			Growth (%)		
	Gross	Refund	Net	Gross	Refund	Net
Import Stage	175.8	0.0	175.8	2.5	-27.6	2.5
Domestic Production & Sales	170.5	37.0	133.5	9.5	14.3	8.2
GST (Total)	**346.3**	**37.0**	**309.3**	**5.8**	**14.1**	**4.9**

Collection of Sales Tax (Domestic) and Major Revenue Spinners: The net collection from sales tax (domestic) [ST (D)] recorded an overall growth of 8.2% partly due to 14.3% increase in refund payments. It appears that improved economic activity could not be translated into better compliance by the sales tax registered persons. It could very well be due to the prevalent stagnation in ST (D) operations, whereby the continuous risk of heavy dependence on small number of revenue spinners has not been mitigated.

The sectoral analysis confirms the premise that the GST tax base remains narrow. Around 90% of net receipts (Rs. 119.8 billion out of Rs. 133.5 billion), and 80% of gross receipts (Rs. 135.9 billion out of Rs. 170.5 billion) have been generated by only fifteen revenue spinners. The major players include telecom services, POL products, natural gas, sugar, cigarettes, services, LPG, cement, beverages, auto parts, iron & steel and gases & acids. Of fifteen major commodities, eleven have recorded a positive growth and there has been a decline in gross receipts on account of two utilities, cement, and motor cars (Table 9).

The detailed analysis of individual sectors reveals that the major stumbling block has been the energy sector where gross collection of Rs. 13 billion turned into negative net receipts due to unprecedented refund claims and payments during FY: 06-07. Similarly, the decline in collection from cement continued throughout the year despite a double-digit growth recorded in federal excise receipts from the source. Whereas downward revision in its retail-sale price of cement could be one of the reasons for this outcome, but a thorough investigation is needed to find a 'reasonable' explanation for the decline. Finally, the decline in tax collection from motor cars has been due to slowdown in one of the major brands of the industry, which was responsible for the overall lackluster performance.

Table 9: Comparison of Sales Tax Domestic (Gross) Collection by Major Commodity: FY: 06-07 & FY: 05-06

(Rs. Million)

Major Commodities	Collection 2006-07	Collection 2005-06	Growth (%)	Share (%)
Services by Telecom Sector	36,868	26,895	37.1	21.6
POL Products	27,811	26,284	5.8	16.3
Electrical Energy	12,998	13,411	-3.1	7.6
Natural Gas	12,427	13,286	-6.5	7.3
Sugar	11,010	8,731	26.1	6.5
Cigarettes	6,942	5,759	20.5	4.1
Services	4,955	4,130	20.0	2.9
Cement	4,938	5,377	-8.2	2.9
Liquefied Petroleum Gas	3,534	3,233	9.3	2.1
Aerated Waters/Beverages	3,005	2,614	15.0	1.8
Auto Parts	2,823	2,342	20.5	1.7
Iron & Steel Products	2,629	1,975	33.1	1.5
Misc. Consumer Products	2,292	1,922	19.3	1.3
Motor Cars	1,874	2,638	-29.0	1.1
Gases & Acids	1,808	1,516	19.3	1.1
Sub-Total	135,914	120,113	13.2	79.7
Others	34,557	35,582	-2.9	20.3
Gross Collection	170,471	155,695	9.5	100.0

On the positive side, the continued robust growth in collection from the telecom sector has largely compensated the shortfalls originating from electrical energy, cement, natural gas, and motor vehicles. Among the leading resource generators, the contribution of the telecom and petroleum sectors has been close to 38%. Within the telecom sector, the 37.1% growth in collection has been due to ever-escalating demand for telephony and fierce competition among service providers. Not only that the number of mobile phone subscribers has increased by about 2.4 million since July 2006, the tele-density has also increased from 22.2 in June 2006 to 40.6 in June 2007. Furthermore, the land area coverage has also reached 73% in recent months.

Besides telecom sector, strong growth in ST (D) has also been recorded in iron and steel, sugar, cigarettes, services (hotels, customs agents and couriers etc.) auto parts and gases and acids. This performance is consistent with the overall growth in the country and sustained domestic demand.

Sales Tax at Import Stage: For clarity sake, it is worthwhile to state that the collection of sales tax at import stage [ST (M)] crucially depends on the composition and volume of imports. Many items including raw materials have been zero-rated in recent years to promote industrial activity. Others, including food items and related essential products are sales tax exempt. Since the share of ST (M) in total sales tax collection has always been significant, fluctuations in imports leave an impact on tax receipts. This has precisely happened during FY: 06-07 when a lower growth in value of imports has been registered and consequently, the share of ST (M) has declined by around three percentage point as compared to last year. In fact, the overall growth of 8.1% in value of imports further declined to 6.8% as far as sales taxable value is concerned. This has been due to decline in customs duty collection which is included in the base value to determine the sales taxable value. Moreover, a decline in effective rate of ST (M) from 9.2% in FY: 05-06 to 8.8% in FY: 06-07, partly due to the on-going process of tariff rationalization and improvement in tariff escalation, had further contributed towards lowering the growth of collection to 2.5% only.[3]

The contribution of major commodity groups of ST (M) collection presented in Table 10 shows that nearly 87% of tax receipts have been generated by fifteen items. Within these, a double-digit growth has been recorded in POL products, edible oil, mechanical machinery, plastic products, organic chemicals, aluminum products, and paper & paper board. Nine out of 15 revenue spinners have added Rs. 21.2 billion to this collection as compared to last year. However, a sharp decline in collection has been noticed in the case of vehicles (by Rs. 5.4 billion), iron and steel (by Rs. 3.1 billion), and sugar (by Rs. 4.2 billion). The outcome of the latter two has been quite anticipated, as the extra demand during preceding year due to domestic shortages has leveled-off. However, while ST (M) from iron & steel sector has declined by Rs. 3.4 billion, the ST (D) has increased by only Rs. 700 million, indicating that contrary to expectations 100% substitution between the two components did not take place. Contrary to this, the decline in collection from sugar has been as per *a priori* expectations; it declined from Rs. 15.4 billion in FY: 05-06 to Rs. 13.5 billion in FY: 06-07 due to less import requirement.

The decline in ST (M) from vehicles has been due to change in policy regime whereby the age of imported old and second-hand vehicles was restricted to five years. Moreover, the slowdown in one of the manufacturing/ assembling units was also responsible for decreased imports of CKD/SKD units, thereby resulting into reduced import-related taxes. Similarly, the decline in collection on account of electrical machinery has been due to policy changes that resulted into zero-rating of most of these products. Finally, the increase in

[3] Technically stating, for sales tax at import stage, the taxable value is determined by including customs duty in the value of imports. Therefore, all changes in tariff structure that result in reduction in customs duty in a particular year compared to when change was not effective leads not only to reduction in customs duties, but also to reduction in sales tax and withholding tax on imports.

international prices of fuels appears to have a significant impact on the relative strength of POL products – the share of this group has increased from 35% in FY: 05-06 to 41% in FY: 06-07.

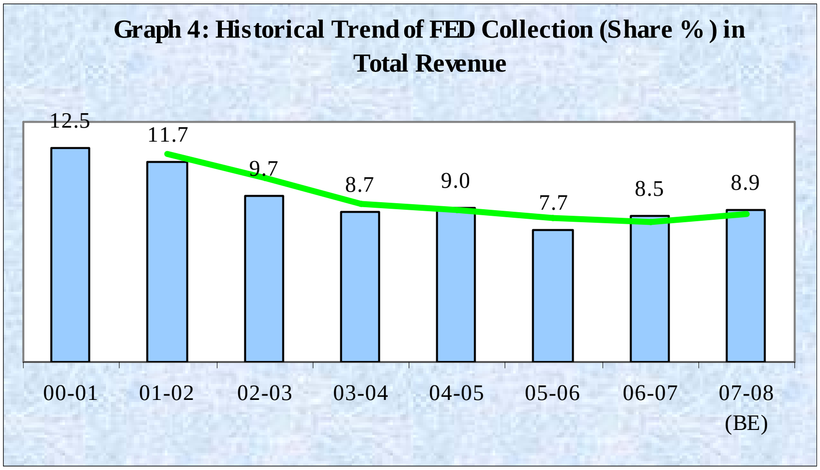
Table 10: Sales Tax (Import) Collection and Growth of Major Items

(Rs. Million)

	Collection 2006-07	Collection 2005-06	Growth (%)	Share (%)
1.POL Products (27 + 99.28)	72,454	59,669	21.4	41.2
2.Vehicles and Parts(87)	14,156	19,562	-27.6	8.1
3.Iron & Steel (72)	11,438	14,516	-21.2	6.5
4.Plastic (39)	10,023	8,940	12.1	5.7
5.Edible Oils (15)	9,029	6,191	45.8	5.1
6.Mechanical Machinery (84)	7,409	5,532	33.9	4.2
7.Electrical Machinery (85)	5,354	5,825	-8.1	3.0
8.Paper & P. Board (48)	3,646	3,224	13.1	2.1
9.Organic Chemical (29)	3,816	3,408	12.0	2.2
10.Oil seeds etc (12)	3,432	2,259	51.9	2.0
11.Sugar (17)	2,457	6,680	-63.2	1.4
12.Misc Chemicals Products (38)	2,698	2,627	2.7	1.5
13.Coffee, Tea, etc. (9)	2,403	2,474	-2.9	1.4
14.Rubber (40)	2,171	2,208	-1.7	1.2
15.Aluminium Products (76)	2,100	1,583	32.7	1.2
Sub Total	152,586	144,698	5.5	86.8
Other	23,246	26,845	-13.4	13.2
Gross	175,832	171,543	2.5	100.0
Refund/Rebate	71	98	-27.6	
Net Collection	175,761	171,445	2.5	

Note: The number within parentheses relates to PCT/ HS Codes.

Federal Excise Duties (FED): This source of revenue has started to regain importance due to widening of its base by inclusion of additional services into FED net. Its share has increased from 7.7% in FY: 05-06 to 8.5% in FY: 06-07 (Graph 4). The provisional net collection indicates that Rs. 71.5 billion have been collected during FY: 06-07, showing an increase of Rs. 16.3 billion over previous year. The growth in collection has been 29.4%.



Traditionally the major sources of FED revenue are cigarettes, cement, natural gas, POL products and beverages. The inclusion of services in this group has been a recent phenomenon (Table 11). These six items have contributed around 90% of total FED collection during FY: 06-07. Among these commodities, cigarette was the top most contributor followed by cement, natural gas, and beverages. The collection from cigarettes has recorded 17.1% growth during FY: 06-07. A robust growth of over 20% has also been witnessed by cement, POL and beverages. Looking at the rationale, it has been found that a significant growth of 23.5% in cement was due to higher production to cater rising demand. Incidentally, the production of cement increased by 21.1% during July-May 2006-07. The higher collection from cigarettes was possible due to increase in the retail prices of the cigarettes during FY: 06-07. The outcome also reveals that the anti-smoking drives are falling on deaf ears, as there is no visible decline in demand. The growth in FED from beverages can be attributed to more than 28% growth in production, which also, albeit indirectly confirms rising demand of the beverages in the country. Finally, the FED collection has declined in the case of natural gas due to its less extraction from fields located in the Balochistan province.

Table 11: Commodity-wise Collection of FED 2006-07 and 2005-06

(Rs. Million)

	Collection 2006-07	Share (%)	Collection 2005-06	Share (%)	Growth (%)
Cigarettes	27,050	37.7	23,097	41.6	17.1
Cement	15,004	20.9	12,154	21.9	22.8
Natural Gas	5,927	8.3	6,491	11.7	-8.7
POL Products	4,459	6.2	3,576	6.5	24.7
Beverages	6,990	9.8	5,619	10.1	24.4
Services	4,928	6.9	842	1.5	485.3
Sub-Total	64,358	89.8	51,779	93.3	24.3
Others	7,325	10.2	3,739	6.7	95.9
Total	71,683	100.0	55,518	100.0	29.1

FED on Services: During Federal Budget 2006-07, FED was levied on a number of services including: international air travel, non-fund financial services, franchise services, money changers, and cable TV operators. The revenue projection from these additional sources was Rs. 7.4 billion (Table 12).

Table 12: FED Collection from Services during 2006-07

(Rs. Million)

Services	Annual Estimates 2006-07	Collection 2006-07	Achievement (%)
Cable TV Operators	500	0.3	0.1
Non-Fund Financial Services.	2,200	668.9	30.4
Commission/Brokerage of Foreign Exchange Dealers, Exchange Companies and Money Changers	300	1.0	0.3
Franchise Services	900	632.6	70.3
International Air Travel	3,500	2,125.4	60.7
Total	7,400	3,427.9	46.3

Compared to the overall estimate, the collection fell short by 54%. The major services like international air travel, non-fund financial services, and franchise services could accomplish only 60.7%, 30.4% and 70.3% of projected collection, respectively. This outcome shows that improved compliance through effective enforcement will be real issue in coming months. This concern is expected to get serious in view of the fact that many additional services have been added to the FED net in Federal Budget 2007-08.

Customs Duties:

Historically, the collection of Customs Duties (CD) has been an important source of federal tax revenues. Within the new international environment of low duties and the emergence of sales tax, the reliance on customs duties in indirect taxes has already declined as a source of revenue. Similar to other countries, in Pakistan too, the structure of tariff has undergone extensive changes during the past one and a half decades. The tariff rates have been rationalized and reduced to a great extent to encourage local industries to be more competitive. After reducing the maximum rate to 25%, the issue of tariff escalation has been dealt quite extensively during the last three years. Resultantly, more and more primary and semi-manufactured commodities are drifting down to lower slabs. Of course, these changes are not without revenue cost. Nonetheless, these policy measures are necessary to generate greater efficiency in the system.

Regarding revenue collection during FY: 06-07, it may be recalled that during the past few years the imports were growing in excess of 30% due to unprecedented surge in domestic demand. The expansion of the economy, particularly the industrial sector, was taking place at a rapid pace. However, during FY: 06-07, despite reduction in tariff rates for raw materials and machinery, the overall growth in the imports has slowed down to around 8% and the rate of growth of dutiable imports retarded to -4.1% (Table 13). Consequently, hefty shortfall in CD collection was recorded during the year. The gross and net collection reduced to Rs. 145 billion and

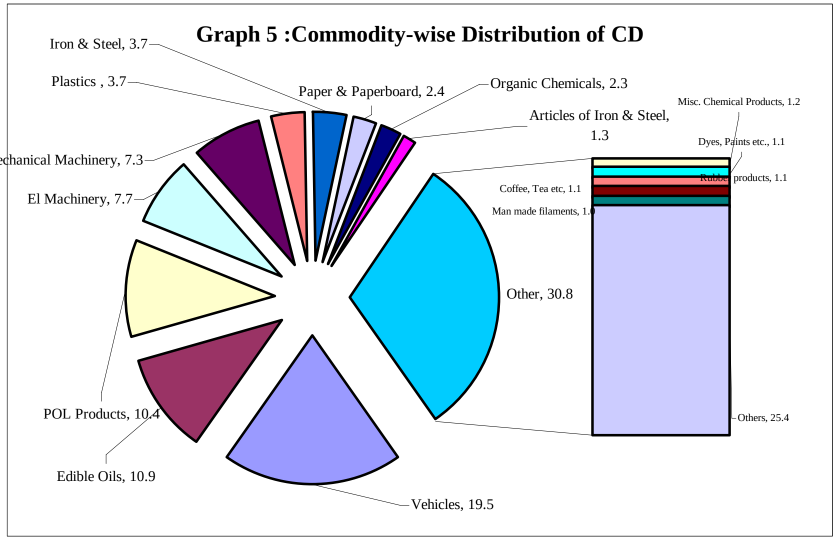
Rs. 132.2 billion respectively, yielding decline in CD by 7.6% and 4.4%, respectively.

