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



FEDERAL BOARD OF REVENUE

Fiscal Research and Statistics Wing

Government of Pakistan

Constitution Avenue

Islamabad - Pakistan

Contact:

Editor: Dr. Ather Maqsood Ahmed
Member, Fiscal Research and Statistics
e-mail: memberfrs@FBR.gov.pk
Phone: (051)-920-4436
Fax: (051)-921-9211
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***Fiscal Research and Statistics Wing
Federal Board of Revenue***

Research Team

1. Dr. Ather Maqsood Ahmed
Member, Fiscal Research and Statistics
2. Robina Ather Ahmed
Chief (FR&S)
3. Umar Wahid
Secretary (FR&S-I)
4. Sharfuddin Pirzada
Secretary (FR&S-II)
5. Mir Ahmad Khan
Second Secretary (FR&S-I)
6. Naeem Ahmed
Second Secretary (FR&S-II)

Contents

| | <i>Pages</i> |
|--|--------------|
| <i>Foreword</i> | <i>iv</i> |
| I. FBR Tax Collection: An Analysis of 2 nd Quarter Revenue Outturn | 1 |
| ○ The Economy | 1 |
| ○ FBR Revenue Collection vis-à-vis Target | 3 |
| ○ The Level of Refunds/ Rebates | 6 |
| ○ Detailed Analysis of Individual Taxes | 8 |
| ○ Direct Taxes | 8 |
| ○ Sales Tax | 17 |
| ○ Federal Excise Duties | 24 |
| ○ Customs Duties | 28 |
| ○ Concluding Remarks | 31 |
| II. Industry Profile: Cement Industry in Pakistan | 34 |
| III. FBR Reform Program: eFBR Portal – <i>A Virtual Tax Office</i> | 49 |

Foreword

The current issue of FBR Quarterly Review provides an in-depth and up-to-date analysis of the revenue data of federal receipts for July-December 2007-08. The discussion is comprehensive in the sense that it also highlights the adverse impacts of various shocks that have rocked the economy during past six months. Besides revenue analysis, the present issue includes an article on cement industry giving an update on the mismatch in tax collection and the overall production and trade activities. Finally, an up-date is provided on the improved facility of e-filing of returns by the taxpayers.

Let me appreciate the valuable efforts put in by the Fiscal Research Wing of the FBR in preparing this Review. I hope that the contents will be useful for wide range of readers. Any suggestion that may contribute in improving the analytical strength of the publication will be highly appreciated.

*M. Abdullah Yusuf
Secretary General
Revenue Division/ Chairman, FBR*

I

FBR Tax Collection: An Analysis of 2nd Quarter Revenue Outturn¹

The Economy

The second quarter of current fiscal year (CFY) was the most turbulent period during past eight years. The economy had to absorb a number of internal and external shocks that have weakened its strength to a large extent. The air of political uncertainty and instability has further complicated the overall economic environment.

Regrettably, the fiscal position has worsened mainly due to expenditure overruns. Furthermore, due to delay in adjusting domestic prices of petroleum products inline with the substantial increases in international prices, massive albeit misplaced intervention to entertain domestic supply shocks, and prolonged support to ailing energy infrastructure, the economy had to face huge burden of subsidy payments. As if the steep increase in prices of energy was not enough; the unprecedented increases in prices of primary products like wheat and edible oil (palm oil) have put tremendous burden on the import bill of the country. On the other hand, the performance of export sector has remained unsatisfactory, if not disappointing, during the first half of the year, thereby providing no respite to the balance of payment position.

As usually is the case, difficulties don't come alone rather they come in droves. Besides fragility on the domestic front, the international economic environment has also gradually turned unfavorable to take vital decisions on external resource mobilization. With increasing uncertainty to generate additional resources through issuance of bonds, there is an additional fear of reduction in the existing stock of the foreign exchange reserves. Resultantly, there is a pressure to maintain parity of the national

¹ The Research Team of Fiscal Research Wing of FBR has carried out the analysis.

currency vis-à-vis other currencies of the world. This, in turn, is not a favorable position as far as debt servicing requirement and its impact on the availability of overall resource envelope are concerned.

Thus, the natural question is how to cope up with this situation. While the State Bank of Pakistan has already announced continuation of its ‘debatable’ tight monetary policy stance and a cap has also been placed on government spending on projects yet not started and amount not disbursed, the real issue is how growth can be spurred. How can additional domestic demand (consumption as well as investment) be accelerated to compensate for the expected decline in external demand? Is facilitating taxation policy alone, focusing on reduced tax and tariff rates, sufficient to encourage industrial and corporate sector growth? If not, what else should be done?

There is strong pressure to repeat what was stated nearly a year ago, but unfortunately remained unnoticed² ‘there is a need for a more balanced approach – where ‘coordination failure’ is not as obvious as it is now. There is no harm in adopting a strategy where fiscal and monetary policy instruments aim for the twin objectives of low inflation and high growth the short-term macro imbalances require administrative strength to deal with manipulators, as inflation in Pakistan is largely influenced by import prices and supply constraints rather than money growth. Any weakness to tackle supply shortages, and those who are responsible for it, has the potential of further aggravating the inflationary expectations in coming months. The need of the hour is to maintain fiscal discipline. In this regard, extra government spending that requires money financing will have to be avoided at all costs.’

It is still believed that without macroeconomic stability, firmly ingrained in fiscal discipline, the dream of sustaining high growth is not possible. Therefore, a quick remedial action based on monetary and fiscal

² See *CBR Quarterly Review*, October-December 2006.

prescriptions is desired to achieve concurrent objectives of growth with social justice and equitable distribution of resources within the economy. Not forgetting that a stitch in time definitely saves nine.

FBR Revenue Collection vis-à-vis Target

The fiscal year 2007-08 is very important for FBR in a sense that an ambitious revenue target of Rs. 1025 was assigned. To achieve this landmark, yet steep and challenging revenue target, 21% growth was required over last year's revenue collection of Rs. 847 billion – a rate of growth at least 6 percentage points higher than the expected growth in the tax base (GDP at market prices) and 2.2 percentage points higher than last year's accomplishment of 18.8% when the economy was in a reasonably good shape. In response to this target, FBR has collected Rs. 469.4 billion and Rs. 435.1 billion in gross and net terms, respectively during first half of FY: 07-08. The growth in gross and net collection has been 1.7% and 6% respectively (Table 1). The refund payments had declined by 32.5% during the same period. With this outcome, the up to December target of Rs. 470.2 billion has been achieved to the extent of 92.5%, thus putting additional pressure of over 7% to makeup for this underperformance in domestic resource mobilization during the 2nd half of the year.³

Table 1: Month-wise Comparative Net Revenue Collection

(Rs. Million)

| Months | FY 07-08 | FY 06-07 | Difference | |
|----------------------|----------------|----------------|---------------|------------|
| | | | Absolute | Percentage |
| July | 50,941 | 46,178 | 4,763 | 10.3 |
| August | 60,139 | 46,333 | 13,806 | 29.8 |
| September | 94,056 | 91,426 | 2,630 | 2.9 |
| October | 66,388 | 53,312 | 13,076 | 24.5 |
| November | 68,543 | 59,026 | 9,517 | 16.1 |
| December | 95,008 | 114,236 | -19,228 | -16.8 |
| July-December | 435,075 | 410,511 | 24,564 | 6.0 |

³ It is important to mention that despite some shortfall in September 2007, the net collection till November registered an overall growth of 14.8%. The growth in direct tax receipts was 17.6%, GST 14.6%, FED 26.7% and customs 3.6%. Thus, there was no immediate serious threat to the overall target of Rs. 1025 billion.

An immediate observation with respect to monthly collection during the first half of the year has been the extreme volatility in monthly growth. It has varied between 29.8% in August to -16.8% in December. One of the reasons could be that there had been ‘too frequent’ changes (extensions) in the dates of filing of income tax and GST returns in response to political uncertainty, holidays and administrative reasons. For instance, the last date of filing of income tax returns was initially extended from 30th September to 15th October and then to 30th October and the same for corporate returns was extended from 31st December to 15th January and then to 30th January. Similarly, the date of filing of GST/ FED returns was shuffled many a times during a month to settle down the hiccups associated with the newly introduced e-filing system of returns. On top of this, the collection has also been adversely impacted by extended closure of business initially due to Eid holidays and then due to the events that took place during the last week of December. Resultantly, the collection, especially in December 2007 registered a decline of about Rs. 19.2 billion or 16.8% compared to December 2006. On the whole, the realized collection has been short of the target by about Rs. 35.1 billion during H1: 07-08.

The tax-wise decomposition reveals that the major ripple has been created by direct taxes. With less than targeted collection of direct taxes, the composition of the federal tax pie has changed. The contribution of direct taxes during H1: 07-08 has reduced to 37.8% from 42% in the H1: 06-07. Similarly, the share of customs duties has declined from 15% to 14%. As should be obvious, this loss has been picked up by the remaining two taxes – the share of sales tax has increased by 3% and, that of FED has increased by 1.6%.

Incidentally, except for excise duties no other tax has been able to achieve the assigned revenue targets. However to be fair, a proper explanation is warranted to avoid mis-interpretation of results. In the case of customs duty and sales tax (import), while the suspension of work at ports during the last week of December has resulted into short collection,

it was all along anticipated that this shortfall will be made up in January 2008, and it actually has happened. As far as domestic taxes are concerned, the performance of sales tax (domestic) has been hit hard by closure and remains difficult to be recouped. For direct taxes, it may be recalled that the month of December is always critical for the overall achievement of the target. This is so because major corporations and business not only submit their yearly tax returns but also pay second installment of advance tax. Notwithstanding this importance, there has been a serious shortfall on account of payments with returns. And quite unexpectedly, the major taxpayers have also opted to make less payments of advance tax for one reason or other. As a result, the overall receipts in December 2007, instead of recording any growth, have fallen short of December 2006 collection by Rs. 25 billion, which is quite substantial – 6.2% of the overall revenue target of direct taxes (Table 2).