Table 13: Quarterly Comparison of Customs Duty Indicators: FY: 06-07 & FY: 05-06

(Rs. Million)

	FY:06-07	FY:05-06	Growth		FY:06-07	FY:05-06	Growth
Total Imports				***Dutiable Imports***			
Q1	448,418	391,138	14.6	Q1	243,307	253,252	-3.9
Q2	454,015	425,670	6.7	Q2	255,259	262,749	-2.9
Q3	457,062	421,896	8.3	Q3	240,701	257,480	-6.5
April	156,223	135,933	14.9	April	89,595	83,605	-7.2
May	166,866	159,086	4.9	May	91,365	94,656	-3.5
June	169,552	179,666	-5.6	June	88,402	99,732	-11.4
Q4	492,641	474,685	3.8	Q4	269,362	277,993	-3.1
Total	1,852,136	1,713,389	8.1%	Total	1008629	1,051,475	-4.1
Gross Customs Duty				***Net Customs Duty***			
Q1	32,565	33,928	-4.0	Q1	27,890	28,646	-2.6
Q2	36,115	37,545	-3.7	Q2	32,853	32,850	0.0
Q3	34,471	37,711	-8.6	Q3	31,917	33,581	-5.0
April	11,256	12,139	-7.3	April	10,413	10,420	-0.1
May	11,945	13,882	-14.0	May	11,206	12,494	-10.3
June	18,581	21,610	-12.0	June	17,951	20,393	-12.0
Q4	41,782	47,632	-12.3	Q4	39,570	43,307	-8.6
Total	144,968	156,814	-7.6	Total	132,230	138,384	-4.4

Performance of Major Revenue Spinners of Customs: An in-depth sectoral analysis has been carried out in the following for 15 major commodity groups that constitute around 75% of the CD (See Table 15 for details). The significance of these items can be judged from the fact that they cover 75% of total import value and 84% of dutiable import value. The relative significance of each of these commodity groups within CD is highlighted in Graph 5.



Automobile Sector: Traditionally, the automobile sector is the largest revenue source of CD. A decline of 21.7% in the dutiable imports has reduced collection by 25.2% during FY: 06-07. Since a major chunk of customs duty revenue from this sector is contributed by the import of motorcars/Jeeps, therefore, any change of policy related to motorcars, especially old cars/jeeps has serious repercussions for collection from this source. It may be recalled that a revised policy regime restricting the import of motorcars older than 5 years was introduced in the Budget 2006-07. As a consequence, not only the number of imported cars declined, it also adversely impacted the import value and customs duty as well. It is evident from Table 14 that an overall loss of Rs. 7.6 billion has been recorded during FY: 06-07. Moreover, zero-rating of agricultural tractors in the Budget 2006-07, has also resulted into a further loss of Rs. 0.4 billion (Table 14).

Edible Oils: Despite a significant growth of 22% in imports and 20% in dutiable imports, the collection of CD from edible oils has dropped by 1.3% due to specific rate of duty. Secondly, the switch-over from RBD palm oils to crude palm oils has also been responsible for reduction in customs duties. The reason being that the rate of duty on crude is less than it is on palm oil. Thus, despite 7% growth in the import of palm olien, 13% decline in the collection of CD has been registered. Nonetheless, the loss in revenue is not so significant due to the fact that imports of crude oil have increased substantially, therefore the duty on crude had, to a large extent, compensated for the loss incurred on account of palm olien.

Table 14: CD Collection from Automobile Sector

(Qty in Nos. and Imp & CD in Rs. Million)

	FY: 06-07	FY: 05-06	Difference	Growth (%)
CBU				
No of Units imported	26,967	43,280	-16,313	-38
Import Value	11,655	19,698	-8,043	-41
Customs Duty	7,312	12,084	-4,772	-39
CKD				
No of Units imported	179,188	182,906	-3,718	-2
Import Value	32,829	38,572	-5,743	-15
Customs Duty	11,383	14,246	-2,863	-20
Overall Loss in CD			7,635	

Petroleum Sector: As far as the collection of POL products is concerned, it is relevant to point out that most of the items listed in PCT Chapter 99 under (HS 99.28) are customs duty exempt. These include crude oil, motor spirit, aviation spirit, spirit type jet fuel, JPI, furnace oil and MTBE. However, of all these items, the import of crude petroleum and furnace oil is quite significant. In view of this exemption, the modest growth in CD collection originates from the following two reasons. Firstly, dutiable POL products listed under (HS 27.10) recorded a low growth of only 5% during FY: 06-07. Secondly, the collection from coal also declined during the year as it was zero-rated at the time of announcement of the Federal Budget 2006-07. It appears that the loss of revenue on account of this policy initiative has been quite instrumental in changing the overall complexion of growth from POL products.

Table 15: Sectoral Collection and Growth in Customs Duties

(Rs. Million)

PCT Heads	2006-07	2005-06	Growth (%)
1.Vehiles & Parts (87)	28,245	37,764	-25.2
2.Edible Oils etc (15)	15,743	15,947	-1.3
3.POL Products etc (27)	15,128	15,011	0.8
4.Elect Machinery (85)	11,138	8,932	24.7
5.Mechl Machinery (84)	10,526	12,047	-12.6
6.Plastics (39)	5,427	5,436	-0.2
7.Iron & Steel (72)	5,365	7,224	-25.7
8.Paper & P. Board (48)	3,477	3,292	5.6
9.Organic Chemical (29)	3,350	3,676	-8.9
10.Articles of Iron & Steel (73)	1,889	1,999	-5.5
11. Misc Chem Products (38)	1,742	1,830	-4.8
12.Tanning & Dying (32)	1,581	1,532	3.2
13.Rubber and Articles (40)	1,569	1,579	-0.6
14. Coffee, Tea, etc (9)	1,554	1,548	0.4
15.Man Made Filaments (54)	1,460	1,559	-6.4
Sr. No. 16-99	18,338	17,953	2.1
Defense	7,711	6,744	14.3
Export Dev. Surcharge	2,404	2,287	5.1
Sub Total	*136,647*	*146,360*	-6.6
Other	8,321	10,455	-20.4
Gross	144,968	156,815	-7.6
Refund/Rebate	12,738	18,430	-30.9
Total	132,230	138,384	-4.4

Machinery Group: Electrical machinery and parts grouped in chapter (85) exhibited a robust growth of 22% and 27% in imports and dutiable imports leading to a similar growth of 25% in CD during July-June FY: 06-07. The main items that generated this growth were transmission apparatus of line telephony, and generating sets and rotary converters with exceptional growth of 30% and 70%, respectively. On the other hand, the import of mechanical machinery and parts (Ch: 84) was adversely impacted by decline in imports. The collection of CD declined by 12.6%. A deeper analysis confirmed that major machinery items belonged to textile sector, construction and consumer goods which experienced drop in CD by 43%, 26% and 13% respectively. Moreover, the exemption of computers from CD during Budget 2006-07 has also affected the collection during 06-07.

Iron and Steel Sector: Higher growth in import of iron and steel and articles was recorded during FY: 05-06 due to domestic supply constraints. With the restoration of domestic supply chain, the imports of products listed in Ch: 72 have reduced considerably. Resultantly, the CD also declined by 25.7%. Compared to this, the import of articles of iron and steel (classified in Chapter 73) recorded a positive growth of 13.2%, but the collection declined by 5.5% due to reduction in tariff. The items that experienced such an outcome were containers of compressed or liquefied gas, and other articles of steel.

Projections for FY: 2007-08

Anticipating that the economy will maintain the high growth trajectory and major taxes will also continue to display buoyant posture, the budgetary target for FY: 07-08 has been set rather ambitiously at Rs. 1025 billion, requiring an increase of 21.1% over the provisional collection of Rs. 846.4 billion of FY: 06-07 (Table 16). The projections for FY: 07-08 assume that GDP will grow by 7% in real terms; inflation will stabilize at around 7.5% and total imports to increase by 10%. Furthermore, a modest increase of 3% has been assumed for dutiable imports. Buoyancy estimate of unity is assumed for all federal taxes except for excise duties. Furthermore, the projections for FY: 07-08 also include the expected impact of budgetary and relief measures announced at the time of Federal Budget.

Given that the outturn of individual taxes and growth trajectories are materialized, the projections for FY: 07-08 will result into following tax mix of individual taxes: Direct Taxes 39.5%, GST 37.3%, Federal Excise 9.6%, and Customs Duties 13.7%. The most significant change in this outcome is that there will be a further decline in the share of customs duties compared to FY: 06-07 at the expense of FED whose share will increase due to expansion of base – from imposition of 1% additional duty and extension of FED to all non-fund services of financial institutions.

Table 16: A Comparison of Baseline Collection and Projections

	Provisional Collection FY: 06-07	Projections FY: 07-08	Addition (Rs. Billion)	Growth (%)
Direct Taxes	333.4	405.0	75.3	21.5
Sales Tax	309.3	382.0	72.4	23.5
Federal Excise	71.5	98.0	28.0	37.1
Customs Duties	132.2	140.0	7.9	5.9
All Taxes	846.4	1,025.0	183.6	21.1

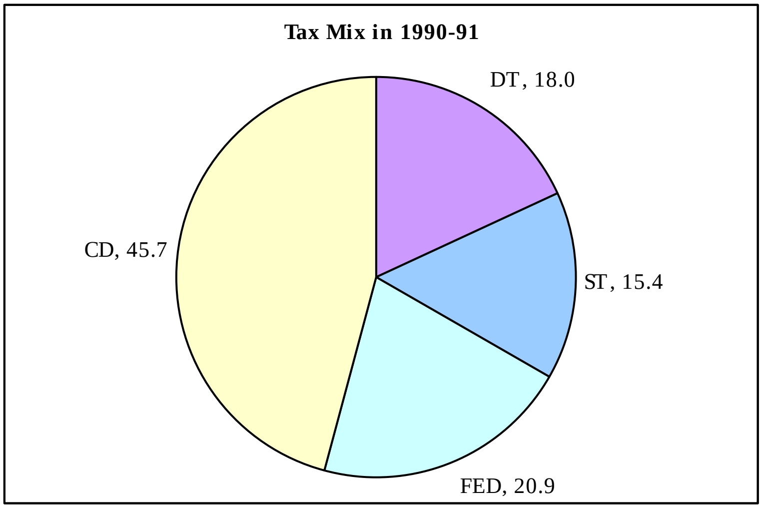
Concluding Observations

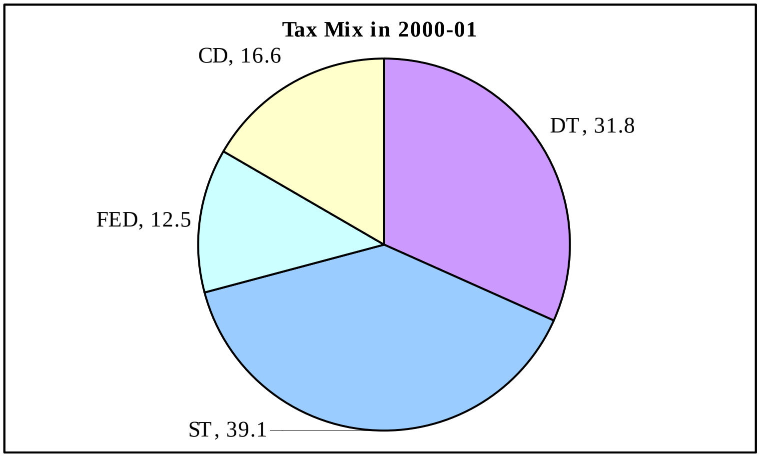
It is a matter of great satisfaction that resource mobilization efforts of CBR have resulted in the accomplishment of start-of-the-year revenue target. Despite unexpected shocks in the shape of slowdown in imports and extra refund claims by energy sector, the tax revenues have not only exceeded the assigned target of FY: 06-07, but a robust growth of above 18% has also been recorded. For the second year running the much criticized Tax/GDP has increased by 0.3%, which is consistent with the overall long-term vision of CBR. The second major achievement during the year has been the unprecedented performance of direct taxes, where substantial gains have been made on account of voluntary compliance compared to other components. In fact, the direct taxes have finally assumed the role of leading tax in term of revenue generation. Not only that the share of direct taxes has increased from 30% to 40%, the direct tax to GDP ratio has also recorded an increase of 0.8%. This change has important implications for the overall tax structure in Pakistan, especially with regard to equity and efficiencies concerns.

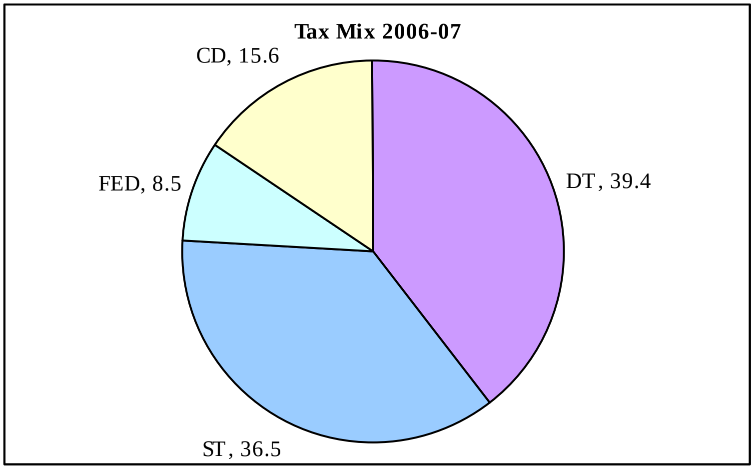
The third important feature has been the inclusion of additional services in the tax net. The base of FED was augmented during the year. This change though not so pronounced yet, is expected to have favorable yield in future, as the existing discrepancy between share of services in GDP and taxes will be narrowed further.

Fourthly, reducing tax distortions has been one of the policy objectives of CBR. In this regard further incentives have been provided to investors and trading entities in terms of rate reduction of raw materials and machinery to bring down the cost of doing business in Pakistan. This fiscal stance has indeed played a positive role in boosting economic activity in the country.

Finally, CBR has maintained the momentum of reforms, both in the shape of policy and administrative changes. It is encouraging that improved infrastructure and better qualified and trained workforce have changed the work ethics for the better. Going forward, keeping in view the remarkable performance of taxes and the economy, a rather ambitious target of Rs. 1,025 billion has been set for FY: 07-08. The revenue organization is fully poised to meet this challenge gracefully as has been the norm during the past four years.


Tax Mix in 1990-91
DT , 18.0
ST , 15.4
FED, 20.9
CD, 45.7


Tax Mix in 2000-01
CD, 16.6
DT , 31.8
FED, 12.5
ST , 39.1


Tax Mix 2006-07
CD, 15.6
FED, 8.5
DT , 39.4
ST , 36.5

II

Impact Evaluation:
An *Ex Post* Analysis of
Budgetary Measures of FY: 06-07[4]

Introduction

CBR is in the process of transformation through tax policy, procedures and administration reforms. In order to make these reforms fruitful, the measures taken in the budgets have got paramount importance in the recent years. The prime thrust of the budgetary measurers has been on the simplification of tax laws, uniformity of rates and above all, boosting tax revenues. Moreover, rates have also been rationalized to facilitate the taxpayers, bringing down the cost of business for trade and industry, and provide further impetus to the growing economy.

During the Budget 2006-07, a number of budgetary measures were introduced in the realm of rationalization of tax rates, expansion of the tax base, reduction of tax burden for lower strata of taxpayers, facilitation of taxpayers, improving tax revenues, and simplification of laws and procedures. The objective of this article is to undertake an *ex post* analysis of the budgetary measures announced in the Budget 2006-07 in the light of *ex ante* projections. The *ex post* analysis of budgetary measures is expected to be helpful in gauging the accuracy of the estimates of the measures and their impact on various sectors of the economy for future policy action. The tax-wise analysis of the important budgetary measures is as follows:

Direct Taxes

Simplification of Salary Taxation: Under the ongoing reforms, tax laws have been simplified. Accordingly, it was necessary to simplify the regime of salary taxation. In the Budget 2006-07, the method of

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[4] Author: Mir Ahmad Khan, Second Secretary (FR&S), CBR.

valuation and taxation of perquisite etc. was rationalized. All the allowances and perquisites are now added to the taxable income. Given the higher level of taxable income (salary plus allowances), it was necessary to (a) raise the basic tax exempt threshold, and (b) to reduce the applied tax rates. Consequently, the threshold was increased from Rs. 100,000 to Rs. 150,000. For female taxpayers, the basic exemption limit was also enhanced to Rs. 200,000. Also the range of applied tax rates was reduced within the range of 0.25% and 20% of the gross salary. Previously, the operative tax rates were in the range of 3.5%-30%.