Table 2: Month-wise Revenue Difference Compared to 2006-07

(Rs. Million)

| Months | DT | GST (Total) | <i>GST(M)</i> | <i>GST(D)</i> | FED | CD | Overall |
|---------------------------|----------------|------------------------|---------------|---------------|--------------|-------------|----------------|
| July | 4,024 | 2,210 | 189 | 2,021 | -2,133 | 662 | 4,763 |
| August | 3,897 | 7,932 | 1144 | 6,788 | 1,958 | 19 | 13,806 |
| September | 3,135 | -2,975 | 1479 | -4,454 | 2,065 | 405 | 2,630 |
| October | 1,095 | 9,532 | 6101 | 3,431 | 2,077 | 372 | 13,076 |
| November | 4,795 | 1,610 | 1478 | 132 | 2,786 | 326 | 9,517 |
| <i>December</i> | <i>-25,050</i> | <i>4,770</i> | <i>-633</i> | <i>5,403</i> | <i>1,936</i> | <i>-833</i> | <i>-19,227</i> |
| July-Dec 07-08 | -8,104 | 23,079 | <i>9758</i> | <i>13,321</i> | 8,689 | 901 | 24,565 |

It is also relevant to see how each tax has performed on month-to-month basis targets. While on the whole, the target for first half of the year has been missed by Rs. 35.4 billion, 79% of this decline has been due to direct taxes, as indicated earlier (Table 3). Even the meager gain of the first quarter (Q1) has been lost in the second quarter (Q2). Similarly, the GST collection also remained below target in Q2. However, despite this decline, it is expected that most of this loss will be recovered during

January-June half of the year. The performance of excise duties has been at par with the target. Nonetheless, since the target for the second half of the year is quite steep, it will require extra effort to reach the end of the year target of Rs. 98 billion. Finally, no serious threat is anticipated as far as customs duty collection relative to target is concerned during the 2nd half the year.

Table 3: Performance: Net Collection vis-à-vis Targets for H1: 2007-08

(Rs. Billion)

| | Target | Collection | Difference | Target | Collection | Difference |
|------------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | Direct Taxes | | | Sales Tax | | |
| July | 13.5 | 14.1 | 0.6 | 23.7 | 26.2 | 1.4 |
| August | 14.1 | 15.0 | 0.9 | 28.7 | 28.8 | 3.7 |
| September | 48.0 | 48.4 | 0.4 | 28.5 | 27.7 | -4.3 |
| Q1 | 75.6 | 77.5 | 1.9 | 80.9 | 82.8 | 0.9 |
| October | 16.5 | 17.2 | 0.7 | 30.0 | 31.5 | 4.0 |
| November | 17.5 | 18.7 | 1.2 | 31.8 | 29.7 | -1.8 |
| December | 83.0 | 51.2 | -31.8 | 32.5 | 25.3 | -8.2 |
| Q2 | 117.0 | 87.1 | -29.9 | 94.3 | 86.6 | -5.9 |
| Half Year | 192.6 | 164.6 | -28.0 | 175.2 | 169.3 | -5.9 |

| | Excise Duties | | | Customs Duties | | |
|------------------|---------------|-------------|-------------|----------------|-------------|-------------|
| July | 1.0 | 1.9 | 0.9 | 8.2 | 8.7 | 0.5 |
| August | 6.5 | 6.6 | 0.1 | 10.1 | 9.7 | -0.4 |
| September | 7.5 | 7.5 | 0.0 | 10.5 | 10.5 | 0.0 |
| Q1 | 15.0 | 15.9 | 0.9 | 28.8 | 29.0 | 0.2 |
| October | 7.5 | 7.5 | 0.0 | 10.3 | 10.2 | -0.1 |
| November | 8.5 | 8.3 | -0.2 | 11.9 | 11.8 | -0.1 |
| December | 8.5 | 7.8 | -0.7 | 12.2 | 10.7 | -1.5 |
| Q2 | 24.5 | 23.6 | -0.9 | 34.4 | 32.7 | -1.7 |
| Half Year | 39.5 | 39.5 | 0.0 | 63.2 | 61.6 | -1.6 |

The Level of Refund/ Rebate

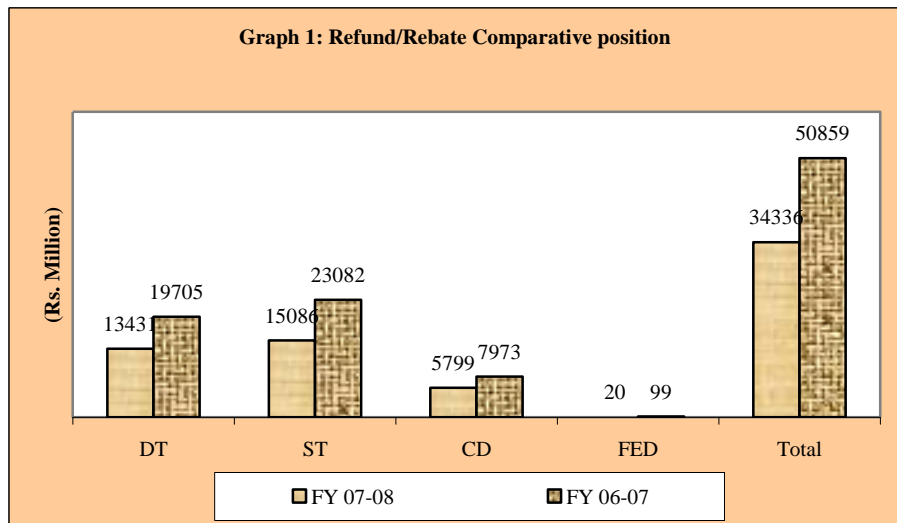
As a result of the introduction of zero-rating regime in GST, revision in the advance tax regime of direct taxes, and the adoption of a policy of speedy disposal of refunds and transparency in the system, a substantial decline has been witnessed in refund payments during H1: 07-08 as compared to the corresponding period last year (Graph-1). A major decline in these payments has been recorded in sales tax where a saving

of Rs. 8 billion has been possible, followed by direct taxes (Rs. 6.3 billion) and customs (Rs.2.2 billion).

Box 1: Change in the Composition of Refund Payments:

On the whole, the change in the composition of refund payments between zero-rated (ZRS) and non zero-rated sectors (NZRS) since FY: 01-02 is quite interesting. As one would have expected, 81% of total refunds in FY: 00-01 were going to the five export related sectors with the textile sector being the main recipient (76% of the total and 95% of the zero-rated sectors). The share of the textile sector increased to 79% in FY: 03-04 but declined slightly to 75% in FY: 04-05 when the zero-rate regime was introduced. Immediately afterwards, its share declined to 56.3% in FY: 05-06 and to 19.3% in the subsequent year. However it is interesting to find that while the share of ZRS was declining, that of the NZRS started to increase from 19% in FY: 00-01 to 44% in FY: 05-06 and to 66.9% in FY: 06-07. The amount of refund to NZRS in FY: 00-01 was Rs. 5.8 billion that jumped to Rs. 14.2 billion in FY: 05-06 and to Rs. 24.7 billion in FY: 06-07. Further scrutiny of this change in NZRS revealed that major claims were now being made for electrical energy which was also ultimately zero-rated to root-out this menace of refunds.

Graph 1: Refund/Rebate Comparative position



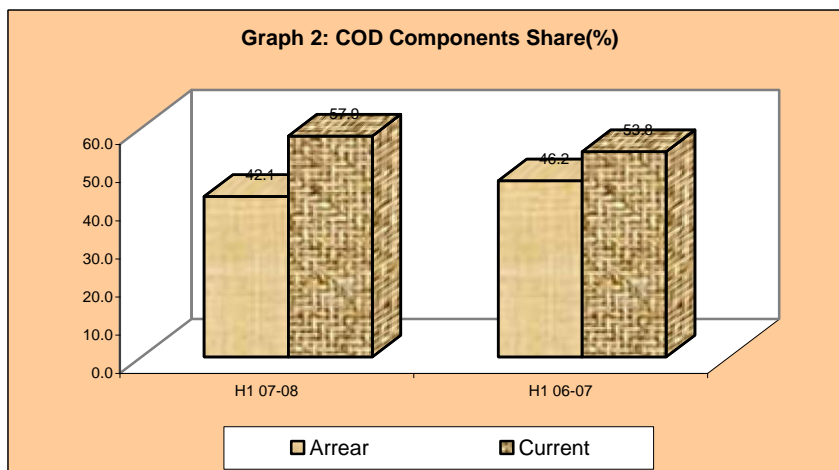
Detailed Analysis of Individual Taxes

The half-yearly revenue performance has not been as promising as projected, except for FED, as all the taxes have missed their respective targets, albeit by varying degrees. The collection of DT, GST and Customs fell short by Rs. 28 billion, Rs. 5.9 billion, and Rs. 1.6 billion respectively. While the shortfall in indirect taxes is not as pronounced and it is expected to be compensated in the coming months, the one in DT is difficult to be recouped and, therefore, has major implications for the achievement of the overall target.

Direct Taxes: The gross and net collection of direct taxes during H1: 07-08 has been Rs. 178 billion and Rs. 164.6 billion, indicating a negative growth of 7.5% and 4.7% respectively. Unfortunately the direct taxes could not sustain the spectacular performance attained during last couple of years. Within various components of direct taxes, major shortfall has been encountered in payments with returns. The advance tax payments also started to show slide in the second quarter and the two quarter outturn remained short of the projected estimates.

Components of Income & Corporate Taxes

Collection on Demand (COD): Although COD has reduced to a minor component over the years, but it is still an important component of income tax collection as it reflects departmental efforts to recover arrear payments and raise current demand by analyzing the documents (returns and annexes) filed by the taxpayers. The share of COD, in total income tax collection has improved from 2.4% during H1: 06-07 to 6.6% in H1: 07-08. Within the COD, the share of current demand and arrear demand was around 58% and 42% respectively (Graph 2). The collection from current demand reached Rs. 6.5 billion, whereas Rs. 4.8 billion have been accrued from arrear demand. The healthy collection, particularly, from current demand indicates that the facility of self-assessment has, perhaps, been misused. The possibility of inadmissible deductions appears to be the case. Thus, there is a clear case for targeted audit of the submitted declarations.



Voluntary Payments (VP): This component includes payments with return and advances. In net terms, Rs. 67.2 billion have been generated during H1: 07-08 as compared to Rs. 105.1 billion in the corresponding period last year. Thus, around 36% decline has been witnessed in collection from this important component. It may be recalled that after the introduction of USAS, the share of VP in gross collection has kept on rising and during H1: 06-07 it reached 55.5%. However, during H1: 07-08 it has declined to only 37.3%. Further analysis reveals that payments with return have declined by 87%.⁴ A paltry sum of Rs. 6 billion against Rs. 45.1 billion has been collected in H1: 06-07, and consequently its share in total VP has plummeted to 9% from 43%. The second component of VP, i.e., advance payments has also not grown significantly during the period under review. During H1: 07-08 Rs. 61.2 billion were collected against Rs. 60 billion in H1: 06-07, indicating a growth of only 2.1% (Table 4).

The possible reasons for the shortfall in the collection of income and corporate taxes are: (i) the change in the advance tax regime made last year has grossly affected the tax paid with the returns; (ii) the advance tax scheme in vogue envisages ‘Pay as you Earn’, thereby reducing

⁴ The data of payment with return is up to 31st Dec-07.

substantially tax payable with the returns; and (iii) Lesser collection of advance tax vis-à-vis anticipated growth owing to improper declarations by large taxpayers. Beside this, the events of last week of December 2007 have also reduced collection of income tax, especially the withholding component. As a result, a modest growth in advance tax payments during 1st half has been recorded suggesting that the potential gain emanating from growth has been lost.

Table 4: Voluntary Payments (VP): A Comparison

(Rs. Million)

| Heads | H1: 07-08 | H1: 06-07 | Growth (%) | Share (%) | |
|-----------------|-----------------|------------------|------------|------------|------------|
| | | | | H1: 07-08 | H1: 06-07 |
| With Return | 6,001.9 | 45,092.3 | -86.7 | 8.9 | 42.9 |
| Advance Tax | 61,213.5 | 59,976.1 | 2.1 | 91.1 | 57.1 |
| Total VP | 67,215.4 | 105,068.4 | -36 | 100 | 100 |

To understand the real sources of decline, a comparative position of sectoral collection by Large Taxpayers Units (LTUs) and Regional Tax Offices (RTOs) has been prepared.

The Regional details indicate that the decline in payments with returns has been across the board. The three LTUs have suffered a combined loss of around Rs. 34 billion during the first two quarters – nearly Rs. 10 billion during Q1 and the rest during Q2. The major shortfall of Rs. 13 billion and Rs. 14 billion respectively has been encountered at LTUs at Islamabad and Karachi, while LTU Lahore has faced a deficit of Rs. 5 billion on this account (Table 5). Consequently, the share of three LTUs in total payments with returns has fallen from 89% during PFY to 46% during the CFY. Within RTOs, the major decline has been faced by RTO Karachi and RTO Lahore where a shortfall of Rs. 4 billion and Rs. 0.5 billion respectively has been recorded. Here the decline is more or less evenly divided between Q1 and Q2. The reason for this decline in payments with returns is a bit technical, but can be summarized as

follows. In the past advance tax was required to be paid on the basis of last year's turnover. It was optional for the taxpayers to pay either full or up to 80% of their tax liabilities. Under this setup, since there was no bar to pay full amount of due taxes, the taxpayers 'generally' opted to pay up to 80% of taxes and the 'balance' to be paid along with returns. With two changes in the advance tax regime, i.e., payment of tax on the basis of expected profits and elimination of the 80% requirement, full payment of taxes that become due are now being made in the shape of advance tax, and very little is left to be paid with returns. Thus, there has been a huge difference between what was received last year and what has been received this year. Since full impact of this change has been realized during the current fiscal year, the system of collection will be relatively smooth from next fiscal year.

Table 5: Advance Tax and Payment with Return from LTUs

(Value in Rs. Million and Growth in %)

| | LTU Karachi | | | LTU Islamabad | | | LTU Lahore | | |
|-----------------------------|-----------------|-----------------|--------------|-----------------|-----------------|--------------|----------------|----------------|--------------|
| | 07-08 | 06-07 | Growth | 07-08 | 06-07 | Growth | 07-08 | 06-07 | Growth |
| Advance Tax Payments | | | | | | | | | |
| Q1 | 11,859.5 | 5,620.2 | 111.0 | 10,122.6 | 6,948.6 | 45.7 | 530.0 | 861.3 | -38.5 |
| Q2 | 16,634.0 | 19,199.0 | -13.4 | 10,527.1 | 10,505.8 | 0.2 | 4,655.8 | 3,596.8 | 29.4 |
| H1 | 28,493.5 | 24,819.2 | 14.8 | 20,649.7 | 17,454.4 | 18.3 | 5,185.8 | 4,458.1 | 16.3 |
| Payments with Return | | | | | | | | | |
| Q1 | 1,782.5 | 8,455.6 | -78.9 | 129.8 | 1,958.9 | -93.4 | 424.1 | 2,724.2 | -84.4 |
| Q2 | 595.8 | 8,158.0 | -92.7 | 391.5 | 11,560.0 | -96.6 | 153.7 | 3,642.7 | -95.8 |
| H1 | 2,378.3 | 16,613.6 | -85.7 | 521.3 | 13,518.9 | -96.1 | 577.8 | 6,367.0 | -90.9 |

Regarding Advance tax payments, there was no problem during Q1: CFY, rather remarkable growth of 111% and 46% as compared to Q1 of PFY was registered at LTUs Karachi and Islamabad. However, second quarter saw an unprecedented decline of 13.4% at LTU Karachi and there was virtually no growth in LTU Islamabad. On the other hand, LTU Lahore after recording a negative growth of around 39% in Q1 was able to manage 29.4% growth during Q2. Since this outcome has been totally

unexpected, a deeper sectoral analysis has been undertaken in the following.

Sectoral Analysis of Advance Tax Payments: The sectoral composition of quarterly advance tax payments is presented in Table 6. It is evident that these payments relate to few corporate entities categorized within the Oil & Gas Sector, Financial Institutions mainly Banks, Telecom Sector, Engineering and Automobile sectors. Not surprisingly, these five sectors have contributed 76% of advance taxes in Q1: 07-08. As expected, a hefty increase of 71% in these payments was recorded in Q1: 07-08 over Q1: 06-07. Furthermore, barring the telecom sector, the remaining four sectors had made substantially higher payments than last year. Compared to this, advance tax payments by other relatively smaller contributors declined by about Rs. 3.5 billion or 35.7%. Contrary to expectations, this situation changed completely during the second quarter of the year when major decline has been noted in the Oil & Gas, Banks and Engineering sectors whereas some improvement was recorded in the telecom, automobile, and other minor sectors. While the overall growth in Q1 was 21.6%, a decline of 8.6% in Q2 reduced the half-year growth to 2.1% well below the projected level.

Going further, it has been found that within the Oil & Gas sector the major contributors were OGDCL, Pakistan Petroleum, and Pakistan State Oil. In the banking sector these payments were made by MCB, NBP, Habib Bank and Standard Chartered Bank and within the telecom sector major chunk of advance payments has originated from PTCL. This situation had led to further pondering on at least two points. Firstly, how valid is this assertion that economic activities are concentrated in few sectors only? Secondly, and more importantly, why taxes generally originate from ventures which at best can be regarded as public sector enterprises. Why the share of many other vital sectors of the economy, particularly in the private sector, remains so insignificant? How can the possibility of widespread tax evasion/ avoidance be ruled out? Since the number of corporate cases at the LTUs is relatively small, it is important

that they should take lead in responding to these concerns as their performance holds key to the success of the revitalized tax system and accomplishment of revenue targets.

Table 6: Advance Tax Paid by Major Sectors H1: FY: 07-08 and H1: FY: 06-07
(Rs. Billion)

| Sector | Q1 | | | Q2 | | | H1 | | |
|-------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|------------|
| | FY: 07-08 | FY: 06-07 | Growth (%) | FY: 07-08 | FY: 06-07 | Growth (%) | FY: 07-08 | FY: 06-07 | Growth (%) |
| Oil and Gas | 11.0 | 7.6 | 44.4 | 12.2 | 12.6 | -3.2 | 23.2 | 20.2 | 14.8 |
| Banks | 5.4 | 1.9 | 186.8 | 11.5 | 14.0 | -17.3 | 17.0 | 15.9 | 7.1 |
| Telecom | 1.5 | 1.4 | 2.1 | 1.6 | 1.3 | 22.8 | 3.1 | 2.8 | 12.1 |
| Engineering | 1.1 | 0.3 | 253.9 | 0.3 | 0.9 | -71.0 | 1.4 | 1.2 | 11.3 |
| Automobiles | 0.5 | 0.2 | 207.4 | 0.2 | 0.0 | 668.4 | 0.7 | 0.2 | 271.2 |
| Sub Total | 19.5 | 11.4 | 70.9 | 25.8 | 28.8 | -10.4 | 45.3 | 40.3 | 12.6 |
| All Others | 6.3 | 9.8 | -35.7 | 9.6 | 9.9 | -3.4 | 15.9 | 19.7 | -19.4 |
| Grand Total | 25.8 | 21.2 | 21.6 | 35.4 | 38.8 | -8.6 | 61.2 | 60.0 | 2.1 |

Withholding Taxes (WHT): Withholding tax is the third important component of income tax. During H1: 07-08 tax receipts worth Rs. 92.3 billion have been collected against Rs. 77 billion in the corresponding period of last year entailing a significant growth of 19.9%. The share of WHT in gross income tax collection that has declined during last few years has now increased to 54% against 40.6% in H1: 06-07 mainly due to substantial decline in voluntary payments and improved performance of WHT, thereby putting further question mark on the extent of tax effort by the department.