The three broad categories of salary taxpayers facing direct impact of this change were federal government employees, government other than federal and other institutions. An important aspect of this policy change was that despite wide variety of salary transactions, a concerted effort was made not to put extra tax burden on taxpayers. This objective was, by and large, achieved with very few exceptions.

As far as the overall impact of the measure on the collection is concerned, contrary to targeted loss of Rs. 1.1 billion, an additional sum of Rs. 869 million has been realized during FY: 06-07 with maximum gains emanating from other than federal government employees category (Table 1).

Table 1: Collection of Personal Tax from Salaries

(Rs. Million)

Employees Category	2006-07	2005-06	Difference	Growth (%)
1.Federal Government	3,266	3,433	-167	-5
2.Goverrment, Other than Federal	1,052	632	420	66
3.Other	12,191	11,575	616	5
Total	16,509	15,639	869	5

One of the reasons could be that while the number of federal government employees may have not changed, there was no bar on fresh induction in the private sector. Secondly, the salary structure including allowances has generally improved in the private sector due to improvement in economic activity in the economy that may have resulted into higher taxable income and tax compliance.

Increase in the WHT and CVT on Shares in Stock Market: During the Budget 2006-07, the rates of WHT and CVT on business transactions in stock exchanges were increased as presented below in Table 2. The budgetary change in the rate of CVT and WHT on share market has been favorable. Partly due to upward revision in rates and also due to vibrant activities, the collection has improved from Rs. 2,254 million in FY: 05-06 to Rs. 2,548 million in FY: 06-07 yielding additional tax revenue of Rs. 294 million. Similarly, CVT on the purchase of value of share also increased significantly from Rs. 1,440 million in FY: 05-06 to Rs. 2,239 million in FY: 06-07 with additional revenue of around Rs. 800 million. Therefore, the overall collection from stock market activities has resulted into an additional tax of about Rs. 1.1 billion FY: 06-07.

Table 2: Rates of WHT and CVT for Stock Market in FY: 06-07 and FY: 05-06

Transactions	FY:06-07	FY:05-06
WHT on Purchase of Share	0.01% of the Share	0.005% of the Share
WHT on Sales of Shares	0.01% of Sale	0.005% of Share
WHT on Trading of Shares	0.01% of the Traded Value	0.005% of the traded value
CVT on the Purchase Value of Shares	0.01%	0.02%

Levy of CVT on Investment in Real Estate: The real estate business is flourishing day by day and prices are going up in an unprecedented manner. In order to generate additional tax revenues and bring the real estate business into tax net, CVT @ 2% of the recorded value on purchase of urban immovable property measuring more than 500 sq yards was levied. In case the value of the immovable property was not recorded, CVT was levied @ Rs. 50 per square yards. The minimum threshold of 500 square yards was not applicable in case of commercial property. An initial collection of Rs. 2.2 billion was realized from this measure during FY: 06-07. The break up reflects that CVT collection of Rs. 1.7 billon was contributed by immovable property excluding commercial and residential flats while Rs. 0.5 billion was realized from commercial immovable property. Only a paltry sum of Rs. 13 million was fetched from residential flats during FY: 06-07.

Increasing Income Tax on Cash Withdrawals From 0.1% to 0.2%: In order to encourage documentation and collection of additional tax collection, a new section was introduced in the Budget 2005-06 making every bank to deduct tax @ 0.1% at the time of cash withdrawal exceeding 25,000 rupees. During the Budget 2006-07, the rate of income tax on cash withdrawals was enhanced from 0.1% to 0.2% of the amount withdrawn. Moreover, the limit of Rs. 25,000 per transaction was also changed to per day basis. As a result of this change, the collection of WHT from this source has almost doubled due to doubling of rate. It was anticipated at the time of budget that around Rs. 2.3 billion as additional collection would be fetched and almost the same has been realized.

Levy of Income Tax @ 5% on Income from Property: Earlier on the income from property was subjected to WHT @ 5% if the annual rent exceeded Rs. 300, 000. However, this was applicable to the property rented to federal or provincial government, local authority, a company, or a non profit organization or a diplomatic mission. Due to limited scope, a major part of rental income remained outside the tax net. In order to enhance the scope, fixed tax on gross income was introduced across-the-board. An additional collection of Rs. 334 million from this source has been realized during FY: 06-07.

Sales Tax and Federal Excise

Augmenting the Scope of FED by Bringing new Services under FED Net: [5] More than half of income (output) of the economy originates from services sector, but its contribution to tax revenues has remained low. In an effort to step up tax revenue from services sector, five additional services were brought into the fold of FED in the Budget 2006-07. The outcome has been far below expectations as highlighted in Table 3.

Table 3: Collection of Federal Excise from Services

(Rs. Million)

Items	Collection	Projection
Levy of FED on International Air Travel	2125.0	3,500
Levy of Fixed FED from Cable Operators	0.3	500
Levy of 5% of FED on Non-Fund Services Provided by the Banks	668.9	2,200
Levy of 5% of FED on Commission/Brokerage of Foreign Exchange Dealers, Exchange Companies and Money Changers	1.0	300
Levy of 5% FED on Franchise Services	632.6	900
Total	**3427.5**	**7,400**

Enhancing the Rate of FED on Gross Premium of Services Provided by Insurance Companies except Life Insurance: A lower rate of 3% was prevalent on insurance services for quite some time. This stagnation in rate resulted into gradual reduction in tax revenue from insurance business. In order to enhance its share contribute due share by the insurance companies to the national exchequer, the rate was raised from 3% to 5% of the gross premium in the Budget 2006-07. There are 16 insurance companies that have contributed FED on insurance services. The outcome of the measure has been rewarding

[5] This segment has already been discussed in the analysis section. However, it is being reproduced for completeness purpose.

from the fact that a colossal growth of 81.8% has been accomplished during FY: 06-07. In absolute terms, the rate enhancement has resulted into an additional sum of Rs. 648 million in the collection of FED from insurance.

Levying Sales Tax on Printed Retail Price on Consumer Items: According to the existing VAT system, tax is paid on value addition attributed to each stage i.e., from manufacturing to retail sale. It was felt that distributors/wholesalers etc. were not paying due sales tax. In order to ensure proper payment, sales tax was levied on printed retail price for some consumer items in the budget FY: 06-07. The items included spices, electric bulb including saving lamps and fluorescent tube lights, snacks including potato chips, and shoe polish and shoe cream. All these items were inserted in the third schedule of Sales Tax Act, 1990 while footwear was excluded from the schedule because of leather and fabric footwear were already zero-rated. Detail of the collection of sales tax has been presented in Table 4. Due to this measure, the collection of these items has exhibited additional collection of Rs. 48.6 million during FY: 06-07 as compared to corresponding period last year.

Table 4: Collection of Sales Tax (Net) From Certain Items

(Rs Million)

Commodities	FY: 06-07	FY: 05-06	Difference
Spices	75.4	33.4	42.0
Macaroni	0.4	0.3	0.1
Bulb & Tubes	68.7	26.5	42.2
Potato Chips	3.5	6.0	-2.5
Shoes Polish & Cream	220.0	175.5	44.5
Tissue Papers	2.1	2.4	-0.3
Footwear	-36.7	40.7	-77.4
Total	**333.4**	**284.8**	**48.6**

Upward Revision of Retail Price of Cigarettes: Traditionally, cigarettes industry has been a vital source of tax revenues**.** Since FED tariff is directly related with retail prices of cigarettes, any fluctuation in retail price requires adjustment in the FED. Despite irksome issues like smuggling and counterfeit manufacturing of cigarettes, the cigarette industry is contributing bulk of tax revenues in FED and sales tax. In response to 7% increase in the retail price of cigarettes, the upward adjustment in FED has been undertaken in the Budget 2006-07 as indicated in Table 5.

Table 5: Upward Adjustment of FED Due to Increase in Retail Price of Cigarettes

Slabs	Threshold FY: 06-07	Threshold FY: 05-06
Upper	63% of the Retail Price	63% of the Retail Price
Medium	Rs. 2.63 per 10 cigarettes plus 69% incremental rupee or part thereof	Rs. 2.45 per 10 cigarettes plus 69% incremental rupee or part thereof
Lower	Rs. 2.63 per ten cigarettes	Rs. 2.45 per ten cigarettes

The collection of FED has gone up by 18% during FY: 06-07. A significant additional increase of Rs. 4.1 billion is mainly due to increased prices (Table 6).

Table 6: Comparison of the Collection of FED from Cigarettes

(Rs. Million)

Quarter	2006-07	2005-06	Difference	Growth (%)
Q1	42,26	4,388	-162	-3.7
Q2	6,383	5,574	809	14.5
Q3	6,888	6,267	621	9.9
Q4	9,505	6,679	2826	42.3
Full Year	27,000	22,908	4092	17.9
With Growth Adjustment (2%)	*27,000*	*23,366*	*3,634*	*15.6*

Zero-Rating of Compost: The use of compost is gradually increasing over time. In order to further encourage the usage of compost and to provide incentives to the nascent industry, sales tax on compost was zero-rated during the Budget 2006-07. A loss of around Rs. 22 million was incurred during FY: 06-07. Despite loss in tax collection, this measure would be helpful in encouraging organic farming, efficient utilization of water resources, efficient waste management and provide import substitution of chemical fertilizer.

*Taxation of Computers and Parts***:** This measure has to be analyzed together with the customs duty regime where during FY: 05-06, the rate of duty on all sorts of computers was 5% while PCs and laptops were exempt from CD if brought as accompanied baggage. During the budget 2006-07, it was decided to bring the computer and hardware in the sales tax net, while at the same time these should be exempted from customs duty across-the-board. This re-arrangement was felt necessary to support the local industry against imported computer hardware as the local manufacturers would be entitled to claim input adjustment while imported products will be subjected to upfront incidence of 15%.

As a result of this initiative, the imports of computer and hardware grew by only 0.5% while an additional collection of Rs. 2.1 billion as sales tax import has been realized during FY: 06-07. Similarly, an additional collection of Rs. 247 million as sale tax (domestic) has been recorded. Contrary to this, CD from computer and parts reduced by Rs. 651 million during FY: 06-07. Thus, the combined impact of the measure in terms of sales tax and customs has been an improvement of collection by Rs. 1.7 billion.

Customs Duties

The policy of tariff rationalization and reduction is being continuously pursued for the last two decades. Within this perspective, a host of budgetary measures related to customs duties were announced in the Budget 2006-07. These were generally related to further rationalization and reduction of tariff rates for different commodities especially, raw materials and machinery.

Reduction of CD on Import of Plastic Raw Materials/Items: During Budget FY: 05-06, duty rates of raw materials of plastics were revised downward from a range of 10% to 25% to 5%, 10%, 15% and 20% in FY: 06-07. Due to tariff reduction, the import has substantially surged by 42% during FY: 06-07. The strong growth in imports has almost compensated for the loss in CD due to tariff reduction hence the overall impact of the policy has been neutral.

Exemption from CD of Agricultural Tractors (CBU): Agriculture is the backbone of the economy of Pakistan. The government had already taken a number of initiatives in the recent years to boost the sector further. As of last year, the import of completely knocked down (CKD) Kit for assembly of tractors was exempt but import of agricultural tractors in CBU condition was subjected to 15% customs duty. In order to bridge the gap between the demand and availability of agricultural tractors, agricultural tractors were exempted from customs duty during FY: 06-07. Due to this exemption, a loss of Rs. 409 million has been recorded in the collection.

Reduction of CD on Import of Machinery: According to the on-going policy of encouraging the inflow of machinery in the country to expand the industrial sector, the customs duty rates were slashed from 10% - 25% to 5% - 20% on different types of machineries. The belief was that the duty reduction will benefit a wide spectrum of industries, including textile, cement, agriculture, power generation, boilers, laundry, lifting, handling, loading/unloading sectors etc. Quite expectedly, this policy intervention has resulted into an increase in imports of electrical machinery & equipment by around 17%. However, due to reduced rates, the collection of customs duty has come down by Rs. 82 million. Similarly, while the import of mechanical machinery increased by 10.4%, a loss of Rs. 169 million has been recorded. The main item which caused this loss was less imports of cement machinery (Table 7).

Table 7: Collection of CD from Electrical and Mechanical Machinery

(Rs Million)

	FY: 06-07	FY: 05-06	Diff	Growth in CD (%)	Growth in Imports (%)
Electrical Machinery	1,036	1,205	-169	-14.0	10.4
Mechanical Machinery	710	792	-82	-10.4	17.1
Total	**1,746**	**1,997**	**-251**	**-12.6**	**12.3**

Reduction of CD on Chemicals: Chemicals are used in many industries as raw materials. To ensure availability of raw materials at cheaper rates, CD on chemicals was reduced from 25%, 20%, 15% and 10% to 20%, 15%, 10%, 5%. The rationalization of CD has been taken place in PCT Chapters 28, 29, 32, 33, 34, 35, 38. Due to tariff reduction on items, the collection has reflected a decline of Rs. 241 million during FY: 06-07. It is evident from Table 8 that the growth in import of all the chemicals has gone up except inorganic chemicals.

Table 8: Comparison of the Collection of Different Chemicals During FY: 06-07

(Rs Million)

Chemicals	Customs Duties				Growth in Imports (%)	Growth in Dutiable Imports (%)
	06-07	05-06	Diff	Growth (%)		
Inorganic Chemicals	27	50	-23	-46.0	-6	0
Organic Chemicals	124	227	-103	-45.4	2	1
Tanning or Dyeing	58	103	-45	-43.7	3	8
Essential Oils	10	10	0.0	0.0	55	55
Polish & Cream for leather etc.	2	1	1	100	169	156
Albuminoidal substances (Starches, glues and enzymes)	48	56	-8	-14.3	10	10
Misc Chemicals	331	394.0	-63	-16.0	34	27
Total	600	841	-241.0	-28.7	15	13

Reduction of CD on Flat Rolled Steel Products and Allied Items: Iron and steel industry plays a vital role in the expansion of the economy. During FY: 05-06, flat roll products were subjected to pay

CD @ 10% and 25% on primary and secondary quality products respectively. In order to reduce the gap, CD was lowered from 25% to 20% for secondary quality steel products; on other allied items of steel it was reduced from @ 10-25% to 5-20% in the budget 2006-07. This tariff reduction was intended to lower the input cost of steel and construction sectors. However, despite these incentives, an overall loss of Rs. 383 million has been recorded Table 9.

Table 9: Collection of CD from Steel Sector during July-June

(Rs Million)

Steel Products	Tariff Rates	06-07	05-06	Diff	Growth (%)	Growth Imports (%)
Flat Rolled Steel Products	25% to 20%	2,357	2,668	-311	-12	3
Semi Products of Iron or non-alloy steel	10% to 5%	56	152	-96	-63	-27
Containers of Compressed or Liquefied gas, of Iron and Steel (7311)	25% to 20%	20	105	-85	-81	-6
Tubes, pipes and hollow profiles seamless of iron (7304)	25% to 20% and 15%	79	245	130	115	88
Other Articles of Steel		2	7	-5	-71	71
Total		2,679	3,062	-383	-12	4

Revision of Scheme of Import of Old and Used Motor Vehicles: The automobile sector is an important sector for two reasons: its capacity to generate revenue receipts, and its potential to have favorable impact on up- and down-stream industries. According to the previous trade policy, the import of used and old vehicle up to 3 years old was allowed through gift scheme (GS) and personal baggage (PB) scheme. However, no age limit was imposed on the transfer of residence (TOR) scheme.