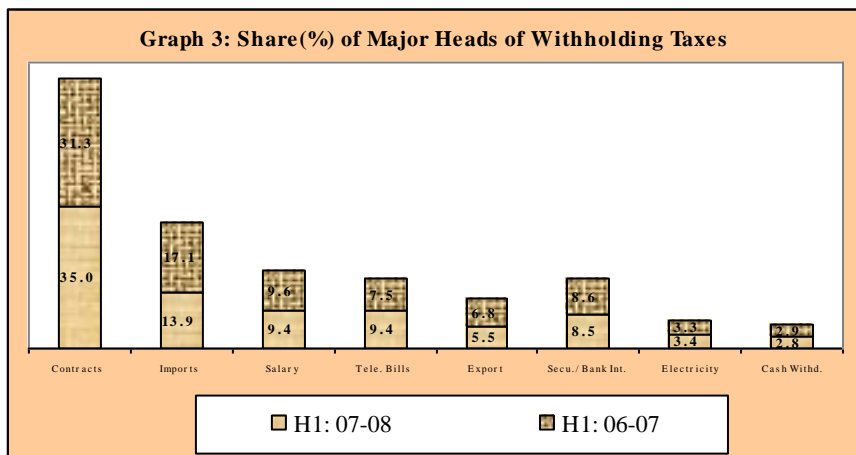
The major revenue spinners as far as WHT is concerned are: contracts and supplies, imports, salary, telephone, securities, exports, electricity and cash withdrawals. Varying rates are used for different WHT heads. Whereas the rate of WHT on imports has been reduced to 5%, for specific categories of imports it varies between 1% and 2%.⁵ The rate of deduction on contracts and supplies ranges between 2% and 6%, for exports 1% and 5% and cash withdrawal 0.2%. On salaries, electricity consumption, and telephone bills, WHT is deducted as per slab rates.

⁵ For details on rates and taxability see Annex A to this Chapter.

Box 2: Significance of WHT Regime

The significance of the WHT regime within Income and Corporate tax has been an established fact. However, the rationale for having so many WHT heads and the presumptive nature of many of them remains a debatable issue. With the introduction of the USAS and gradual improvement in voluntary compliance, the share of WHT in total collection has kept on declining over the last few years. Thus, there was a lukewarm interest in how revenue was trickling from these WHT sources. However, with a sudden decline in payments with returns and also advance taxes, there has been a realization that this source of revenue requires much more attention than it has received in the past. As a result, a senior position of Director General has been created to monitor the progress of WHT receipts. The field formations, especially those where WHT contribution is significant have been advised by Chairman to have a thorough review of each WHT head as the potential of raising revenue is enormous within each category. The field offices have been given the task of validating the deductions made by the withholding agents. Furthermore, they have been advised to confirm if these deductions from taxpayers are promptly and accurately transferred to the government treasury by the WHT agents.

The major heads, mentioned in Table 7, contribute nearly 88% of total WHT collection. Their respective shares are shown in Graph 3. WHT from contracts and supplies holds an all important position with slightly over one-third collection of WHT. It is followed by trade related deductions 20.7% [imports (13.9%) and exports (6.8%)], salaries (9.4%) and securities and bank interest (8.6%) etc.



A healthy performance in receipts on account of contracts, telephone use, salary payments, securities and bank interest and electricity bills has been witnessed during H1: 07-08. Notwithstanding the double-digit growth in contracts and salary, these two heads require further scrutiny given the size of PSDP spending on infrastructure development and the general improvement in remuneration received by employees of public and private sector organizations. On the other hand, there has been a decline in WHT on imports and exports which appears to be inconsistent with 14.1% and 3.8% growth in imports and exports respectively during H1: 07-08. The reduction in rates of WHT on imports and exports could be one of the reasons for this outcome. However, this area requires further probing due to diverse nature of tradable commodities and categorization of taxpayers into manufacturers, commercial importers and exporters. Finally, 15% increase in deductions on cash withdrawal vindicates the assertion that the undocumented economy requires special tax treatment.

Table 7: Half-Yearly Collection from Major Revenue Spinners Related to Withholding Taxes

(Rs. Million)

| Collection Heads | H1: 07-08 | H1: 06-07 | Difference | |
|----------------------------------|----------------|----------------|----------------|-------------|
| | | | Absolute | Percent |
| Contracts | 32286.5 | 24093.6 | 8192.9 | 34.0 |
| Imports | 12841.7 | 13170.6 | -328.9 | -2.5 |
| Salary | 8700.9 | 7360.4 | 1340.5 | 18.2 |
| Telephone Bills | 8696.1 | 5756.9 | 2939.2 | 51.1 |
| Export | 5053.1 | 5228.4 | -175.3 | -3.4 |
| Securities/Bank Interest | 7852.9 | 6588.3 | 1264.6 | 19.2 |
| Electricity | 3093.2 | 2510.2 | 583.0 | 23.2 |
| Cash Withdrawals | 2572.2 | 2237.4 | 334.8 | 15.0 |
| Sub-Total (Eight major items) | 81096.6 | 66945.8 | 14150.8 | 21.1 |
| Share in Total WHT | 87.8% | 86.9% | | |
| <i>Other WHT</i> | 11232.3 | 10036.6 | 1195.7 | 11.9 |
| Total WHT | 92328.9 | 76982.4 | 15346.5 | 19.9 |
| Share in Gross I. Tax | 54.0% | 42.6% | | |

Income Tax Returns Analysis: The number of Income Tax Returns and statements received by the revised date of 31st January 2008 as compared to the corresponding period last year are higher by 510,168, indicating a growth of about 33%. While the growth in the number of returns has been 17.8%, the statements have increased by 43.1% (Table 8). On the other hand, the total tax received has declined sharply to Rs. 8.9 billion against Rs. 45.7 billion, thereby registering a negative growth of 80.5%. The number of corporate returns has increased from 11,521 during PFY to 13,933 in CFY however the collection has plummeted from Rs. 43 billion to Rs. 7 billion as highlighted earlier. In other words, a negative growth of around 84% has been registered. A similar outcome has been noticed for other categories of taxpayers including individuals, and AOPs. In respect of the statements, despite a rise in number by 395,456, the collection has declined by around 5.4% which also needs deeper analysis.

Table 8: Income Tax Returns Vs Collection 2007-08 and 2006-07

| Taxpayers | No. of Returns Received | | Growth | | Amount Paid (Rs. Million) | | Growth | |
|---------------------------------|-------------------------|------------------|----------------|-------------|------------------------------|-----------------|-----------------|--------------|
| | 31-01-08 | 31-01-07 | Absolute | (%) | 31-01-08 | 31-01-07 | Absolute | (%) |
| Returns | | | | | | | | |
| Corporate Cases | 13,933 | 11,521 | 2,412 | 20.9 | 7,076.9 | 43,142.1 | -36065.2 | -83.6 |
| AOPs | 24,876 | 21,702 | 3,174 | 14.6 | 103.5 | 107.0 | -3.5 | -3.3 |
| Salaried Individuals | 102,871 | 64,174 | 38,697 | 60.3 | 91.6 | 199.9 | -108.3 | -54.2 |
| Non-Salaried Individuals | 616,395 | 545,966 | 70,429 | 12.9 | 1,461.5 | 2,085.0 | -623.5 | -29.9 |
| Sub-total returns | 758,075 | 643,363 | 114,712 | 17.8 | 8,733.5 | 45,534.0 | -36800.5 | -80.8 |
| Statements | | | | | | | | |
| Salary Certificates | 82,436 | 275,593 | -193157 | -70.1 | 15.8 | 66.7 | -50.9 | -76.3 |
| Importers | 15,425 | 13,473 | 1,952 | 14.5 | 0.9 | 0.2 | 0.7 | 350.0 |
| Exporters | 10,212 | 10,028 | 184 | 1.8 | 1.0 | 2.6 | -1.6 | -61.5 |
| Contractors/ Suppliers | 32,266 | 33,183 | -917 | -2.8 | 6.2 | 12.4 | -6.2 | -50.0 |
| Others (Including Retailers) | 1,171,656 | 584,262 | 587,394 | 100.5 | 165.8 | 118.6 | 47.2 | 39.8 |
| Sub-total Statements | 1,311,995 | 916,539 | 395,456 | 43.1 | 189.7 | 200.5 | -10.8 | -5.4 |
| Total | 2,070,070 | 1,559,902 | 510,168 | 32.7 | 8,923.2 | 45,734.5 | -36811.3 | -80.5 |

This decline in payments with return raises certain questions. Has the tremendous performance of past two years a short term phenomenon of self assessment which could not be sustained without an adequate system of enforcement and penalties? Or it is the change in the advance tax regime that has resulted into reduced payments with returns? Or is it the absence of audit which has now started affecting the voluntary compliance significantly? As already mentioned, the change in the tax regime has indeed affected the collection but the reduction appears to be on the higher side. Apparently, there is nothing wrong with the USAS as it has successfully worked for the last four years and huge sums were collected under the head of voluntary payments. However, the need for effective audit of selected corporate cases cannot be over emphasized. The modest effort at LTUs cannot be regarded as sufficient to make a difference. Now that the planning stage has been completed, full implementation of audit program should not be delayed any further, especially when there is strong evidence of low voluntary compliance due to inadmissible claims. At the same time it is also essential to have effective enforcement in place. Unfortunately, the enormous gap between corporations who have got NTN and those who file returns and nearly two thirds of the corporations declaring nil income and business losses within those who file returns are 'known' facts for quite some time. Why so little attention has been paid to this issue remains a perplexing concern. Now that the process of re-organization of field formations has been completed, the processing of returns for raising demand in a professional manner should not be delayed any further. Here again, the audit teams will have to take the leadership role, which unfortunately remains a missing link in the entire equation.

Sales Tax: The sales tax is an important source of collection of federal tax revenues. Like other federal taxes, the GST regime of FBR has also undergone some critical changes since July 2007. To start with, the federal excise return has been combined with the sales tax return and the submission of the consolidated return has been fixed for 15th of the following month. This indeed is a facilitating measure for the taxpayers,

as those who are liable to pay FED and are also GST registered persons, will now be submitting one return rather than two, thus saving their precious resources and costs involved in fulfilling their tax obligations at two separate occasions within a month. It is also convenient from tax administration side as it would be easier for tax administrators to observe consistency of records of same taxpayers across two taxes.

The second important change within GST regime has been the conversion of collectorates as tax collecting agencies into Regional Tax Offices (RTOs) and LTUs. This process of collection of all internal taxes (Direct Taxes, GST & FED) under one roof is again a facilitating measure. However, it has required 'redefining' of territorial jurisdictions of GST as well as DT having implications for both, the taxpayers and the tax collectors.⁶ Thirdly, as part of the automation process, electronic filing of GST/ FED return has been made mandatory for large business from July 2007.

All these measures have affected revenue collection of sales tax and FED in different ways. For example, the proper implementation of e-filing could not take place in July due to delayed finalization of the format of return. Similarly, certain provisions available in the sales tax system were inapplicable in the software. Resultantly, e-filing and normal submission of sales tax returns for FY: 07-08 started in August, 2007. At the same time, the new format of the return took time to attain the level of acceptability particularly by the federal excise taxpayers. There has been some change in procedure of depositing of federal excise liability as well as in the format of return. The initial hindrances (or teething problems) resulted due to ambiguities created by the new system. This, in turn, could be due to less than desired time spent in educating the taxpayers and mis-communication with the concerned bank branches regarding the procedure of tax collection. Resultantly, some of the taxpayers continued

⁶ For example the work load Collectorate of Sales Tax and Federal Excise has been divided into three jurisdictions namely RTOs, Rawalpindi and Islamabad and LTU Islamabad depending upon taxpayers place and magnitude of business.

to deposit their federal excise tax through challans. In the process, this change may have provided an opportunity to the delinquent taxpayers to exploit the situation.

Finally, the practical operations and flow of work at the RTOs took time to smoothen. Some slippages did occur during the period of transformation and placement of responsibilities till such time that a seamless working environment was being created. Nonetheless, it has to be realized that these ‘adjustment costs’ of reform process are well anticipated but, at times, quite unavoidable. Since most of these matters have now been resolved, therefore a better performance is expected in the 2nd half of the year.

Analysis of Revenue: The gross and net collection of sales tax during H1: 07-08 reached Rs. 184.4 billion and Rs. 169.3 billion respectively entailing growth of 8.9% and 15.8% over the corresponding period last year. As a result, the target has been achieved to the extent of 96.6% implying that a shortfall of about Rs. 5.9 billion has been recorded. Incidentally, a much bigger share of almost 93% or Rs. 5.5 billion has been observed in collection from the domestic component of GST. On the other hand, despite sluggishness in port operations during the last ten days of December, the collection from the import component of sales tax has recorded a shortfall of only Rs. 400 million compared to the target. Besides these reasons and those mentioned in the preceding paragraph, the less than expected net outcome of domestic component of sales tax has also been due to extra payments of refunds than projected. Since the possibility of creation of new refund claims has reduced substantially after zero-rating, it has been observed that pending claims of PFY amounting nearly Rs. 7 billion have been liquidated to oil and gas and energy sectors during H1: 07-08. Along with this, the payment of ‘routine’ refund claims, essentially to non zero-rated sectors, have also been made during the first half of the year. The break-up of collection of the two components of sales tax is highlighted in Table 9.

Table 9: Collection of Sales Tax during H1:2007-08*(Rs. Million)*

| Tax-Head | Collection | | | Growth | | |
|--------------------------|----------------|---------------|----------------|------------|--------------|-------------|
| | Gross | Refund | Net | Gross | Refund | Net |
| Sales Tax Imports | 95,114 | 44 | 95,070 | 11.4 | -4.3 | 11.4 |
| Sales Tax Domestic | 89,288 | 15,042 | 74,246 | 6.3 | -34.7 | 21.9 |
| Sales Tax (Total) | 184,406 | 15,086 | 169,316 | 8.9 | -34.6 | 15.8 |

Sales Tax (Domestic) Collection and Major Revenue Spinners:

Nearly 75% of gross ST (D) collection was contributed by ten commodities during July-December 2007, whereas last year this share was 66%. An increase of 11% has been largely due to a procedural change with respect to energy sector where FBR has opted for a 'No Tax No Refund' strategy for those payments, essentially from WAPDA that were initially collected and refunded later. Besides this, a less than expected collection from cement industry has resulted into overall growth of 6.3% in gross collection. A comparison of gross collection from major commodity-groups along with their relative importance is presented in Table 10.

Table 10: Gross Collection of GST (Domestic) from Major Revenue Spinners*(Rs. Billion)*

| Commodities/Items | July-December | | | Share (%) | |
|--------------------------------|---------------|-------------|-------------|--------------|--------------|
| | 2007-08 | 2006-07 | Growth (%) | 2007-08 | 2006-07 |
| Telecom Services | 21.8 | 17.1 | 27.3 | 24.4 | 20.4 |
| POL Products including LPG | 16.6 | 13.4 | 24.3 | 18.6 | 15.9 |
| Natural Gas | 8.1 | 7.0 | 15.8 | 9.0 | 8.3 |
| Sugar | 5.1 | 4.9 | 4.9 | 5.7 | 5.8 |
| Cigarettes | 4.0 | 2.9 | 37.6 | 4.4 | 3.4 |
| Iron & Steel Products | 3.3 | 1.0 | 238.7 | 3.7 | 1.2 |
| Services (Hotel & Travel etc.) | 3.0 | 2.2 | 36.7 | 3.3 | 2.6 |
| Cement | 1.8 | 2.6 | -30.8 | 2.0 | 3.1 |
| Beverages | 2.1 | 1.7 | 20.4 | 2.3 | 2.0 |
| Auto Parts | 1.5 | 1.3 | 17.3 | 1.7 | 1.6 |
| Major Ten Commodities | 67.2 | 54.0 | 24.5 | 75.3 | 64.3 |
| <i>Other</i> | <i>22.1</i> | <i>30.0</i> | <i>26.4</i> | <i>24.7</i> | <i>35.7</i> |
| All Commodities | 89.3 | 84.0 | 6.3 | 100.0 | 100.0 |

The telecom services as a sector has maintained its top position in ST (D) contribution with a healthy growth of 27.3% in H1: 07-08 as compared to the corresponding period last year. While there appears to be some slow down, as growth during first half of last year was over 35%, this sector nonetheless remains vibrant and an important source of tax collection. A further analysis confirms that a possible switch is taking place from land line operations to mobile telephony and related services. As a consequence, the contribution of PTCL and NTC is gradually declining. However, at the moment it is not being compensated on one-on-one basis by additional collection from mobile phone service providers, which requires further investigation. It is believed that the healthy competition among the telecom industry with a wide array of services and expansion in the use of mobile phones will grow further in coming years therefore the potential for improved collection should not be overlooked.

The gross collection from POL products has increased by 24.3% during H1: 06-07. However, due to the payment of pending refund of Rs. 2.7 billion during the period, the growth in net collection reduced to 4.6%. It is important to mention that with the levy of zero percent tax on petroleum crude oil, the possibility of having fresh refund claims has been minimized to a great extent.⁷ The collection from natural gas has exhibited a similar phenomenon where a negative growth of 14.6% in net collection has been observed mainly because of over two billion refunds payment to SNGPL during H1:07-08. Even though the collection from sugar has witnessed a modest increase of 4.9% in gross terms, the overall performance of this important sector of the economy remains dubious. Evidence clearly suggests wide variations across manufacturing units situated in different parts of the country, which at times are not explainable. This aspect has invited the attention of the Audit Wing of FBR to determine the future course of action.

⁷ Petroleum crude oil (HS Code 2709.9000 has been subject to rate of duty of zero percent through SRO 1164 (1)/ 2007 on November 30th 2007.

The collection from cigarettes has exhibited a healthy growth of 37.6% in H1: 07-08. The main factor behind this strong growth is a substantial increase in taxable sales and a decline in claims of input adjustment. GST from services (mainly related to hotel and travel), has recorded a growth of 34.7% during first half of CFY. Despite a decline, in collection from some of major units of hotel industry, better collection from travel industry has compensated for the decline. Similarly, the beverage industry has also enjoyed a healthy growth during the period under consideration. The gross and net collection has increased by about 20%. This outcome is consistent with the fact that taxable sales have also increased by 16%. The collection from iron and steel has observed a robust growth of 238.6%. This increase is attributed to (i) the increase in rates of sales tax, and (ii) change in the system of collection which is now linked with the consumption of electricity, and the tax is being collected with the electricity bills. This mechanism even though had a turbulent start, but with amicable resolution of the dispute, it is expected that a positive revenue impact during the 2nd half of CFY will be registered.

Besides sugar, the contribution of cement industry has also remained a matter of concern with regard to sales tax collection. A decline in collection that started since last year has continued during the current fiscal year. A huge decline of 30.5% during H1:07-08 has been registered so far. It appears that the major industrial units are utilizing their production capacity to meet the external demand. However despite an overwhelming expansion in production capacity and sales, there is a decline in sales tax collection on the pretext of input adjustment claims. This outcome is also inconsistent with FED collection, which has shown a robust growth during most of the period of H1: 07-08. Apparently there is some loophole in the system that is being exploited, that needs to be plugged after careful review and monitoring of the entire production and supply chains. Finally, the auto-parts industry has rebounded. In fact, it is now flourishing and a growth of 17% in GST collection reflects that vibrant activity within the local vendor industry is taking place.

Sales Tax Collection on Imports:

The ST (M) collection has been Rs. 95.1 billion during H1:07-08 as compared to Rs 85.3 billion in the corresponding period of PFY. The growth in tax receipts of 11.4% is consistent with 14.1% the growth in imports during the period (Table 11).

Table 11: Net Collection of Sales Tax Imports from Ten Major Industry Groups

(Rs. Million)

| PCT Head | Commodity | FY: 07-08 | FY: 06-07 | Growth (%) | Share (%) |
|-----------------|----------------------------|------------------|------------------|-------------------|------------------|
| 27 | POL Products | 40,222 | 35,771 | 12.4 | 42.3 |
| 15 | Edible Oil/Ghee | 6,618 | 4,324 | 53.1 | 7.0 |
| 39 | Plastic and Articles | 6,597 | 4,749 | 38.9 | 6.9 |
| 87 | Vehicles and Auto Parts | 6,479 | 7,090 | -8.6 | 6.8 |
| 72 | Iron & Steel | 4,965 | 5,178 | -4.1 | 5.2 |
| 85 | Electrical Machinery | 3,202 | 2,504 | 27.9 | 3.4 |
| 84 | Mechanical Machinery | 2,966 | 3,192 | -7.1 | 3.1 |
| 48 | Paper and Paperboard | 2,228 | 1,733 | 28.6 | 2.3 |
| 29 | Organic Chemicals | 2,220 | 1,767 | 25.6 | 2.3 |
| 12 | Oil Seeds & Misc. Grains | 1,871 | 1,815 | 3.1 | 2.0 |
| | Sub-Total | 77,367 | 68,123 | 13.6 | 81.4 |
| | Others | 17,706 | 17,235 | 2.7 | 18.6 |
| | Total Sales Tax at Imports | 95,073 | 85,358 | 11.4 | 100.0 |

The analysis indicates that the ten major commodity groups have contributed slightly above 81% of sales tax collection at import stage. The collection from POL products has remained at the top of revenue spinners with a share of 42.3%. It increased by 12.4% as compared to the corresponding period of last year. The other commodity groups showing healthy growth in collection were edible oil, plastic products, electrical machinery, paper & paper board, and organic chemicals. The robust growth of 53.1% in GST from edible oil is attributable to sharp increase

in international prices. The collection from plastic products has exhibited an increase of 38.9% as compared to last year. This increase is partly due to increase in the rates of plastic products from 15% to 17.5%, and the rest is due to natural growth. Excluding the impact of price increase and other factor, the net impact of increase in rates of plastic products has been found to be slightly over Rs. 900 million. Finally, the collection from electrical machinery has risen by about Rs. 700 million. The main contributors of growth in this category are electrical transformers, mobile telephone sets and monitors/projectors etc.