In order to restrict the inflow of older vehicles to avoid environment hazards and high maintenance costs, a uniform policy with respect to aging was implemented. Accordingly, the age of used and second-hand vehicles was restricted to 5 years. It is clear from the Table 10 that after this policy, the imports of vehicles under TOR scheme strongly drifted to PB scheme. In the process, the loss in CD was incurred that could not be compensated. The decline in the overall number of vehicles and the import value reduced the CD receipts by Rs. 4.8 billion during FY: 06-07. The major drop was in the number as well as value of import of jeeps (4x4), which alone resulted into a revenue loss of Rs. 3.1 billion.

Table 10: Import of CBU Motor Cars/ Jeeps During: FY: 06-07 & FY: 05-06

(Value and CD in Rs. Million; Quantity in Nos.)

	2006-07			2005-06			Variation	
	Quantity	Value	CD	Quantity	Value	CD	Quantity	CD
TOR	6,842	1,969	1,129	29,112	10,731	6,589	-22,270	-5,460
PB	16,554	6,163	3,910	5,818	2,791	1,456	10,736	2454
GS	87	67	147	2,954	1,948	1,322	-2,867	-1,175
Other	3,484	3,456	2,126	5,396	4,228	2,717	-1,,912	-591
Total	26,967	11,655	7,312	43,280	19,698	12,084	-16,313	-4,772

Concluding Observations

The projected impact of budgetary measures announced in the Budget 2006-07 was generation of additional amount of Rs. 8.4 billion. The tax-wise break-up of this amount was projected to generate an additional collection of Rs. 2 billion from direct taxes and Rs. 13 billion from sales tax and FED. On the other hand, a loss of Rs. 6.6 billion was projected in case of customs duties. The analysis of the measures selected in this article has shown that *ex ante* estimates of direct taxes were comparatively more accurate. However, significant divergence in the two has been found for indirect taxes. For instance, the realized collection of Rs. 10.5 billion for sales tax and FED has been short of projections by Rs. 3.1 billion. Major discrepancy has been found in services and cigarettes. Similarly, against the projected loss of Rs. 2 billion for selected measures related to customs duties, the realized loss has been quite high due to substantial under-estimation in the case of vehicles. This state of affairs highlights the need of the use of more sophisticated model for impact analysis rather than continuing with ad hoc approaches.

III

Industry Profile: The Edible Oil Industry in Pakistan[6]

Introduction

The edible oil and ghee are essential food items of human diet since time immemorial. However, in modern times its overall production and consumption has increased significantly due to growing population, increasing levels of prosperity, and changing lifestyle. Pakistan is no exception to this phenomenon. During last 15 years the production of vegetable ghee has witnessed a growth of more than 70%. The industry is heavily dependent on various types of oilseed that are now cultivated/ produced all over the world due to competitive prices that they fetch. Among these varieties, palm oil has gained increasing importance due to its qualities and abundant availability. Its supply has increased from 26.1 million metric tons in 1994-95 to 67.4 million metric tons in 2006-07.

Pakistan, to a large extent, was meeting its edible oil requirements till late sixties. However, lack of proper attention on the production of local oilseeds led to dependence on imported edible oils. In 1972 oil and ghee industry was nationalized and the state owned Ghee Corporation of Pakistan was established. With the initiation of the process of deregulation and privatization in 1980s, the oil and ghee industry was also privatized. Currently, it has a clear dominance (rather monopoly) of the private sector. There are about 150 units of edible oil and oil extraction in Pakistan, involved in extraction and production of various cooking oils and ghee.

The present study aims at analyzing the various dimensions of the edible oil industry, including its historical evolution, size, manufacturing processes of cooking oil and ghee, and the trade

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patterns of palm oil in the world. The most important part of the study relates to tax contribution by the Industry in Pakistan. The final part of the study also highlights issues and concerns to offer way forward.

Manufacturing Process

The vegetable oils are extracted from crops like soybeans, corn, sunflower, cotton seeds, rapeseeds, palm kernel, and olives. The soybean oil has been the leading vegetable oil till 1950's; however, later the supplies of other oils, like palm and rapeseed, grew rapidly. A variety of raw oils are used for manufacturing of cooking oils in the world. In Pakistan the edible oil industry uses palm olein, soybean oil, corn oil, cottonseed oil, rapeseed oil, sunflower oil and canola oil for manufacturing of edible oil and ghee.

There are eight major process in the oil mills is the refining of raw vegetable oil to make it edible oil or ghee. These are: de-gumming, pre- and post-neutralization, pre- and post-bleaching, hydrogenation, deodorization, and fortification. Although the manufacturing of cooking oil is similar to ghee manufacturing, however, hardening (hydrogenation) of the cooking oil is not required. Therefore, functions of hydrogenation, post-neutralization, post-bleaching, and post-filtration are not performed in this case.

Size of the Industry and its Contribution to Economy

The edible oil industry plays a key role by supplying the essential food item to the population of around 158 million in Pakistan. While the share of the edible oil in manufacturing sector is 2.6%, in Large Scale Manufacturing (LSM) it is 5.5% (Pakistan Economic Survey: 2006-07). Two types of activities are carried out by the Industry: the oil extraction and edible oil manufacturing. For this purpose oil solvent extraction plants and edible oil/ ghee manufacturing units are installed in the country. The number of extraction units currently operational is 50 with crushing capacity of three million tons. The current utilization is 1.5 million tons [Pakistan Oilseed Development Board (PODB) and Pakistan Vanaspati Manufacture Association (PVMA)]. There are around 100 manufacturing units of edible oil and ghee, with three million tons capacity and 2.1 million tons utilization.

The cottonseed is the major domestic input of edible oils in Pakistan. Other inputs like Canola, rapeseed, mustard and safflower are *Rabi* season oilseed crops, while sunflower, soybean, groundwater, sesamum and castor are *Kharif* season crops. The total requirement of edible oil raw materials during 2005-06 was 2.905 million tons, of which 73% was met through imports. The local production of various oilseeds is given in Table 1.

Table 1: Production of Major Oilseed Crops in Pakistan

(000 Tons)

	2004-05		2005-06	
	Seed	Oil	Seed	Oil
Cotton seed	4470	536	3980	478
Rapeseed	203	64	188	59
Sunflower	569	205	612	220
Canola	144	52	162	58

Source: PODB

The international comparison reveals that during 2005-06 the top producer of cotton seed oil has been China with 29% share in world production, followed by India with a share of 18.4%, Pakistan 10.3%, USA 9.3% and Canada 4.5%. European Union has been the leading producer of rapeseed with around 32% share in the world production followed by China (26.8%), Canada (19.8%), India (14.4%) and Pakistan produces only 0.4% of world production. Pakistan produced 612 thousand tons of sunflower seeds during 2005-06, whereas India produced 1550 thousand tons during the same period.

Capital-Raising though Stocks: The capital-raising through stocks is a common practice in the world, which is not only beneficial for listed companies but also provides opportunity for the individuals to invest their capital. Despite several benefits enjoyed world over, the companies for some peculiar reasons avoid getting listed in Pakistan. Out of long list of manufacturers of edible oil and oil extractors only few have opted to get listed with stock exchanges. Effectively there are only 14 companies listed with Karachi, Lahore and Islamabad stock exchanges (Source: Stock Exchanges at Karachi, Lahore, and Islamabad).

World Trade Pattern of Palm Oil

Palm oil is the most traded vegetable oil in the world. Major producers of palm oil are Malaysia and Indonesia with around 50% and 30% share in global production respectively. Malaysia exports 84% of its total production, whereas Indonesia exports 40% and the rest is consumed at home. Other palm oil producing countries are Nigeria (2.6%), Thailand (2.2%), Columbia (1.9%) and rest of the world around 13%. Currently China is the major importer of palm oil from Malaysia, followed by European Union and Pakistan (Table 2). This means that Pakistan is in a good bargaining position to negotiate import price. Nonetheless, since talks are underway for FTA between Pakistan and Malaysia, it is expected that in response to preferential treatment for Pakistan's textile products, Pakistan may also grant a similar treatment for import of Malaysian palm oil.

Table 2: Major Palm Oil Importing Countries from Malaysia

Country	Jan-Apr 2007 Share (%)	Jan-Dec 2006 Share (%)
China	43.3	40.7
EU-27	28.6	29.3
Pakistan	11.4	10.9
India	6.9	6.4
USA	7.6	7.8
Bangladesh	2.3	5.0
Total	100.0	100.0

*Source: * Malaysian Palm Oil Board (MPOB)*

Import Demand: The edible oil requirement of Pakistan is around three million tons and the demand is increasing by about 5% per annum. As indicated, Pakistan is deficient in edible oil inputs. Only 27% of requirement is met through domestic supplies. Since palm oil is the most widely used imported raw material in the ghee industry, it registered 42% growth during last four years. Even though there are more than 100 importers of edible oils in the country but only some of them have enough market strength. In fact, the share of top 20 importers has been about 66% and the share of top five importers is around 32%. According to import statistics related to FY: 06-07, major importers of oil were: IFFCO Pakistan with 8.6% share, followed by MAPAK (8.5%), Cargil Pakistan Holdings (5.8%), Madina Enterprises (5.5%), Tahir Omer Industries (3.7%), Habib Oil (2.3%), Dalda Foods (2.2%), and Hunza Ghee Industries (1.8%). The import value of various types of edible oil as per Pakistan Tariff Classification is presented in Table 3 for ready reference.

Table 3: Value of Imports of Edible Oil Related Items

(Rs. Million)

PCT Chapters		Import Value			
		2004-05	**2005-06**	**2006-07**	**Growth (%)**
15.07	Soya-bean oil and its fractions.	1,779.9	1,228.1	2,218.0	24.6
15.11	Palm oil and its fractions.	38,122.1	44,419.8	54,175.5	42.1
	Palm Olein (1511.9030)	31,917.4	35,807.0	38,415.0	20.4
	Sub-total	*39,902.1*	*45,647.9*	*56,393.5*	*41.3*
	Others	4,244.1	4,228.2	4,558.0	7.4
12.05	Rape or Colza Seeds	11,417.7	14,208.1	17,345.4	51.9
	Total	*55,563.9*	*64,084.2*	*78,296.9*	*40.9*
	Total Value of Imports	**1,306,517**	**,713,389**	**1,852,136**	**41.8**

Source: CBR Data Bank

Tax Base and Compliance

According to CBR database there are 244 GST registered units well spread in the categories of manufacturers, distributors, wholesalers, importers in the sales tax domestic (Table 4). From 2004-05 onwards around 24% growth has been witnessed in the number of registrants, including 22% growth in manufacturing units, importers 47%, distributors 15% and wholesalers 11%. Of 244 registered units, 202 have filed their sales tax during 2006-07, showing a compliance level of about 83%. Comparing historically, virtually there is no improvement in compliance level even though the number of return filers has increased. The mystery lies in the plain fact that the tax base has also increased during these years. A deeper analysis highlights an interesting point that the compliance level of manufacturers was 94% in 2004-05 that dropped to 92% in 2005-06. It has further declined to 82% in 2006-07. This gradual decline in compliance by manufacturers needs further investigation considering the revenue implications of such a change. Compared to this, the compliance rate of wholesalers has suddenly jumped from 50% to 84% a change that also needs further review to understand the motivational factors for such an improvement.

A further analysis confirms that the compliance status of those who registered between 2005-06 and 2006-07 has been better than earlier registered persons. In fact, all the 25 units registered in 2005-06 have submitted their sales tax returns by 2006-07 irrespective of the category they belonged to. A similar profile has been witnessed for the recently registered persons. This clearly indicates that the problem of non-compliance lies with those registered in or earlier than 2004-05. In particular, the manufacturers’ category has the most serious problem, which is quite amazing. Out of 101 registered manufacturers, 95 filed their sales tax returns in FY: 04-05, this number reduced to 81 and 73 in the two subsequent years, thereby reducing the compliance rate from 94% to 80% and 72%, respectively.

Table 4: Sales Tax Domestic Base and Return Filers of Edible Oil Sector

Categories	2004-05		2005-06		2006-07	
	ST Base	Return Filers	ST Base	Return Filers	ST Base	Return Filers
Manufacturers	101	95	115	106	123	101
Importers	21	18	25	22	31	26
Exporters	14	11	16	13	19	17
Distributors	33	25	35	27	38	30
Wholesalers	28	14	30	15	31	26
Retailers	0	0	1	1	2	2
Total	**197**	**163**	**222**	**184**	**244**	**202**

Source: CBR Data Bank

Since it is now mandatory to disclose the National Tax Number (NTN) on sales tax returns, the information presented in Table 5 is quite revealing. On the whole the compliance to this requirement has improved over time from 90.2% in 2005-06 to 94.1% in 2006-07, which is encouraging but the scary part is the decline in income tax compliance by the edible oil sector. Whereas 45.2% of those who declared NTN had filed income tax returns during 2005-06, this rate declined to 36.8% in 2006-07. The detailed data further confirms that even though low income tax compliance is a common feature among all categories, those registered as distributors of edible oil IS the worst-compliant group.

Table 5: Compliance in Sales Tax and Income Tax by Edible Oil Sector 2005-06

(Numbers)

Categories	Sales Tax Filers		NTN on ST Returns		Ratio (%) Declaring NTN		Income Tax Filers		Income Tax Compliance (%)	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Manufacturers	106	101	93	98	87.7	97.0	41	45	40.6	45.9
Importers	22	26	21	26	95.5	100.0	11	6	52.4	23.1
Exporters	13	17	13	17	100.0	100.0	6	1	46.2	5.9
Distributors	27	30	23	29	85.2	96.7	7	11	30.4	37.9
Wholesalers	15	26	15	20	100.0	76.9	10	7	66.7	35.0
Retailers	1	2	1	0	100.0	0.0	0	0	0.0	0.0
Total	184	202	166	190	90.2	94.1	75	70	45.2	36.8

Tax Structure

It is pertinent to clarify that, wherever applicable, GST has a uniform rate of 15% on domestic production and sales and imports. However, rate of customs duty does vary according to different categories of edible oil. For instance, palm olien (HS 1511.9030) is taxed at specific rate of customs duty of Rs.9050/MT, RDB Palm Oil (HS 1511.9020) Rs.10800/MT. Despite these statutory rates, the effective rate of duty is governed by SRO 565(I)/2006. According to this SRO, items like crude soya-bean oil, crude palm oil, crude coconut oil, and RBD coconut oil face customs duty at 10% ad valorem, whereas the rate of customs duty on palm stearin is 5% ad valorem.

Similarly, despite the statutory rate of federal excise duty (FED) of 15% ad valorem at the import stage, where applicable, the effective rate of Rupee one per kg on edible oils, vegetable ghee, and cooking oil is being charged currently.[7] This payment constitutes the final discharge of liability in respect of manufacturing/ production of edible oil, ghee and cooking oil and no FED is, therefore, chargeable on the domestic production of these items. The exporters of ghee/cooking oil are entitled to drawback of FED paid at import stage. In respect of ghee/cooking oil made from domestic inputs the sales tax @ 15% is applicable.

In the recent budget of 2007-08 the import of Rape or Colza seeds (HS Code 1205.0000) has been zero-rated and the sales tax domestic on cottonseed oil has also been exempted.[8] Finally, the corporate rate of 35% is applicable for all types of corporate earnings. Similarly, until July 2007, withholding tax of 3% was applicable when various types of edible oils were imported by manufacturers and WHT of 6% was applicable for all ‘other’ types of importers.

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[7] SRO.24 (I)/2006

[8] See Sixth Schedule to the Sales Tax Act, 1990, effective from the 9th June, 2007.

Tax Contribution by the Industry

Over the years the tax contribution of edible oil industry relative to total CBR taxes has been stagnant at 3.5%. Similarly, its contribution in terms of GDP has also been sticky at 0.35%. Both these factors indicate that despite expansion in the economy as well as the industrial base, the tax contribution has not been buoyant, which is quite surprising. To find out the real reason for this outcome, separate analysis for direct and indirect taxes has been carried out in the following.