It is expected that the value of imports serving as tax base for import related taxes will maintain a growth between 12 to 15 percent during next six months of CFY, therefore the projected collection is expected to be realized from this source. However, to achieve the overall GST revenue target, the shortfall in ST (D) during H1: 07-08, will have to be compensated during the next six months. This will require adoption of a multi-prong strategy of a close monitoring of refund claims to a void superfluous payments, extra enforcement effort to collect due taxes, especially from those sectors that appear to have murky track record, and a coordinated audit approach to deal with delinquencies.

Federal Excise: The FED collection has registered a growth of 28.2% during H1: 07-08. The net revenue stood at Rs. 39.5 billion against Rs. 30.8 billion during the corresponding period last year. Two points need to be highlighted up front for meaningful comparison. First, due to procedural change, the filing of excise return has been tied with GST return. Consequently, there has been a setback in FED collection in July and the Q1: 07-08 growth reduced to 16% only. Second, besides extension of FED on additional services, special excise duty was also levied @ 1% on domestic production and imports. Thus, the monthly growth which appears to be significant requires proper interpretation. Whereas, during the months of August, September, October and November, the attained growth has been 46%, 44%, 43% and 45% respectively, the adjusted average growth for budgetary measures has

been around 20%. Unfortunately, due to political turmoil, the same pace of growth could not be maintained in December, which has adversely affected the overall growth of the first two quarters.

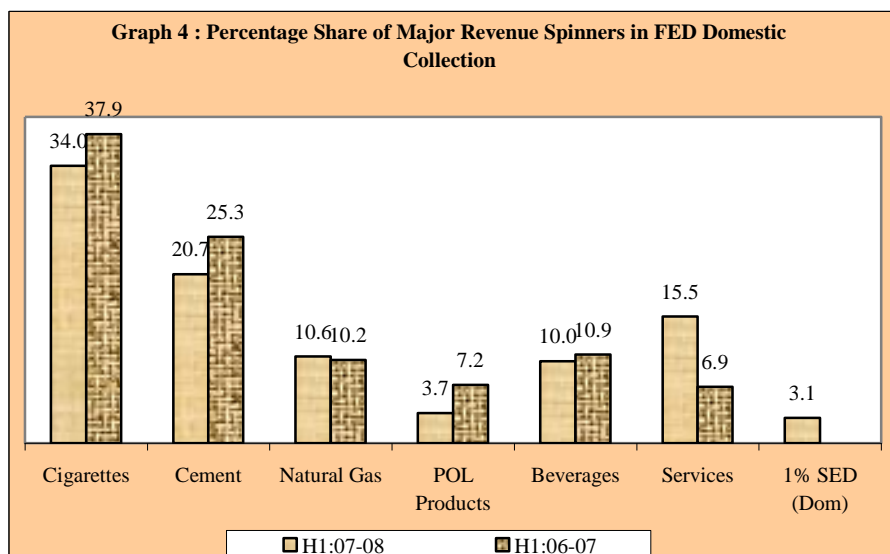
The commodity-wise collection of major revenue spinners provides a comparison between H1: 07-08 against H1: 06-07 (Table 12). The share of seven major items including services and one-percent Special Excise Duty (SED) has been around 98% during this period.

Table 12: A Comparative Analysis of FED Collection

(Rs. Million)

| Commodities / Quarters | H1: 07-08 | H1: 06-07 | Difference | |
|---------------------------|--------------|--------------|-------------|--------------|
| | | | Absolute | Percent |
| <i>Cigarettes</i> | | | | |
| Quarter-1 | 4415 | 4235 | 180 | 4.3 |
| Quarter-2 | 6812 | 6395 | 417 | 6.5 |
| Total | 11227 | 10630 | 597 | 5.6 |
| <i>Cement</i> | | | | |
| Quarter-1 | 2836 | 3441 | -605 | -17.6 |
| Quarter-2 | 3999 | 3655 | 344 | 9.4 |
| Total | 6835 | 7096 | -261 | -3.7 |
| <i>Natural Gas</i> | | | | |
| Quarter-1 | 1629 | 1419 | 210 | 14.8 |
| Quarter-2 | 1878 | 1439 | 439 | 30.5 |
| Total | 3507 | 2858 | 649 | 22.7 |
| POL Products | | | | |
| Quarter-1 | 407 | 894 | -487 | -54.5 |
| Quarter-2 | 811 | 1112 | -301 | -27.1 |
| Total | 1218 | 2006 | -788 | -39.3 |
| Beverages | | | | |
| Quarter-1 | 1453 | 1761 | -308 | -17.5 |
| Quarter-2 | 1864 | 1289 | 575 | 44.6 |
| Total | 3317 | 3050 | 267 | 8.8 |
| Services | | | | |
| Quarter-1 | 1771 | 692 | 1079 | 155.9 |
| Quarter-2 | 3355 | 1248 | 2107 | 168.8 |
| Total | 5126 | 1940 | 3186 | 164.2 |
| Sub-Total | 31230 | 27580 | 3650 | 13.2 |
| Share in Total FED | 95 | 98 | | |
| <i>Total Domestic</i> | | | | |
| Quarter-1 | 13075 | 12634 | 441 | 3.5 |
| Quarter-2 | 19960 | 15412 | 4548 | 29.5 |
| Total | 33035 | 28046 | 4989 | 17.8 |

The major contributors in the FED collection are: cigarettes with a share of 34%, cement (21%), beverages (10%), natural gas (10.6%), POL products (3.7%), services (15.5%) and one-percent SED (3.1%) (Graph-4). The graph clearly indicates the emerging shares of services and one-percent SED. These two items have captured around 19% share of domestic FED collection, validating the success of recently introduced budgetary measures. Consequently, there is an expected decline in the shares of other revenue heads like cigarettes and cement etc.



A detailed analysis confirms that only natural gas and services have recorded a double-digit growth in collection and FED from beverages and cigarettes has increased by 9% and 6% respectively. On the other hand, a negative growth of 4% and 39% has been witnessed in cement and POL products respectively. The negative growth in POL products has been due to its shrinking base in FY: 07-08. In respect of cement, after nil collection in July 2007 due to procedural change, a hefty growth was observed during August, September and October. However, this pace has been lost in November and December, inviting further probing as production of cement and its clearance has remained strong all through this period.

Collection from FED Services: The revenue from services including International Air Travel (IAT), Non-fund Services (NFS), Franchise and Insurance have gained prominent position in the overall FED collection. The share of this new head has increased from 7% in H1: 06-07 to 15.5% in H1: 07-08 in the domestically collected FED revenue. Within services 69% of collection is realized from IAT, followed by Insurance (16%), NFS (13%) and Franchise (2%). In absolute terms, Rs. 5.1 billion have been collected during H1: 07-08 against Rs. 1.9 billion in the corresponding period last year (Table 13). It is important to mention that the half-yearly collection has exceeded the target by Rs. 600 million; and if this trend of revenue realization continues, it is expected that the annual revenue target from this source will be achieved.⁸

Table 13: FED Services a Comparison

(Rs. Million)

| Months/ Items | FY 07-8 | FY 06-07 | Difference | |
|--------------------------|-------------|-------------|-------------|--------------|
| | | | Absolute | Percent |
| I A T | | | | |
| Quarter-1 | 1003 | 189 | 814 | 430.7 |
| Quarter-2 | 2522 | 703 | 1819 | 258.7 |
| JUL-DEC | 3525 | 892 | 2633 | 295.1 |
| Non-Fund Services | | | | |
| Quarter-1 | 261 | 101 | 160 | 158.4 |
| Quarter-2 | 380 | 170 | 210 | 123.5 |
| JUL-DEC | 641 | 271 | 370 | 136.5 |
| Insurance | | | | |
| Quarter-1 | 486 | 383 | 103 | 26.9 |
| Quarter-2 | 354 | 341 | 13 | 3.9 |
| JUL-DEC | 840 | 724 | 116 | 16.1 |
| Franchise | | | | |
| Quarter-1 | 51 | 19 | 32 | 168.4 |
| Quarter-2 | 69 | 34 | 35 | 100.9 |
| JUL-DEC | 120 | 53 | 67 | 126.0 |
| Total | | | | |
| Quarter-1 | 1801 | 692 | 1109 | 160.3 |
| Quarter-2 | 3324 | 1248 | 2075 | 166.33 |
| JUL-DEC | 5125 | 1940 | 3184 | 164.1 |

⁸ For a detailed analysis of Cement Industry in Pakistan, see Chapter II of the current issue of the *Quarterly*.

Collection from one-percent SED: The other important measure during budget FY: 07-08, was the imposition of one-percent special excise duty (SED) at domestic and import stages, with annual projected collection of Rs. 12 billion. According to the details, during H1: 07-08, Rs. 4.1 billion have been collected against the half-yearly target of Rs. 6 billion (Table 14). The collection from SED at import stage has been relatively encouraging as 93% of the target has been met; however, collection from SED domestic has remained below expectations and requires further investigation and proper enforcement. However, notwithstanding this weakness, it may be safe to infer that the SED collection will improve in the second half of CFY, and further streamline during the coming year.

Table 14: 1% SED Target Vs Collection

(Rs. Million)

| Months | H1:2007-8 | | Achievement | |
|------------------------|-------------|-------------|--------------|--------------|
| | | | Absolute | Percent |
| 1% SED Domestic | Target | Collection | Abs | % |
| July | 60 | 0 | -60 | 0.0 |
| August | 555 | 221 | -334 | 39.8 |
| September | 675 | 127 | -548 | 18.8 |
| October | 1290 | 212 | -1078 | 16.4 |
| November | 452 | 329 | -123 | 72.8 |
| December | 454 | 430 | -24 | 94.8 |
| July-December | 3486 | 1319 | -2167 | 37.8 |
| 1% SED Imports | | | | |
| July | 500 | 269 | -231 | 53.8 |
| August | 500 | 302 | -198 | 60.4 |
| September | 500 | 262 | -238 | 52.4 |
| October | 500 | 896 | 396 | 179.2 |
| November | 500 | 596 | 96 | 119.2 |
| December | 500 | 465 | -35 | 93.0 |
| July-December | 3000 | 2790 | -210 | 93.0 |
| Total SED | 6486 | 4109 | -2377 | -36.6 |

Customs Duties: Despite concerted effort towards tariff reduction and rationalization, the collection from Customs Duties (CD) remains a significant source of federal tax receipts. It is also true that extended procedural reforms, and end-to-end use of information technology to

minimize interface between the tax collector and taxpayer have converted the entire customs clearance mechanism into a modernized system compatible with international standards.

The gross and net collection from CD during H1:07-08 has been Rs. 67.4 billion and Rs. 61.6 billion, respectively. The difference, i.e., Rs. 5.8 billion have been paid back as refund/ rebates. Furthermore, the decline of 1.9% in gross collection has been compensated through decrease in refunds of Rs. 2.2 billion therefore the net collection has increased by 1.5%. As indicated, the CD target for first half of year of Rs. 63.2 billion has been missed by a small amount of Rs. 1.6 billion, which has already been recouped in January 2008.

Customs Duty from Major Revenue Spinners

The collection from 15 major revenue spinners is reflected in Table 15. These commodity groups constitute around 80% of gross CD collection during H1: 07-08. The major contribution continues to come from the automobile sector with a share of 18.4% in gross CD collection. However, the collection from this source has declined by 13.1% due to reduced demand for the automobiles. The demand for car financing, which was previously available at low rates has reduced significantly due to rising cost of borrowing and the harassment met out by the borrowers at the hands of recovery agents. A detailed analysis of the automobile sector reveals that the import of parts and accessories has increased by 30%, which has spurred the growth of the sector enabling 18.4% in CD collection. The import of motor cars and jeeps, transport vehicles, and tractors, on the other hand has declined by 14%, thereby reducing the CD collection compared to the corresponding period of last year.

Edible oil has been the second major revenue spinner of CD during the period under review. Notwithstanding the sharp increase in international prices that has raised the import value of edible oil by 57.1%, the collection of CD has observed a nominal decline of 0.5%. The reason is the specific in rem nature of rates of customs duty on edible oils. While

the quantity of edible oil imports has shown rigidity in recent months and the duty has also remained fixed, it is the price factor that has resulted into phenomenal increase in value having limited consequence for CD.

Table 15: Major Revenue Spinners of Customs Duties and Effective Rates
(Growth and Effective Rates in percent)

| <i>PCT Chapter</i> | <i>Tariff Description</i> | <i>Growth (H1:07-08 over H1:06-07)</i> | | | <i>Effective Rates on Dutiable Imports</i> | |
|--------------------|---------------------------|--|-------------------------|-----------------------|--|---------------------|
| | | <i>Total Import</i> | <i>Dutiable Imports</i> | <i>Customs Duties</i> | <i>Up to Dec-07</i> | <i>Up to Dec-06</i> |
| 87 | Vehicles | -11.4 | -11.2 | -13.1 | 35.6 | 36.4 |
| 15 | Edible oil and Waxes | 57.1 | 59.5 | -0.5 | 18.3 | 29.3 |
| 27 | POL Products | 20.2 | -3.3 | 3.4 | 10.3 | 9.6 |
| 85 | Electrical Machinery | 3.4 | -3.2 | 11.1 | 8.4 | 7.4 |
| 84 | Mechanical Machinery | -4.6 | -5.6 | 0.4 | 7.3 | 6.8 |
| 39 | Plastic Resins, etc. | 13.2 | 10.2 | 10.6 | 8.1 | 8.0 |
| 72 | Iron and Steel | 31.7 | 1.3 | 8.1 | 11.4 | 10.7 |
| 48 | Paper and Paperboard | 17.6 | 23.2 | 20.1 | 20.8 | 21.3 |
| 29 | Organic Chemicals | 10.4 | 3.8 | -3.7 | 7.6 | 8.2 |
| 73 | Articles of Iron & Steel | -11.9 | -10.9 | 3.2 | 11.9 | 10.2 |
| 32 | Dyes, Paints etc. | 17.6 | 15.1 | 16.8 | 12.5 | 12.3 |
| 40 | Rubber & Articles | 9.7 | -9.5 | 8.2 | 12.8 | 10.7 |
| 09 | Coffee and Tea etc. | -8.5 | -11.8 | -2.1 | 11.1 | 10.0 |
| 38 | Misc Chemical Products | 2.5 | -18.8 | -5.4 | 9.5 | 8.1 |
| 54 | Man Made Filament | 3.4 | -1.7 | 1.4 | 9.3 | 9.0 |
| <i>Sub-total</i> | | <i>11.8</i> | <i>1.5</i> | <i>-0.2</i> | <i>12.5</i> | <i>12.7</i> |
| Others | | 21.3 | .2 | -7.9 | 17.9 | 19.5 |
| Grand Total | | 14.1 | 1.3 | -1.9 | 13.3 | 13.8 |

On the other hand, while the import value of POL products has recorded a sharp increase of 20.2%, its dutiable component has declined by 3.3%. As a result, the growth in CD has been 3.4% which is consistent with the growth in base. As far as electrical machinery is concerned, the collection has improved by 11.1% even though the dutiable import value has declined by 3.3%. Here the growth in digital equipment, disks, tapes and electronic transformers has more than compensated for the loss of duty in

other items. Similarly, after the introduction of zero duty slab for most of the plant, machinery, and equipment, the collection from mechanical machinery has witnessed a nominal increase of only 0.4%. The performance of plastic products commodity group has also been consistent with the tax base. Whereas an increase of 10.2% has been recorded in dutiable imports, the CD collection has also increased by 10.6%. Major component contributing towards this growth has been the import of polymers of ethylene.

Finally, the iron & steel sector has displayed an interesting feature. In response to a remarkable growth of 31.7% in terms of value of imports, the CD collection has increased by 8.1% only. The details reveal that the maximum growth of 113.5% has been observed in import of ferrous waste and scrap, which has been zero-rated for the purpose of customs duty. This pattern clearly confirms that scrap was previously smuggled into the country. With zero-rating, its import through regular channels has been encouraged. The second favorable implication of this policy intervention has been the fact that the import of iron and steel products (PCT Chapter 73) have declined by over 10%, indicating a move towards value addition within the country.

Concluding Remarks

An era of consistent performance when revenue target was not only met but surpassed has suddenly given way to a time where significant catching up is required. While there is no doubt that the target for FY: 07-08 was fairly steep and challenging, it appeared to be achievable in view of the continuous strength of the economy. Now when the economic slow down appears to be just around the corner, its likely adverse impact on domestic resource mobilization effort is becoming fearful reality. With major setback in direct tax collection, which will not be easy to recoup, and increasing pressure on indirect taxes, more than extra effort is required to generate a possible shortfall of Rs. 35 billion in the target provided the overall economic situation remains stable during the next six months.

Annex A: Synopsis of Withholding Taxes under the Income Tax Ordinance 2001*

Monthly Statements to be filed under Rule 44(2), Annual statements to be filed under Rule 44(1), read with Section 165

| Withholding Tax Section | Title of Section | Rate of Deduction (Charging Section / Clause) | | Taxability |
|--------------------------------|--|---|---|--|
| 148 | <u>Imports</u> <ul style="list-style-type: none"> • Collected by Collector of Customs for Value of Goods imported • Collected by Collector of Customs for value of goods specified • Collected by Collector of Customs for value of goods specified • On import of Urea fertilizer and Pulses | 5 % 1 % 2 % 1 % | Part II of First Schedule [Cl (9),(13),(13A),(13C), (13G), (13E) Part II 2 nd Schedule] [Cl (13B), (13H) Part II 2 nd Schedule] Clause (23), (24) Part II of Second Schedule | Adjustable Adjustable Adjustable Adjustable |
| 149 | Salary | Slab Rates | Part I of First Schedule | Adjustable |
| 150 | Dividends paid by a Resident Company Dividends paid by a Non-Resident Company in Mining operations Dividends distributed by purchase of power project privatized by WAPDA Dividends distributed on shares of power generation company | 10 % 7.5 % 7.5 % 7.5 % | Division III Part I of First Schedule Clause (16) Part II of Second Schedule Clause (17) Part II of Second Schedule Clause (19) Part II of Second Schedule | Adjustable Adjustable Adjustable Adjustable |
| 151 | <u>Profit on Debt</u> u/s 150(1)(a)-on deposit/certificate under National Savings or Post Office u/s 150(1)(b)- Paid by baking company/financial institution on account/deposit u/s 150(1)(c)-Profit paid on a security issued by Federal/Provincial Government or a Local Authority u/s 150(1)(d)-Profit paid on bond/debenture/certificate/security/instrument issued by a banking company or a financial institution | 10 % 10 % 10 % 10 % | Division I Part I of First Schedule | Final Final Adjustable Final |
| 152 | Payments to Non-Residents | 15% | Division IV Part I of First Schedule | Adjustable |
| 153 | <u>Payment of Goods and Services</u> (a) Sales of Goods- Sale of rice, cotton seed or edible oil Sale of other goods (b) Rendering of Services- Transport Services Other Services Sub-section (1A)-Payment by an exporter to a non-resident (For Companies) | 1.5 % 3.5 % 2 % 6 % 0.5 % <u>2 % & 6 %</u> | Division III Part III of First Schedule Division IV Part III of First Schedule Division III Part III of First Schedule | Final Final Final Final Final <u>Adjustable</u> |