Indirect Taxes: The edible oil being an essential food item has great importance from various aspects. The demand for this product has been inelastic, implying that consumption never declines in response to price variations. In fact, over the years its consumption as well as prices both have increased manifold. Resultantly, the indirect tax revenues generated from edible oil industry also increased from nearly Rs. 22 billion in FY: 04-05 to Rs. 29 billion in FY: 06-07 (Table 9).

Table 9: Tax Contribution by Edible Oil Sector

(Rs .Million)

Heads	2004-05	2005-06	2006-07
Customs	13,373.5	15,946.8	15,743.0
Sales Tax (M)	6,745.8	8,199.1	11,285.5
FED (Import)	1,923.6	1,737.0	2,127.3
Income Tax with Returns	458.6	436.3	390.2
Withholding Tax on Imports	1666.9	1922.5	2324.7
Total	24,168.4	28,241.7	31,870.7
Percentage share of collection from edible oil in respective taxes and GDP			
Customs	10.2	10.2	10.9
Sales Tax (M)	4.7	4.8	6.4
FED	3.6	3.1	3.0
Income Tax	1.0	0.9	0.7
Total Federal Taxes	3.5	3.5	3.4
GDP	*0.36*	*0.36*	*0.36*

Source: DRS, ST Computer Wing, PRAL

Tax Collection at Import Stage: Surprisingly, this entire amount of tax is collected at import stage in the shape of customs duties, sales tax, FED, and WHT. The overall collection on account of these taxes has been around Rs. 29 billion in 2006-07 against Rs. 22 billion in FY: 04-05 (Table 10).

The share of customs duties has been around 50% of revenue from edible oil at import stage. The contribution of sales tax, FED and WHT at import stage is 35.8%, 6.8% and 7% respectively. Further tax-wise details indicate that the collection of customs duties have increased by 17.7% during last three years, whereas sales tax and federal excise collection grew by 37.6% and 22.5% during the same period. The major source of revenue has been palm olein with about 61% share in total revenue realized from edible oils at import stage.

Table 10: Revenue Collected at Import Stage from Edible Oils

(Rs. Million)

Chapters		Collection			Growth (%)
		2004-05	2005-06	2006-07	
15.07	Soya-bean oil and its fractions	284.5	410.0	397.5	39.7
15.11	Palm oil and its fractions	18,741.2	22,150.6	25,048.5	33.7
	Palm Olein (1511.9030)	15,731.9	17,915.8	17,861.1	13.5
	Sub-total (1+2)	19,025.7	22,560.6	25,445.9	33.7
	Others	2,968.0	3,236.3	3,777.9	21.6
	Total (Ch.15)	**21,993.7**	**25,796.9**	**29,223.8**	32.9
12.05	Rape or Colza Seeds	1,716.1	2,008.5	2,256.7	31.5
	Total	**23,709.8**	**27,805.4**	**31,480.5**	32.8

Income Tax with Returns

Even though income tax is an effective tool to maintain progressivity of tax system and to reduce poverty, but it is unfortunate that many industrial concerns, including the edible oil industry, are not fully tax compliant. The gap between the level of economic activity and tax payment by oil and ghee sector is quite evident. The tax with returns has been quite insignificant – about 0.1% of gross income tax receipts during the last three years (Table 11).

Table 11: Income Tax Paid by Edible Oil Sector

(Rs. Million)

Years	Tax Paid with Returns	Share (%) Tax Paid with Returns
2004-05	458.6	0.08
2005-06	436.3	0.01
2006-07	390.2	0.14

Source: PRAL

Issues and Concerns

Indigenization: It is rather unfortunate that an agrarian economy like Pakistan has to rely so heavily on imported edible oils and in the process spend a hefty hard-earned foreign exchange. Currently, Pakistan spends more than Rs. 75 billion (US$ 1.2 billion) per annum on the import of edible oil and related raw materials. This situation calls for dedicated research on how to indigenize the source of supply for the industry. May be there is a need to revisit the functions of the PODB established since 1994-95 for enhancing the local production of edible oil. PODB is responsible for promotion of oilseeds crops and oil bearing trees such as canola, sunflower, oil palm and olive in the country.

Exports: Pakistan exports only a small portion of its domestic production of edible oil/ ghee to the neighboring countries, particularly Afghanistan. However, recently, the quantum of exports to Afghanistan has declined by about 20%. How viable are exports given the fact that bulk of raw material is imported and value addition is quite small, remains critical concern for future planning?

Unprocessed Vegetable Ghee and Oils: Many in Pakistan are worried about sale of substandard and unprocessed ghee and vegetable oils in the market. PVMA believes that inefficiency and corruption in regulatory and quality control bodies has been responsible for this situation. Others nonetheless believe that all stakeholders have the joint responsibility of marketing quality products, as it is unkind to play with the lives of fellow citizens.

Environmental Hazards: The environmental degradation by the industrial sector is another serious concern. The processes of de-gumming, neutralization, bleaching, deodorization and hydrogenation generate huge quantity of waste water. Voices are being raised against highly concentrated carbon monoxide emission and damaging air pollution. Similarly, civic bodies are also concerned about occupational health and safety standards.

Concerns of the Industry: Recently, the Industry has also reacted against the selling of edible oil/ghee at the subsidized rates at Utility Stores. The PVMA believes that duties and taxes are also high. It also has reservations over non-imposition of GST on tin-plate in FATA/ PATA, which according to its members, is damaging the industry located in the other parts of the country. Most of these concerns are debatable. Efforts are going on at appropriate levels to find an amicable solution to these problems.

Concluding Remarks

The study has shown that the edible oil industry has a leading role to play in Pakistan. However, heavily reliance on imported raw materials on the one hand and forward shifting of tax incidence on the other are the two most serious issues that have far reaching implications. The first issue has adverse ramifications for trade balance while the other certainly has an adverse impact on poor segments of the society. Considering that Pakistan is an agrarian economy with favorable climate conditions, it is quite surprising why indigenous varies of edible oil have not been developed. There is no doubt that some effort has been made in past, but was it a total failure or the cultivators have shown little interest to such an effort needs to be highlighted by responsible authorities for the benefit of various stakeholders.

Through a detailed analysis it has been shown that the structure of taxation of edible oil industry is skewed towards indirect taxes, especially at the import stage. This is not unique for edible oil industry in Pakistan. Most of the industrial units appear to be satisfied with indirect taxation. There are no qualms about transferring the burden of these taxes to final consumers, as the demand for their product is highly inelastic. What is more striking is the unfortunate fact that very little amount is paid in the shape of income and corporate taxes. Not only that the amount paid with returns is rather insignificant, but, the compliance rate of edible oil manufacturers has declined over the years from 45% to 37% only!

For CBR it has always been a disturbing situation. Fortunately, however, as part of reform program, CBR has now developed a reasonably robust database that allows it to cross-match information related to direct and indirect taxes to deal with such delinquencies. Initial effort to carry-out joint income tax and sales tax audit of randomly selected taxpayers has already been initiated. It is anticipated that with complete roll-out of this audit initiative, a sound deterrence will be in place to check tax evasion and avoidance in a thoroughly professional manner. Resultantly, the existing gap between tax potential and its actual realization is expected to narrow down for all, including the edible oil industry.

IV

How to Raise Tax/GDP Ratio? Learning from International Experience[9]

Introduction

Pakistan traditionally has low Tax/GDP ratio when compared with other developing economies of the world. On the face of it, this phenomenon reflects somewhat low tax effort on the part of tax administration. However, in-depth analysis confirms that there are wide variations in the way this indicator is derived across countries. Similarly, the composition of the economy between agriculture, manufacturing and services sectors, and the level of exemptions to certain sectors vis-à-vis others render such a comparison almost meaningless. However, notwithstanding these concerns, an exposure to international experience is always beneficial to improve the existing systems and procedures rather than reinventing the wheel. For Pakistan in particular, learning from international experience could be extremely useful as many successful economies in the world were at a similar position sometime ago but they have managed to improve their tax effort substantially. Turkey is among the list of countries that has recorded success in its taxation structure through a combination of tax policy and administrative reforms. Thus, there are lessons to learn from their experience.

The objective of present study is to review policies and initiatives undertaken by the Turkish Tax Administration (related to income and corporate taxes only) that allowed it to boost its tax collection and record substantial gains in Tax/GDP ratio within a relatively short span of time. The review and analysis is based on personal interactive meetings with the tax experts of the Turkish Tax Administration and visits to various field offices and data

[9] Author: Mr. Sajjad Ali, Chief (Income Tax Policy), Direct Tax Wing, CBR.

management center which proved very useful in understanding the Turkish system to draw comparisons with the Pakistani tax system. The study starts with a brief review of Turkish Structure of Administration and then moves on to specific details related to income and corporate taxes. It also provides detailed information of two important issues, namely, agriculture taxation and tax/GDP ratio. The final section of the paper offers recommendations in the light of Turkish experience.

Structure of Tax Administration

In Turkey, Ministry of Finance of Presidency of Revenue Administration, administers both VAT and Income Tax. The Customs Department is under the Prime Ministry. The old organization structure is such that the Presidency is headed by a Commissioner who reports directly to the Finance Minister. The existing organizational structure is a bureaucratic in nature which was supervised and headed by the civil bureaucracy. In comparison, the tax administration in Pakistan is operating as an independent Revenue Division of the Ministry of Finance. Until recently, it was bifurcated into direct and indirect taxes. However, as a consequence of reform program, it is being divided into internal taxes operated through Regional Tax Offices (RTOs) and Large Taxpayer Units (LTUs), and international taxes conducted through Model Customs collectorates (MCCs).

Tax Identification Number (TIN)

Every taxpayer in Turkey, actual or potential, has to obtain tax identification number (TIN) for which there is no threshold of income or turnover. Since 2004, the Turkish Tax Administration has launched the scheme of compulsory TIN requirement for potential taxpayers as well who could be purchasers of movable or immovable property. TIN thus serves as a pre-requisite for the buyer which is invariably mentioned in the invoice/purchase deed. Consequently, TIN has issued to about 30 million potential taxpayers and a database of potential taxpayers has been developed. The category-wise number of return filers is as under: Individuals 1.7 million (M), Corporations 0.6 (M), Property income 0.57 (M), VAT 2.2 (M), and WHT Agents 2.1 (M).

The Structure of Income Tax

Turkish direct taxation system consists of two main taxes; income tax and corporate tax. An individual is subject to the income tax on income and earnings, in contrast to a company which is subject to corporate tax on its income and earnings. The rules of taxation for individual income and earnings are provided in the Income Tax Law 1960 (ITL). Likewise, the rules concerning the taxation of corporations are contained in the Corporation Tax Law 1949 (CTL). Despite the fact that each is governed by a different legislation, many rules and provisions of the Income Tax Law also apply to corporations, especially, in terms of income elements and determination of net income. Some major issues concerning the Income Tax law and procedure are discussed as below:

***Taxable Income*:** The income tax is levied on the income of individuals that may consist of the following one or more income elements: business profits, agricultural profits, salaries and wages, income from independent professional services, income from immovable property and rights (rental income), income from movable property (income from capital investment including dividends and interest), and any other income and earnings without considering the source of income.

In general the residency criterion is employed in determining tax liability for individuals. In addition to this, nationality criterion is also applied regardless of the residency status. Non-residents are only liable to pay tax on their income derived from the sources in Turkey (limited liability). For business income, a person must have a permanent establishment or permanent representative in Turkey and income must result from business carried out in this permanent establishment or through such representatives. Similarly, for agriculture income to be taxable, agricultural activities generating income must have to take place in Turkey. Finally, income from movable capital and immovable property to be taxable the investment of capital and immovable must be in Turkey.

Exemption and Exclusions: The income tax law provides a number of exemptions and exclusions along with other tax relief based on economic and social consideration. However, even without such considerations, certain exemptions and exclusions are provided for simplicity and efficiency. Major beneficiaries of such exemptions are tradesmen, diplomats, certain categories of professionals etc. Furthermore, taxpayers who have incentive certificates are allowed to deduct an amount equal to a certain percentage of investment expenses from their taxable income. The rates of investment allowance vary depending on the location and sector of the investment.

Categories of Returns: The three categories of returns are:

- Annual Tax Return in which income and profits derived from the various sources within a calendar year are grouped and aggregated, is used to declare annual income to the authorized tax office;
- Withholding Tax Return is used to declare taxes in the aggregate which have been withheld by employers and other persons, along with tax basis;
- Special Tax Return is used by the limited liable taxpayers to declare their income and earnings which are not required to be declared by annual tax return or not subject to withholding tax.

The Structure of Corporate Tax

Taxable Income: The corporate tax is levied on the income and earning derived by corporations and corporate bodies. The income element by Corporate Tax Law is the same as those covered in the Income Tax Law. In other words, the Corporate Tax Law sets provisions and rules applicable to the income resulted from the activities of corporations and corporate bodies, whereas the Income Tax Law deals with the income derived by individuals. Corporations and corporate bodies specified by the Law as taxpayers in respect to the corporate tax are as follows:

- Capital companies and similar foreign companies;
- Cooperatives;
- Public enterprises;
- Enterprises owned by foundations societies and associations;
- Investment funds;
- Joint ventures.

Corporate Tax Return

Like income tax, the corporate tax is also assessed on the base declared through tax returns filed annually by taxpayers. In principle, every taxpayer is required to file only one single tax return, even if she/he has derived the income through different business places or branches and those places and branches have their own accounting and allocated capital. The general tax rate applicable to corporate is 30% from 1st January 1999. However, previously, real tax burden on corporations was higher. On top of this, the surcharge as levied on income tax also applies to corporate tax. Its rate is also 10% and assessed on the amount of the corporate tax.

Corporate Withholding Tax: As provided in the law, a special declaration method is employed to tax the income of limited liable taxpayers where the income only consists of the capital gains and non-recurring income. Moreover, if the income only comprises the income elements other than business profits, and agricultural profits in addition to capital gains and no-recurring income which are subject to special declaration, then this income is taxed on the basis of withholding and a corporate tax return is not required to be filled. In other words, taxes are withheld by the payer from the amount paid to recipient who are subject to the limited liability and declared through a withholding tax return.

Exemptions and Exclusions with respect to Corporate Tax: The fact that the Corporate Tax Law defines the term ‘taxpayer’ very broadly, it covers non-profit organizations and the organizations which are mainly owned by government and operate in the interests of public as well as profit organizations. Therefore, it is required to exempt such organizations from tax to reach the goals which they are expected to serve. Similarly, most of the exclusions granted in the Corporate Tax Law serve as tax incentives aimed promoting certain sectors and investments. Some of them are dividends received from a company which has been previously subjected to corporate tax, refunds distributed by co-operatives to their members, income derived by securities investments funds and corporation on portfolio investments, and income derived by venture-capital investment funds and corporations.

Taxation of Agricultural Income

Income derived from agricultural activities is also subject to the income tax. The term agricultural activity means any activity performed in land, sea, lakes and rivers in forms of cultivating, planting, breeding, fishing, hunting and etc. For tax purposes, persons who engaged in such activities are referred to farmers. Small farmers are exempt from tax if a farmer’s gross revenue or operational size of his farming enterprise is less than the amount specified by the Income Tax Law, then he is accepted as a small farmer for the application of income tax and exempt from the income tax. The farmers who are not exempt from the tax fall into two categories in determining their agricultural income. The income of the farmers, whose annual proceeds or yields are less than the amount specified by the Council of Ministers of each year, is determined on a lump-sum basis. In this method, only the gross revenues of farmers are calculated on the actual basis. While expenses are determined simply by apply an estimated expense rate to the gross revenues. On the actual basis, both revenues and expenses are computed in their real amounts. Therefore, farmers need to keep accounting books to record their revenues and expenses accrued in the relevant years.

Gross revenue arising from agricultural activities consists of the following elements:

- Sales revenue earned from selling every kinds of agricultural products produced, purchased or obtained in other ways including the products remained from the previous years,
- Proceeds received in return of using agricultural machinery and equipment in the agricultural works of other farmers.
- Sales revenues derived from the selling of items expensed previously,
- Insurances compensations received from the products damaged before or after they were produced.
- Revenue arising from the selling of the fixed assets (except immovable used in agricultural activities).

The Tax Procedure Law specifies the rates that will be applied to gross revenue in determining the amount of the estimated expenses on the lump-sum basis. Thus, 80% of gross revenue is accepted as the amount of expenses in determining net income resulted from the sales of animals and animal products and fishing and hunting products. This rate has been laid down as 70% for other agricultural products.

The following expenses are deducted from the gross revenue on the actual basis to reach taxable income for the year:

- expenditures made for obtaining seed, fertilizers, seeding plants, animals feeds and similar materials;
- expenditures made for purchasing animals, agricultural products and other materials which are acquired for the purposes of resale;
- Salaries and wages paid to the employees;
    - operation and maintenance expenses of agricultural machinery; equipment, and vehicles;
- Depreciation expenses;
- Rents and fees paid for machinery and equipment,
- Interest incurred for loans received and used for enterprises,
- General expenses made for earning and indemnities paid based upon written agreements, juridical decrees, or by order of law;
- Losses incurred in the selling of fixed assets (except immovable used in agricultural activities);

The Issue of Tax /GDP Ratio

Phrases like broadening of tax base, the concept of Tax/GDP ratio is also commonly used all over the world and Turkey is no exception to that. Within this perspective, it is necessary to put things in the right direction, context and explain the meaning of the tax base, its composition in a country, its relevance to economic structure, i.e., economic system having a large and dominant industrial base and those having a huge agricultural periphery with a majority of underpaid, under-utilized and unemployed, unskilled and uneducated work force, particularly woman. The difference in the structure of revenue in under-developed and the developed countries should be taken into account while looking for low or high Tax/GDP ratio, particularly in Turkey, which is being referred to as one of the accomplishers of significant increase in Tax/GDP ratio.

The tax ratios are calculated by expressing total tax revenue as a percentage of GDP at market prices. The tax ratio varies considerably between countries, as does their evaluation over time. However, it is necessary that figures on tax revenues measured as a percentage of GDP should generally be interpreted with caution, as there are wide variations in numerator and denominator when different counties are compared. In the case of Turkey the total tax revenue and percentage of Tax/GDP ratio is presented in the following Table 1.

Table 1: Total Revenue to GDP Ratio in Turkey

Year	Total Revenue in Million of US Dollar	Tax/GDP Ratio
1975	7455	16.0
1985	10382	15.4
1990	30175	20.0
1995	38203	22.6
2000	64398	32.3
2003	78537	32.8
2004	Not Available	31.1

Incidentally, the above figures are inclusive of social security contribution, which is treated as tax receipts. For instance, total tax revenue inclusive of SSC as percentage of GDP at market prices in 2003 was 32.8%, but when SSC is excluded the ratio reduces to 25.9%. As far as the contribution of income and corporate taxes is concerned, the data for the OECD countries reflects that its share had been quite substantial. Compared to this SSC is not included when Tax/GDP ratio is computed in Pakistan, hence the two are not comparable in strict sense of the concept. The overall Tax/GDP ratio of Turkey is given in Table 2.

Table 2: Direct Tax/GDP Ratio in Turkey

Year	Ratio (%)
1975	6.8
1985	5.7
1990	6.7
1995	6.4
2000	9.5
2002	7.7
2003	7.8
2004	6.9

Further bifurcation reveals that the ratio of personal income tax to GDP in Turkey for the year 2000, 2002 and 2003 was 7.2%, 5.5% and 5.2% respectively. On the other hand, the ratio of taxes on corporate income as percentage of GDP for the same period was 2.4%, 2.2% and 2.6% respectively. Together these two taxes yield a much high direct tax/GDP ratio as compared to Pakistan.

While continuing with this comparison, it may also be appropriate to mention that in computing GDP, Turkey is the only OECD country that is following the 1968 SNA. If Turkey also changes the base year, [from SNA 1968 to 1990] at par with other major OECD countries, then its tax to GDP ratio as well as direct tax to GDP ratio would decline significantly from its present level. Remember that Pakistan has also suffered a loss of three percentage points when GDP was rebased from 1980-81 to 1999-2000.

Lessons Learnt from Turkish Experience

In view of the above, it is safe to conclude that the Tax/GDP ratio has a direct relationship with the economic structure and its level of development hence the issue must not be analyzed in isolation. In Pakistan, agriculture income has been the most debatable issue in raising the Tax/GDP ratio. With proper perspective in mind, following recommendations are offered to improve taxation system in Pakistan and raise Tax/GDP ratio.

- Develop crop agriculture, livestock, fishery, and forestry on scientific lines with a comprehensive and composite approach;
- Give up estimation methods and document the agriculture and service sectors with the help of automation/technology;
- Adopt a policy of fiscal decentralization and help provinces to levy income tax on agriculture properly and collect sales tax on services with minimum rates;
- Phase out exemptions to avoid regressive-ness of taxation system;
- The process of registration for TIN may be simplified and quick, verification of applicants credentials may be made through physical visit by tax officers after the issuance of TIN;
- To enhance the tax base, tax identification number (TIN) may be made mandatory for the purchase of any moveable and immoveable property;
- Transactions pertaining to agriculture produce/product may be brought under tax net at following rates

  (i) VAT 1%

  (ii) WHT 1% (WHT may be treated under PTR)

  (To start with, only VAT may be levied if it yields good results then WHT @ 1% may be imposed on all business transactions pertaining to Agriculture produce/product);
- Reduce the corporate tax to 30% up to 2010 and enhance the tax rates on dividend (Personal and Corporate) and on interest on the basis of rate prescribed in clause (I), Part I of the First Schedule;
- The basic threshold of exemption in the cases of non-corporate taxpayers may be withdrawn;
- Exemption provided to capital gain from stock market may be withdrawn;
- Second Schedule of the Income Tax Ordinance, 2001 may be revisited and squeezed to its maximum;

- To raise taxes from services sector, the rate structure as prescribed in First Schedule of the Income Tax Ordinance, 2001, as per status of the person be used.
- The third party information may be collected through automation mechanism by an independent institution and may be made available to concerned officers on line for effective audit and correct evaluation of tax liability of taxpayers.
- Withholding taxes on exports are too low; these may be revisited and may be brought at par with other sources of income.
- Salary rates for private employees may be made at par with rates applicable to self employed taxpayers.
- Inheritance tax may be levied on the shares of the individual recipient @ 10% of the net wealth payable in three years;
- Tax on property may be levied once-and-for-all @ 2% of the increase value of land due to permission to develop and for additional local facilities provided by the Government; and,
- Tax enforcement should be strengthened after formulating and implementing a credible income tax audit operations and capacities;

V

Reform Program: An Update on Audit Initiatives[10]

Background

The strength and accuracy of an Audit Plan is dependent upon the adequacy and accuracy of audit history and performance data. Therefore, in developing an effective audit plan, the various components that are needed to be taken into consideration are:

- The audit selection process;
- Audit procedures and the overall utilization of auditor time; and
- The program knowledge derived from key performance indicators and supporting metrics.

A number of performance measurements are historically used to determine the effectiveness of an Audit Program. As expected, wherever detailed information is available, deficiencies in the past performance were commonly observed. Therefore, the availability of relevant data had become a pre-requisite for an effective National Audit Plan.

Routine Deficiencies

The audit exercise in Pakistan in the past had not only suffered due to deficiencies in the selection criteria and actual audit execution, concerns were also raised about a number of other areas, some of which are as follows:

- Qualifications of Audit Personnel;
- Accuracy/ completeness of data provided by the Taxpayers;

[10] *Author:* Mr. Abdur Razzaq Member (Audit), CBR.

- Accuracy/completeness of data used by the CBR;
- Poor record keeping on the part of Taxpayers; and,
- Apprehension of the Taxpayers.

Following deficiencies were also observed regarding past taxpayers Audit performance.

- Revenue collected against the revenue assessed was negligible;
- No change cases ranged from 80% to 99% across the board;
- Majority of additional assessments through audits were contested leading to lengthy process of litigation.

National Audit Plan Research Project

Due to these deficiencies and concerns, CBR initiated efforts to design new Taxpayers' Audit Plan as part of the on-going Reform Program. The Audit Plan envisages that all audits between March 2007 and March, 2008 will be conducted under the umbrella of a National Audit Plan Research Project. The results from this effort are expected to be beneficial for improving CBR ability to detect non-compliance, reduce burden of unnecessary contacts with compliant taxpayers, and support the strategic objectives and goals of the organization.

Unfortunately, it is true that when a compliant taxpayer is unnecessarily and/or ineffectively contacted, it hurts stakeholders' perception about fairness and effectiveness of the taxation system. The National Audit Plan Research Project aims to mitigate these concerns by using reliable data in the most cost-effective manner possible. The overall objective of the National Audit Plan Research Projects will be to:

- Establish guidelines and procedures for the overall audit program;

- Measure reporting compliance by collecting audit data on individual, small, medium and large taxpayers;
- Identifying specific areas requiring legislative changes;
- Identifying specific suggestions for tax form revisions;
- Determine resource needs;
- Provide guidelines to CBR HQ and field offices to undertake strategic planning; and
- Evaluate usefulness of internal CBR data and publicly available third party data associated with each tax return in assessing underreporting or non-filers.

Reactivating the Full Audit Program

While the National Audit Plan provides guidelines to undertake effective audit, the reactivation of full audit activity required lot of spade work and effort. The important initiatives in this respect are briefly reviewed in the following.

The Preparatory Work: A Cross Functional Workshop Group was convened from 27 November to 2nd December, 2006 consisting of representatives from PRAL, FR&S Income Tax, Sales Tax (CBR Headquarters, Field Personnel) to evaluate as to how current data sources can be utilized more effectively for audit case selection. Select members re-convened on January 31 – February 1, 2007 to evaluate the data generated by PRAL. In order to ensure field active participation and buy in, a National Audit Workshop was organized from 13th to 15th December 2006. Thus field personnel had an opportunity to critically review the strategies for a stepped up audit program. They had the opportunity to (i) make a critical evaluation of the information presented (ii) provide input to refine information to ensure each area considered the challenges faced by field personnel. It was the first time that officers from both Sales Tax and Income Tax debated all the issues at hand. Following strategies were examined:

1. Audit Work Force Management
2. Community Outreach/Marketing efforts
3. Audit Case Selection
4. Use of Third Party Data
5. Conducting the Audit
6. Assessing quality of contemplated Audits
7. Performance Measurement Reports

Syllabus Preparation and Training of Auditors: Based on the outcome of these sessions, detailed training program for field teams was initiated and three batches of 45 potential auditors were trained during January - March 2007. Special syllabus was developed for training purpose that focused more on practical application of the law with numerous case studies. Moreover, the participants were required to prepare Sales and Income Tax returns based on a set of facts, which presented some challenge to them. Oral and written feed back from the participants was very positive.

Commencement of Taxpayers' Audit

Based on the extensive preparatory effort, actual field audit has commenced from March 2007. The exercise has been initiated from Large Taxpayer Units.

Audit at LTU, Lahore: The total number of taxpayers at Lahore LTU has been 258. There were 157 Sales Tax and 258 Income Tax registered persons. Only 110 taxpayers were registered with both Sales Tax and Income Tax. Data of these taxpayers for past 3 years (2004, 2005, and 2006) were processed by PRAL through the devised selection criteria. The outcome was that 35 taxpayers from different sectors matched with the threshold of nine criteria and thus they were selected for detailed audit. After seeking legal opinion, notice to start the audits of selected taxpayers was drafted/ discussed taking into account the legal provisions, precedents and recent decisions of apex courts in this regard. The Audit Wing of CBR along with International Audit Expert provided Auditing Guidelines and templates to the concerned audit staff of both Income and Sales Tax. The progress of this effort is being monitored closely to provide clarification and explanation as and when required.

Audit at LTU, Karachi: The total number of taxpayers (Sales Tax and Income Tax) at LTU, Karachi has been 859. Only 262 taxpayers were registered with both Sales Tax and Income Tax. Therefore, data of these taxpayers for the past 3 years were processed by PRAL through special computer software containing 18 selection criteria's. As a result, 166 taxpayers from different sectors matched with 9 craterous and thus were selected for audit. Ten audit teams were formed and the audit started in May 2007. The Audit Wing is closely monitoring the progress of these audits to provide guidance and assistance as and when required.

Going Forward

Learning from the lessons from audit activities at LTUs, the effort will be rolled out the audit program in the country shortly. Meanwhile, the International Audit Expert has reviewed all the Sales Tax, Income Tax Manuals, Guidelines and check lists pertaining to taxpayers' audit. The draft version of a comprehensive Audit Manual including Guidelines for the Management has been prepared. With its finalization, it will serve as the most authentic auditing guidelines for implementation in the field.

STATISTICAL APPENDIX

COMPARATIVE STATEMENTS OF MONTH-TO-MONTH AND PROGRESSIVE PROVISIONAL COLLECTION OF FEDERAL TAXES 2006 - 07

ALL TAXES

Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			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	41,522	6,921	34,601	54,468	8,290	46,178	12,946	1,369	11,577	31.2	19.8	33.5
AUGUST	M	50,326	5,402	44,924	54,016	7,683	46,333	3,690	2,281	1,409	7.3	42.2	3.1
	P	**91,848**	**12,323**	**79,525**	**108,484**	**15,973**	**92,511**	**16,636**	**3,650**	**12,986**	**18.1**	**29.6**	**16.3**
SEPTEMBER	M	78,416	5,885	72,531	101,547	10,121	91,426	23,131	4,236	18,895	29.5	72.0	26.1
1st Quarter		**170,264**	**18,208**	**152,056**	**210,031**	**26,094**	**183,937**	**39,767**	**7,886**	**31,881**	**23.4**	**43.3**	**21.0**
OCTOBER	M	56,273	7,098	49,175	60,399	7,087	53,312	4,126	-11	4,137	7.3	-0.2	8.4
	P	**226,537**	**25,306**	**201,231**	**270,430**	**33,181**	**237,249**	**43,893**	**7,875**	**36,018**	**19.4**	**31.1**	**17.9**
NOVEMBER	M	53,461	5,908	47,553	67,079	8,052	59,027	13,618	2,144	11,474	25.5	36.3	24.1
	P	**279,998**	**31,214**	**248,784**	**337,509**	**41,233**	**296,276**	**57,511**	**10,019**	**47,492**	**20.5**	**32.1**	**19.1**
DECEMBER	M	86,627	11,502	75,125	123,862	9,626	114,236	37,235	-1,876	39,111	43.0	-16.3	52.1
2nd Quarter		**196,361**	**24,508**	**171,853**	**251,340**	**24,765**	**226,575**	**54,979**	**257**	**54,722**	**28.0**	**1.0**	**31.8**
Upto 2nd Qtr		**366,625**	**42,716**	**323,909**	**461,371**	**50,859**	**410,512**	**94,746**	**8,143**	**86,603**	**25.8**	**19.1**	**26.7**
JANUARY	M	53,366	7,445	45,921	55,594	3,434	52,160	2,228	-4,011	6,239	4.2	-53.9	13.6
	P	**419,991**	**50,161**	**369,830**	**516,965**	**54,293**	**462,672**	**96,974**	**4,132**	**92,842**	**23.1**	**8.2**	**25.1**
FEBRUARY	M	56,011	6,529	49,482	56,830	4,404	52,426	819	-2,125	2,944	1.5	-32.5	5.9
	P	**476,002**	**56,690**	**419,312**	**573,795**	**58,697**	**515,098**	**97,793**	**2,007**	**95,786**	**20.5**	**3.5**	**22.8**
MARCH	M	79,236	8,726	70,510	89,298	7,399	81,899	10,062	-1,327	11,389	12.7	-15.2	16.2
3rd Quarter		**188,613**	**22,700**	**165,913**	**201,722**	**15,237**	**186,485**	**13,109**	**-7,463**	**20,572**	**7.0**	**-32.9**	**12.4**
Upto 3rd Qtr		**555,238**	**65,416**	**489,822**	**663,093**	**66,096**	**596,997**	**107,855**	**680**	**107,175**	**19.4**	**1.0**	**21.9**
APRIL	M	63,599	6,442	57,157	66,406	6,921	59,485	2,807	479	2,328	4.4	7.4	4.1
	P	**618,837**	**71,858**	**546,979**	**729,499**	**73,017**	**656,482**	**110,662**	**1,159**	**109,503**	**17.9**	**1.6**	**20.0**
MAY	M	69,140	5,550	63,590	70,491	4,717	65,774	1,351	-833	2,184	2.0	-15.0	3.4
	P	**687,977**	**77,408**	**610,569**	**799,990**	**77,734**	**722,256**	**112,013**	**326**	**111,687**	**16.3**	**0.4**	**18.3**
JUNE	M	110,582	7,709	102,873	128,590	4,402	124,188	18,008	-3,307	21,315	16.3	-42.9	20.7
4th Quarter		**243,321**	**19,701**	**223,620**	**265,487**	**16,040**	**249,447**	**22,166**	**-3,661**	**25,827**	**9.1**	**-18.6**	**11.5**
Upto 4th Qtr		**798,559**	**85,117**	**713,442**	**928,580**	**82,136**	**846,444**	**130,021**	**-2,981**	**133,002**	**16.3**	**-3.5**	**18.6**

DIRECT TAXES
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			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	8,865	1,245	7,620	11,619	1,533	10,086	2,754	288	2,466	31.1	23.1	32.4
AUGUST	M	10,342	1,327	9,015	12,941	1,831	11,110	2,599	504	2,095	25.1	38.0	23.2
	P	**19,207**	**2,572**	**16,635**	**24,560**	**3,364**	**21,196**	**5,353**	**792**	**4,561**	**27.9**	**30.8**	**27.4**
SEPTEMBER	M	34,181	2,630	31,551	52,021	6,741	45,280	17,840	4,111	13,729	52.2	156.3	43.5
1st Quarter		**53,388**	**5,202**	**48,186**	**76,581**	**10,105**	**66,476**	**23,193**	**4,903**	**18,290**	**43.4**	**94.3**	**38.0**
OCTOBER	M	12,930	1,825	11,105	17,946	1,880	16,066	5,016	55	4,961	38.8	3.0	44.7
	P	**66,318**	**7,027**	**59,291**	**94,527**	**11,985**	**82,542**	**28,209**	**4,958**	**23,251**	**42.5**	**70.6**	**39.2**
NOVEMBER	M	12,327	2,164	10,163	17,433	3,508	13,925	5,106	1,344	3,762	41.4	62.1	37.0
	P	**78,645**	**9,191**	**69,454**	**111,960**	**15,493**	**96,467**	**33,315**	**6,302**	**27,013**	**42.4**	**68.6**	**38.9**
DECEMBER	M	40,966	6,106	34,860	80,444	4,212	76,232	39,478	-1,894	41,372	96.4	-31.0	118.7
2nd Quarter		**66,223**	**10,095**	**56,128**	**115,823**	**9,600**	**106,223**	**49,600**	**-495**	**50,095**	**74.9**	**-4.9**	**89.3**
Upto 2nd Qtr		**119,611**	**15,297**	**104,314**	**192,404**	**19,705**	**172,699**	**72,793**	**4,408**	**68,385**	**60.9**	**28.8**	**65.6**
JANUARY	M	12,948	2,878	10,070	13,527	1,070	12,457	579	-1,808	2,387	4.5	-62.8	23.7
	P	**132,559**	**18,175**	**114,384**	**205,931**	**20,775**	**185,156**	**73,372**	**2,600**	**70,772**	**55.4**	**14.3**	**61.9**
FEBRUARY	M	12,680	2,161	10,519	14,772	992	13,780	2,092	-1,169	3,261	16.5	-54.1	31.0
	P	**145,239**	**20,336**	**124,903**	**220,703**	**21,767**	**198,936**	**75,464**	**1,431**	**74,033**	**52.0**	**7.0**	**59.3**
MARCH	M	31,709	3,916	27,793	42,779	3,914	38,865	11,070	-2	11,072	34.9	-0.1	39.8
3rd Quarter		**57,337**	**8,955**	**48,382**	**71,078**	**5,976**	**65,102**	**13,741**	**-2,979**	**16,720**	**24.0**	**-33.3**	**34.6**
Upto 3rd Qtr		**176,948**	**24,252**	**152,696**	**263,482**	**25,681**	**237,801**	**86,534**	**1,429**	**85,105**	**48.9**	**5.9**	**55.7**
APRIL	M	17,211	2,323	14,888	17,821	2,741	15,080	610	418	192	3.5	18.0	1.3
	P	**194,159**	**26,575**	**167,584**	**281,303**	**28,422**	**252,881**	**87,144**	**1,847**	**85,297**	**44.9**	**7.0**	**50.9**
MAY	M	16,968	2,605	14,363	20,803	978	19,825	3,835	-1,627	5,462	22.6	-62.5	38.0
	P	**211,127**	**29,180**	**181,947**	**302,106**	**29,400**	**272,706**	**90,979**	**220**	**90,759**	**43.1**	**0.8**	**49.9**
JUNE	M	47,862	4,821	43,041	63,520	2,833	60,687	**15,658**	**-1,988**	**17,646**	**32.7**	**-41.2**	**41.0**
4th Quarter		**82,041**	**9,749**	**72,292**	**102,144**	**6,552**	**95,592**	**20,103**	**-3,197**	**23,300**	**24.5**	**-32.8**	**32.2**
Upto 4th Qtr		**258,989**	**34,001**	**224,988**	**365,626**	**32,233**	**333,393**	**106,637**	**-1,768**	**108,405**	**41.2**	**-5.2**	**48.2**

INDIRECT TAXES
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			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	32,657	5,676	26,981	42,849	6,757	36,092	10,192	1,081	9,111	31.2	19.0	33.8
AUGUST	M	39,984	4,075	35,909	41,075	5,852	35,223	1,091	1,777	-686	2.7	43.6	-1.9
	P	**72,641**	**9,751**	**62,890**	**83,924**	**12,609**	**71,315**	**11,283**	**2,858**	**8,425**	**15.5**	**29.3**	**13.4**
SEPTEMBER	M	44,235	3,255	40,980	49,526	3,380	46,146	5,291	125	5,166	12.0	3.8	12.6
1st Quarter		**116,876**	**13,006**	**103,870**	**133,450**	**15,989**	**117,461**	**16,574**	**2,983**	**13,591**	**14.2**	**22.9**	**13.1**
OCTOBER	M	43,343	5,273	38,070	42,453	5,207	37,246	-890	-66	-824	-2.1	-1.3	-2.2
	P	**160,219**	**18,279**	**141,940**	**175,903**	**21,196**	**154,707**	**15,684**	**2,917**	**12,767**	**9.8**	**16.0**	**9.0**
NOVEMBER	M	41,134	3,744	37,390	49,646	4,544	45,102	8,512	800	7,712	20.7	21.4	20.6
	P	**201,353**	**22,023**	**179,330**	**225,549**	**25,740**	**199,809**	**24,196**	**3,717**	**20,479**	**12.0**	**16.9**	**11.4**
DECEMBER	M	45,661	5,396	40,265	43,418	5,414	38,004	-2,243	18	-2,261	-4.9	0.3	-5.6
2nd Quarter		**130,138**	**14,413**	**115,725**	**135,517**	**15,165**	**120,352**	**5,379**	**752**	**4,627**	**4.1**	**5.2**	**4.0**
Upto 2nd Qtr		**247,014**	**27,419**	**219,595**	**268,967**	**31,154**	**237,813**	**21,953**	**3,735**	**18,218**	**8.9**	**13.6**	**8.3**
JANUARY	M	40,418	4,567	35,851	42,067	2,364	39,703	1,649	-2,203	3,852	4.1	-48.2	10.7
	P	**287,432**	**31,986**	**255,446**	**311,034**	**33,518**	**277,516**	**23,602**	**1,532**	**22,070**	**8.2**	**4.8**	**8.6**
FEBRUARY	M	43,331	4,368	38,963	42,058	3,412	38,646	-1,273	-956	-317	-2.9	-21.9	-0.8
	P	**330,763**	**36,354**	**294,409**	**353,092**	**36,930**	**316,162**	**22,329**	**576**	**21,753**	**6.8**	**1.6**	**7.4**
MARCH	M	47,527	4,810	42,717	46,519	3,485	43,034	-1,008	-1,325	317	-2.1	-27.5	0.7
3rd Quarter		**131,276**	**13,745**	**117,531**	**130,644**	**9,261**	**121,383**	**-632**	**-4,484**	**3,852**	**-0.5**	**-32.6**	**3.3**
Upto 3rd Qtr		**378,290**	**41,164**	**337,126**	**399,611**	**40,415**	**359,196**	**21,321**	**-749**	**22,070**	**5.6**	**-1.8**	**6.5**
APRIL	M	46,388	4,119	42,269	48,585	4,180	44,405	2,197	61	2,136	4.7	1.5	5.1
	P	**424,678**	**45,283**	**379,395**	**448,196**	**44,595**	**403,601**	**23,518**	**-688**	**24,206**	**5.5**	**-1.5**	**6.4**
MAY	M	52,172	2,945	49,227	49,688	3,739	45,949	-2,484	794	-3,278	-4.8	27.0	-6.7
	P	**476,850**	**48,228**	**428,622**	**497,884**	**48,334**	**449,550**	**21,034**	**106**	**20,928**	**4.4**	**0.2**	**4.9**
JUNE	M	62,720	2,888	59,832	65,070	1,569	63,501	2,350	-1,319	3,669	3.7	-45.7	6.1
4th Quarter		**161,280**	**9,952**	**151,328**	**163,343**	**9,488**	**153,855**	**2,063**	**-464**	**2,527**	**1.3**	**-4.7**	**1.7**
Upto 4th Qtr		**539,570**	**51,116**	**488,454**	**562,954**	**49,903**	**513,051**	**23,384**	**-1,213**	**24,597**	**4.3**	**-2.4**	**5.0**

SALES TAX (TOTAL)
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			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	19,978	4,238	15,740	28,688	4,664	24,024	8,710	426	8,284	43.6	10.1	52.6
AUGUST	M	24,353	1,574	22,779	25,247	4,332	20,915	894	2,758	-1,864	3.7	175.2	-8.2
	P	**44,331**	**5,812**	**38,519**	**53,935**	**8,996**	**44,939**	**9,604**	**3,184**	**6,420**	**21.7**	**54.8**	**16.7**
SEPTEMBER	M	26,228	1,762	24,466	32,910	2,264	30,646	6,682	502	6,180	25.5	28.5	25.3
1st Quarter		**70,559**	**7,574**	**62,985**	**86,845**	**11,260**	**75,585**	**16,286**	**3,686**	**12,600**	**23.1**	**48.7**	**20.0**
OCTOBER	M	27,204	3,628	23,576	26,031	4,057	21,974	-1,173	429	-1,602	-4.3	11.8	-6.8
	P	**97,763**	**11,202**	**86,561**	**112,876**	**15,317**	**97,559**	**15,113**	**4,115**	**10,998**	**15.5**	**36.7**	**12.7**
NOVEMBER	M	25,797	2,250	23,547	31,760	3,630	28,130	5,963	1,380	4,583	23.1	61.3	19.5
	P	**123,560**	**13,452**	**110,108**	**144,636**	**18,947**	**125,689**	**21,076**	**5,495**	**15,581**	**17.1**	**40.8**	**14.2**
DECEMBER	M	26,427	3,796	22,631	24,683	4,135	20,548	-1,744	339	-2,083	-6.6	8.9	-9.2
2nd Quarter		**79,428**	**9,674**	**69,754**	**82,474**	**11,822**	**70,652**	**3,046**	**2,148**	**898**	**3.8**	**22.2**	**1.3**
Upto 2nd Qtr		**149,987**	**17,248**	**132,739**	**169,319**	**23,082**	**146,237**	**19,332**	**5,834**	**13,498**	**12.9**	**33.8**	**10.2**
JANUARY	M	25,310	3,122	22,188	26,406	1,620	24,786	1,096	-1,502	2,598	4.3	-48.1	11.7
	P	**175,297**	**20,370**	**154,927**	**195,725**	**24,702**	**171,023**	**20,428**	**4,332**	**16,096**	**11.7**	**21.3**	**10.4**
FEBRUARY	M	26,721	3,130	23,591	26,223	2,507	23,716	-498	-623	125	-1.9	-19.9	0.5
	P	**202,018**	**23,500**	**178,518**	**221,948**	**27,209**	**194,739**	**19,930**	**3,709**	**16,221**	**9.9**	**15.8**	**9.1**
MARCH	M	27,208	3,323	23,885	26,649	2,573	24,076	-559	-750	191	-2.1	-22.6	0.8
3rd Quarter		**79,239**	**9,575**	**69,664**	**79,278**	**6,700**	**72,578**	**39**	**-2,875**	**2,914**	**0.0**	**-30.0**	**4.2**
Upto 3rd Qtr		**229,226**	**26,823**	**202,403**	**248,597**	**29,782**	**218,815**	**19,371**	**2,959**	**16,412**	**8.5**	**11.0**	**8.1**
APRIL	M	28,539	2,395	26,144	30,305	3,328	26,977	1,766	933	833	6.2	39.0	3.2
	P	**257,765**	**29,218**	**228,547**	**278,902**	**33,110**	**245,792**	**21,137**	**3,892**	**17,245**	**8.2**	**13.3**	**7.5**
MAY	M	32,101	1,555	30,546	30,414	2,989	27,425	-1,687	1,434	-3,121	-5.3	92.2	-10.2
	P	**289,866**	**30,773**	**259,093**	**309,316**	**36,099**	**273,217**	**19,450**	**5,326**	**14,124**	**6.7**	**17.3**	**5.5**
JUNE	M	37,371	1,666	35,705	36,987	930	36,057	-384	-736	352	-1.0	-44.2	1.0
4th Quarter		**98,011**	**5,616**	**92,395**	**97,706**	**7,247**	**90,459**	**-305**	**1,631**	**-1,936**	**-0.3**	**29.0**	**-2.1**
Upto 4th Qtr		**327,237**	**32,439**	**294,798**	**346,303**	**37,029**	**309,274**	**19,066**	**4,590**	**14,476**	**5.8**	**14.1**	**4.9**

SALES TAX (IMPORTS)
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			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	11,095	13	11,082	15,117	8	15,109	4,022	-5	4,027	36.3	-38.5	36.3
AUGUST	M	13,609	22	13,587	14,852	3	14,849	1,243	-19	1,262	9.1	-86.4	9.3
	P	**24,704**	**35**	**24,669**	**29,969**	**11**	**29,958**	**5,265**	**-24**	**5,289**	**21.3**	**-68.6**	**21.4**
SEPTEMBER	M	14,358	2	14,356	14,792	9	14,783	434	7	427	3.0	350.0	3.0
1st Quarter		**39,062**	**37**	**39,025**	**44,761**	**20**	**44,741**	**5,699**	**-17**	**5,716**	**14.6**	**-45.9**	**14.6**
OCTOBER	M	14,269	5	14,264	11,435	6	11,429	-2,834	1	-2,835	-19.9	20.0	-19.9
	P	**53,331**	**42**	**53,289**	**56,196**	**26**	**56,170**	**2,865**	**-16**	**2,881**	**5.4**	**-38.1**	**5.4**
NOVEMBER	M	13,122	6	13,116	16,370	3	16,367	3,248	-3	3,251	24.8	-50.0	24.8
	P	**66,453**	**48**	**66,405**	**72,566**	**29**	**72,537**	**6,113**	**-19**	**6,132**	**9.2**	**-39.6**	**9.2**
DECEMBER	M	14,352	9	14,343	12,792	17	12,775	-1,560	8	-1,568	-10.9	88.9	-10.9
2nd Quarter		**41,743**	**20**	**41,723**	**40,597**	**26**	**40,571**	**-1,146**	**6**	**-1,152**	**-2.7**	**30.0**	**-2.8**
Upto 2nd Qtr		**80,805**	**57**	**80,748**	**85,358**	**46**	**85,312**	**4,553**	**-11**	**4,564**	**5.6**	**-19.3**	**5.7**
JANUARY	M	12,265	5	12,260	12,703	1	12,702	438	-4	442	3.6	-80.0	3.6
	P	**93,070**	**62**	**93,008**	**98,061**	**47**	**98,014**	**4,991**	**-15**	**5,006**	**5.4**	**-24.2**	**5.4**
FEBRUARY	M	13,095	4	13,091	13,623	3	13,620	528	-1	529	4.0	-25.0	4.0
	P	**106,165**	**66**	**106,099**	**111,684**	**50**	**111,634**	**5,519**	**-16**	**5,535**	**5.2**	**-24.2**	**5.2**
MARCH	M	15,026	18	15,008	14,102	4	14,098	-924	-14	-910	-6.1	-77.8	-6.1
3rd Quarter		**40,386**	**27**	**40,359**	**40,428**	**8**	**40,420**	**42**	**-19**	**61**	**0.1**	**-70.4**	**0.2**
Upto 3rd Qtr		**121,191**	**84**	**121,107**	**125,786**	**54**	**125,732**	**4,595**	**-30**	**4,625**	**3.8**	**-35.7**	**3.8**
APRIL	M	13,757	2	13,755	15,467	1	15,466	1,710	-1	1,711	12.4	-50.0	12.4
	P	**134,948**	**86**	**134,862**	**141,253**	**55**	**141,198**	**6,305**	**-31**	**6,336**	**4.7**	**-36.0**	**4.7**
MAY	M	17,159	3	17,156	16,576	15	16,561	-583	12	-595	-3.4	400.0	-3.5
	P	**152,107**	**89**	**152,018**	**157,829**	**70**	**157,759**	**5,722**	**-19**	**5,741**	**3.8**	**-21.3**	**3.8**
JUNE	M	19,436	9	19,427	**18,003**	1	18,002	**-1,433**	**-8**	**-1,425**	**-7.4**	**-88.9**	**-7.3**
4th Quarter		**50,352**	**14**	**50,338**	**50,046**	**17**	**50,029**	**-306**	**3**	**-309**	**-0.6**	**21.4**	**-0.6**
Upto 4th Qtr		**171,543**	**98**	**171,445**	**175,832**	**71**	**175,761**	**4,289**	**-27**	**4,316**	**2.5**	**-27.6**	**2.5**

SALES TAX (DOMESTIC)
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			COMPARISON			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		5	6	7	5	6	7	8	9	10	11	12	13
JULY	M	8,883	4,225	4,658	13,571	4,656	8,915	4,688	431	4,257	52.8	10.2	91.4
AUGUST	M	10,744	1,552	9,192	10,395	4,329	6,066	-349	2,777	-3,126	-3.2	178.9	-34.0
	P	**19,627**	**5,777**	**13,850**	**23,966**	**8,985**	**14,981**	**4,339**	**3,208**	**1,131**	**22.1**	**55.5**	**8.2**
SEPTEMBER	M	11,870	1,760	10,110	18,118	2,255	15,863	6,248	495	5,753	52.6	28.1	56.9
1st Quarter		**31,497**	**7,537**	**23,960**	**42,084**	**11,240**	**30,844**	**10,587**	**3,703**	**6,884**	**33.6**	**49.1**	**28.7**
OCTOBER	M	12,935	3,623	9,312	14,596	4,051	10,545	1,661	428	1,233	12.8	11.8	13.2
	P	**44,432**	**11,160**	**33,272**	**56,680**	**15,291**	**41,389**	**12,248**	**4,131**	**8,117**	**27.6**	**37.0**	**24.4**
NOVEMBER	M	12,675	2,244	10,431	15,390	3,627	11,763	2,715	1,383	1,332	21.4	61.6	12.8
	P	**57,107**	**13,404**	**43,703**	**72,070**	**18,918**	**53,152**	**14,963**	**5,514**	**9,449**	**26.2**	**41.1**	**21.6**
DECEMBER	M	12,075	3,787	8,288	11,891	4,118	7,773	-184	331	-515	-1.5	8.7	-6.2
2nd Quarter		**37,685**	**9,654**	**28,031**	**41,877**	**11,796**	**30,081**	**4,192**	**2,142**	**2,050**	**11.1**	**22.2**	**7.3**
Upto 2nd Qtr		**69,182**	**17,191**	**51,991**	**83,961**	**23,036**	**60,925**	**14,779**	**5,845**	**8,934**	**21.4**	**34.0**	**17.2**
JANUARY	M	13,045	3,117	9,928	13,703	1,619	12,084	658	-1,498	2,156	5.0	-48.1	21.7
	P	**82,227**	**20,308**	**61,919**	**97,664**	**24,655**	**73,009**	**15,437**	**4,347**	**11,090**	**18.8**	**21.4**	**17.9**
FEBRUARY	M	13,626	3,126	10,500	12,600	2,504	10,096	-1,026	-622	-404	-7.5	-19.9	-3.8
	P	**95,853**	**23,434**	**72,419**	**110,264**	**27,159**	**83,105**	**14,411**	**3,725**	**10,686**	**15.0**	**15.9**	**14.8**
MARCH	M	12,182	3,305	8,877	12,547	2,569	9,978	365	-736	1,101	3.0	-22.3	12.4
3rd Quarter		**38,853**	**9,548**	**29,305**	**38,850**	**6,692**	**32,158**	**-3**	**-2,856**	**2,853**	**0.0**	**-29.9**	**9.7**
Upto 3rd Qtr		**108,035**	**26,739**	**81,296**	**122,811**	**29,728**	**93,083**	**14,776**	**2,989**	**11,787**	**13.7**	**11.2**	**14.5**
APRIL	M	14,782	2,393	12,389	14,838	3,327	11,511	56	934	-878	0.4	39.0	-7.1
	P	**122,817**	**29,132**	**93,685**	**137,649**	**33,055**	**104,594**	**14,832**	**3,923**	**10,909**	**12.1**	**13.5**	**11.6**
MAY	M	14,942	1,552	13,390	13,838	2,974	10,864	-1,104	1,422	-2,526	-7.4	91.6	-18.9
	P	**137,759**	**30,684**	**107,075**	**151,487**	**36,029**	**115,458**	**13,728**	**5,345**	**8,383**	**10.0**	**17.4**	**7.8**
JUNE	M	17,935	1,657	16,278	18,984	929	18,055	1,049	-728	1,777	5.8	-43.9	10.9
4th Quarter		**47,659**	**5,602**	**42,057**	**47,660**	**7,230**	**40,430**	**1**	**1,628**	**-1,627**	**0.0**	**29.1**	**-3.9**
Upto 4th Qtr		**155,694**	**32,341**	**123,353**	**170,471**	**36,958**	**133,513**	**14,777**	**4,617**	**10,160**	**9.5**	**14.3**	**8.2**

FEDERAL EXCISE
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			COMPARISON			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		5	6	7	5	6	7	8	9	10	11	12	13
JULY	M	2,962	104	2,858	4,005	13	3,992	1,043	-91	1,134	35.2	-87.5	39.7
AUGUST	M	4,063	2	4,061	4,635	38	4,597	572	36	536	14.1	1,800.0	13.2
	P	**7,025**	**106**	**6,919**	**8,640**	**51**	**8,589**	**1,615**	**-55**	**1,670**	**23.0**	**-51.9**	**24.1**
SEPTEMBER	M	5,364	44	5,320	5,400	3	5,397	36	-41	77	0.7	-93.2	1.4
1st Quarter		**12,389**	**150**	**12,239**	**14,040**	**54**	**13,986**	**1,651**	**-96**	**1,747**	**13.3**	**-64.0**	**14.3**
OCTOBER	M	4,643	2	4,641	5,474	3	5,471	831	1	830	17.9	50.0	17.9
	P	**17,032**	**152**	**16,880**	**19,514**	**57**	**19,457**	**2,482**	**-95**	**2,577**	**14.6**	**-62.5**	**15.3**
NOVEMBER	M	4,117	1	4,116	5,558	39	5,519	1,441	38	1,403	35.0	3,800.0	34.1
	P	**21,149**	**153**	**20,996**	**25,072**	**96**	**24,976**	**3,923**	**-57**	**3,980**	**18.5**	**-37.3**	**19.0**
DECEMBER	M	4,405	41	4,364	5,860	3	5,857	1,455	-38	1,493	33.0	-92.7	34.2
2nd Quarter		**13,165**	**44**	**13,121**	**16,892**	**45**	**16,847**	**3,727**	**1**	**3,726**	**28.3**	**2.3**	**28.4**
Upto 2nd Qtr		**25,554**	**194**	**25,360**	**30,932**	**99**	**30,833**	**5,378**	**-95**	**5,473**	**21.0**	**-49.0**	**21.6**
JANUARY	M	4,159	18	4,141	5,322	1	5,321	1,163	-17	1,180	28.0	-94.4	28.5
	P	**29,713**	**212**	**29,501**	**36,254**	**100**	**36,154**	**6,541**	**-112**	**6,653**	**22.0**	**-52.8**	**22.6**
FEBRUARY	M	4,890	8	4,882	5,592	4	5,588	702	-4	706	14.4	-50.0	14.5
	P	**34,603**	**220**	**34,383**	**41,846**	**104**	**41,742**	**7,243**	**-116**	**7,359**	**20.9**	**-52.7**	**21.4**
MARCH	M	5,277	14	5,263	5,981	2	5,979	704	-12	716	13.3	-85.7	13.6
3rd Quarter		**14,326**	**40**	**14,286**	**16,895**	**7**	**16,888**	**2,569**	**-33**	**2,602**	**17.9**	**-82.5**	**18.2**
Upto 3rd Qtr		**39,880**	**234**	**39,646**	**47,827**	**106**	**47,721**	**7,947**	**-128**	**8,075**	**19.9**	**-54.7**	**20.4**
APRIL	M	5,710	5	5,705	7,024	9	7,015	1,314	4	1,310	23.0	80.0	23.0
	P	**45,590**	**239**	**45,351**	**54,851**	**115**	**54,736**	**9,261**	**-124**	**9,385**	**20.3**	**-51.9**	**20.7**
MAY	M	6,189	2	6,187	7,329	11	7,318	1,140	9	1,131	18.4	450.0	18.3
	P	**51,779**	**241**	**51,538**	**62,180**	**126**	**62,054**	**10,401**	**-115**	**10,516**	**20.1**	**-47.7**	**20.4**
JUNE	M	3,739	5	3,734	9,502	9	9,493	5,763	4	5,759	154.1	80.0	154.2
4th Quarter		**15,638**	**12**	**15,626**	**23,855**	**29**	**23,826**	**8,217**	**17**	**8,200**	**52.5**	**141.7**	**52.5**
Upto 4th Qtr		**55,518**	**246**	**55,272**	**71,682**	**135**	**71,547**	**16,164**	**-111**	**16,275**	**29.1**	**-45.1**	**29.4**

C U S T O M S
Two Year Comparative - Month to Month & Progressive Collection

(Rs. Million)

MONTHS		FY 2005-06			FY 2006-07			COMPARISON			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		5	6	7	5	6	7	8	9	10	11	12	13
JULY	M	9,717	1,334	8,383	10,156	2,080	8,076	439	746	-307	4.5	55.9	-3.7
AUGUST	M	11,568	2,499	9,069	11,193	1,482	9,711	-375	-1,017	642	-3.2	-40.7	7.1
	P	**21,285**	**3,833**	**17,452**	**21,349**	**3,562**	**17,787**	**64**	**-271**	**335**	**0.3**	**-7.1**	**1.9**
SEPTEMBER	M	12,643	1,449	11,194	11,216	1,113	10,103	-1,427	-336	-1,091	-11.3	-23.2	-9.7
1st Quarter		**33,928**	**5,282**	**28,646**	**32,565**	**4,675**	**27,890**	**-1,363**	**-607**	**-756**	**-4.0**	**-11.5**	**-2.6**
OCTOBER	M	11,496	1,643	9,853	10,948	1,147	9,801	-548	-496	-52	-4.8	-30.2	-0.5
	P	**45,424**	**6,925**	**38,499**	**43,513**	**5,822**	**37,691**	**-1,911**	**-1,103**	**-808**	**-4.2**	**-15.9**	**-2.1**
NOVEMBER	M	11,220	1,493	9,727	12,328	875	11,453	1,108	-618	1,726	9.9	-41.4	17.7
	P	**56,644**	**8,418**	**48,226**	**55,841**	**6,697**	**49,144**	**-803**	**-1,721**	**918**	**-1.4**	**-20.4**	**1.9**
DECEMBER	M	14,829	1,559	13,270	12,875	1,276	11,599	-1,954	-283	-1,671	-13.2	-18.2	-12.6
2nd Quarter		**37,545**	**4,695**	**32,850**	**36,151**	**3,298**	**32,853**	**-1,394**	**-1,397**	**3**	**-3.7**	**-29.8**	**0.0**
Upto 2nd Qtr		**71,473**	**9,977**	**61,496**	**68,716**	**7,973**	**60,743**	**-2,757**	**-2,004**	**-753**	**-3.9**	**-20.1**	**-1.2**
JANUARY	M	10,949	1,427	9,522	10,339	743	9,596	-610	-684	74	-5.6	-47.9	0.8
	P	**82,422**	**11,404**	**71,018**	**79,055**	**8,716**	**70,339**	**-3,367**	**-2,688**	**-679**	**-4.1**	**-23.6**	**-1.0**
FEBRUARY	M	11,720	1,230	10,490	10,243	901	9,342	-1,477	-329	-1,148	-12.6	-26.7	-10.9
	P	**94,142**	**12,634**	**81,508**	**89,298**	**9,617**	**79,681**	**-4,844**	**-3,017**	**-1,827**	**-5.1**	**-23.9**	**-2.2**
MARCH	M	15,042	1,473	13,569	13,889	910	12,979	-1,153	-563	-590	-7.7	-38.2	-4.3
3rd Quarter		**37,711**	**4,130**	**33,581**	**34,471**	**2,554**	**31,917**	**-3,240**	**-1,576**	**-1,664**	**-8.6**	**-38.2**	**-5.0**
Upto 3rd Qtr		**109,184**	**14,107**	**95,077**	**103,187**	**10,527**	**92,660**	**-5,997**	**-3,580**	**-2,417**	**-5.5**	**-25.4**	**-2.5**
APRIL	M	12,139	1,719	10,420	11,256	843	10,413	-883	-876	-7	-7.3	-51.0	-0.1
	P	**121,323**	**15,826**	**105,497**	**114,443**	**11,370**	**103,073**	**-6,880**	**-4,456**	**-2,424**	**-5.7**	**-28.2**	**-2.3**
MAY	M	13,882	1,388	12,494	11,945	739	11,206	-1,937	-649	-1,288	-14.0	-46.8	-10.3
	P	**135,205**	**17,214**	**117,991**	**126,388**	**12,109**	**114,279**	**-8,817**	**-5,105**	**-3,712**	**-6.5**	**-29.7**	**-3.1**
JUNE	M	21,610	1,217	20,393	18,581	630	17,951	-3,029	-587	-2,442	-14.0	-48.2	-12.0
4th Quarter		**47,631**	**4,324**	**43,307**	**41,782**	**2,212**	**39,570**	**-5,849**	**-2,112**	**-3,737**	**-12.3**	**-48.8**	**-8.6**
Upto 4th Qtr		**156,815**	**18,431**	**138,384**	**144,969**	**12,739**	**132,230**	**-11,846**	**-5,692**	**-6,154**	**-7.6**	**-30.9**	**-4.4**