| | | | | |
|------|---|------------------------------------|--|--|
| | (c) Execution of Contracts | 6 % | | Final |
| 154 | Exports Sub-section (1)-On realization of foreign exchange proceeds on Export of goods Sub-section (3)- On proceeds on inland back-to-back LC/other arrangement Sub-section (3A)-By EPZ at the time of export of goods Sub-section (3B)]-Deducted by a direct exporter on payment to indirect exporter [Sub-section (2)]-On realization of foreign exchange proceeds on Sale of Goods | 1 % 5 % | (1) Division IV Part III of First Schedule -do- -do- -do- (2) Division IV Part III of First Schedule | Final Final Final Final Final |
| 155 | Income from Property | 5 % | Division V Part III of First Schedule | Final |
| 156 | Prizes and winnings (Prize Bonds) Prize and winnings (raffle, lottery, prize, cross-word puzzle) | 10 % 20 % | (1) Division VI Part III of First Schedule (2) Division VI Part III of First Schedule | Final Final |
| 156A | Petroleum Products | 10 % | Division VIA Part III of First Schedule | Final |
| 156B | Withdrawal of balance under Pension Fund | Specified under | Sub-section (6) of Section 12 | Adjustable |
| 231A | Cash Withdrawal from a bank | 0.2 % | Division VI Part IV of First Schedule | Adjustable |
| 231B | Purchase of Motor Cars | 2.5 % | Division VIII Part IV of First Schedule | Adjustable |
| 233 | Brokerage and Commission Brokerage and Commission – Advertising Agents | 10 % 5 % | Division II of Part IV of First Schedule Clause (26) of Part II of Second Schedule | Final Final |
| 233A | Collection of Tax by a Stock Exchange Registered in Pakistan Under Sub-section 1(a)-On purchase of shares Under Sub-section 1(b)-On Sale of shares Under Sub-section 1(c)-On Trading of shares Under Sub-section 1(d)-On financing of carryover trades (Badla) in shares | 0.01 % 0.01 % 0.01 % 10 % | Division IIA of Part IV of First Schedule | Final Final Adjustable Adjustable |
| 234 | Transport Business | Slab Rates | Division III of Part IV of First Schedule | Final |
| 234A | CNG Stations | 4 % | Division VIB of Part IV of First Schedule | Final |
| 235 | Electricity Consumption | Slab Rates | Division IV of Part IV of First Schedule | Minimum/ Adjustable |
| 236 | Telephone users (Bill Subscriber) Telephone users (Prepaid Cards) | Slab Rates 10 % | Division V of Part IV of First Schedule | Adjustable |

* Prepared by Mr. Mohammad Imtiaz, Secretary (WHT)

II

Industry Profile: Cement Industry in Pakistan⁹

Introduction

Cement industry plays a key role in economic development of a country. Its availability in abundance at competitive prices leads to speeding up the physical infrastructure related activities for the simple reason that a high quality infrastructure not only boosts domestic economic growth but also attracts foreign investment. In the modern world, a higher per capita consumption of cement indicates a higher level of growth and development.

This is the second elaborate study on cement industry in Pakistan – the first was carried out in 2003. The purpose of this study is to re-visit the growth pattern in the industry, especially since 2003. The primary focus is on the taxation side. The purpose is to determine the strength of the industry in terms of the manufacturing units, the distribution set-up, the wholesale and trade activities, capacity utilization, level of production, domestic sales and exports, and finally, the tax structure and payments. In the process, it will be possible to determine tax gap, if any, and offer remedial strategy to boost this vital sector and also the tax receipts accordingly.

The Size of the Industry

According to Pakistan Economic Survey (2006-07), 29 manufacturing units of cement are currently operational in the country with installed capacity of 35 million tonnes and capacity utilization of 76.4%. The size of the industry has grown from 22 to 29 between 2001-02 and 2006-07. It appears that two plants that started operations between 2002-03 and 2004-05 were relatively smaller in size as the installed capacity increased by only 2.2 million tonnes. However, partly due to operationalization of

⁹ Author: Mr. Naeem Ahmed, Second Secretary (Fiscal Research and Statistics).

next five plants and also due to expansions in the existing plants, the installed capacity has increased to 35 million tonnes in 2006-07 from 17.9 million tonnes in 2004-05 (Table 1). One of the striking aspects of this growth is that while the installed capacity has increased at an average annual rate of 18.4% during the last six years, the capacity utilization has increased by 4.4% only. In fact, capacity utilization has declined after attaining its peak in 2005-06.

Table 1: Cement Industry in Pakistan: An Quick Review

(Million Tonnes)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | Average Annual Growth (%) |
|----------------------|---------|---------|---------|---------|---------|---------|---------------------------|
| Operational Units | 22 | 22 | 23 | 24 | 26 | 29 | 5.8 |
| Installed Capacity | 15.7 | 16.3 | 16.9 | 17.9 | 24.3 | 35.0 | 18.6 |
| Capacity Utilization | 62.5 | 67.2 | 74.0 | 82.5 | 84.0 | 76.4 | 4.4 |

Source: Pakistan Economic Survey 2006-07

Market Economy of Cement Industry¹⁰

Even though the production of cement has increased steadily since 1991-92, a double-digit growth was recorded initially in 1995-96 and then in 2003-04 and 2004-05 (Table 2). Whereas the average annual growth in production from 1990-91 to 2001-02 was 2.3%, it increased to 16% between 2002-03 and 2006-07. Compared to this, the domestic demand for cement has been quite strong ever since the start of the new decade. On average, the consumption has increased by 11.7% per annum since 2001-02. This growth would have been higher had near stagnation in demand not observed in 2006-07. Finally, the export of cement from Pakistan is only a recent phenomenon. Even though it has picked up in

¹⁰ A comprehensive market analysis of cement industry has not been possible due to non-availability of relevant statistics and gross inconsistencies in information available from different sources such as BOI sector paper, Cement Wing of Ministry of Industry, and Pakistan Economic Survey. The anomalies are of peculiar nature. For instance, in certain cases, production exceeds the installed capacity of plant. In other cases, production falls short of domestic consumption and exports by a wide margin even though no imports had taken place during this period to fill the gap. The robustness of data on domestic demand is also not quite sound. Absence of transparency has also been observed as far as the role of APCMA is concerned.

recent years, it is still not significant enough when viewed within the context of expansion in capacity.

Table 2: Production, Domestic Consumption and Export of Cement

| | Production | | Consumption | | Exports | |
|-----------------------|------------|-------------|-------------|-------------|---------|--------------|
| | (000 T) | Growth (%) | (000 T) | Growth (%) | (000 T) | Growth (%) |
| 2001-02 | 9935 | | 9830 | | 110 | |
| 2002-03 | 10845 | 9.2 | 10980 | 11.7 | 430 | 290.9 |
| 2003-04 | 12862 | 18.6 | 12540 | 14.2 | 1110 | 158.1 |
| 2004-05 | 16353 | 27.1 | 14780 | 17.9 | 1570 | 41.4 |
| 2005-06 | 18483 | 13.0 | 16850 | 14.0 | 1510 | -3.8 |
| 2006-07 | 20632 | 11.6 | 16980 | 0.8 | 2130 | 41.1 |
| Average Growth | | 15.9 | | 11.7 | | 105.5 |

Source: Economic Survey 06-07, FBR and FBS

The unit-wise details of major cement manufacturers are given in Table 3. It is evident that the contribution of these ten units was 80% of total quantity produced in 2006-07. This share has increased from around 64% in 2004-05 to 80% in 2006-07. Among the major producers of cement are: Lucky Cement with about 21% share in production, followed by DG Khan Cement (12.3%) and Maple Leaf Cement (8.1%).

Table 3: Capacity and Production of Cement

| S. No | Units | Capacity (000 Tonnes) | | | Production (000 Tonnes) | | |
|-------|------------------|------------------------|--------------|-----------------|--------------------------|--------------|-----------------|
| | | 06-07 | 04-05 | Compound Growth | 06-07 | 04-05 | Compound Growth |
| 1 | Lucky | 6432 | 1320 | 120.7 | 4370 | 1420 | 75.4 |
| 2 | D.G Khan | 4221 | 1733 | 56.1 | 2544 | 1791 | 19.2 |
| 3 | AWT (NZP) | 1575 | 1260 | 11.8 | 1187 | 1184 | 0.1 |
| 4 | Maple Leaf | 3686 | 1534 | 55.0 | 1681 | 1364 | 11.0 |
| 5 | Bestway | 3040 | 1040 | 71.0 | 1306 | 1203 | 4.2 |
| 6 | Pioneer | 2030 | 630 | 79.5 | 1264 | 705 | 33.9 |
| 7 | Attock | 1796 | 756 | 54.1 | 1210 | 728 | 28.9 |
| 8 | Fauji | 1166 | 945 | 11.1 | 1154 | 912 | 12.5 |
| 9 | Cherat | 1040 | 788 | 14.9 | 926 | 740 | 11.9 |
| 10 | Dewan Hattar | 1134 | 567 | 41.4 | 837 | 363 | 51.8 |
| | Major Ten | 26118 | 10572 | 57.2 | 16478 | 10410 | 25.8 |
| | Others | 8882 | 8035 | 5.1 | 4154 | 5943 | -16.4 |
| | All | 35000 | 18607 | 37.2 | 20632 | 16353 | 12.3 |

Source: Field Formations/DRS data base

It is pertinent to mention that the capacity of industry has increased by 37.2%, whereas production has increased by 12.3% during last three years. The major units like Lucky, DG Khan, Maple Leaf, Bestway, Pioneer, Attock, and Dewan Hattar have witnessed higher growth in capacity during last three years.

Price Structure: Within the country, the average price of cement per bag has varied between Rs. 213 and Rs. 250 since January 2007. It is interesting to observe that in places like Multan and Hyderabad, the average price was much lower than the national average during most of 2007 while it was generally higher at Quetta and Rawalpindi/ Islamabad [Source: FBS data on retail price of cement]. The wholesale price index of cement (base 2000-01 = 100) has recorded a declining trend in recent months compared to a steady surge during last five years. Similarly, the retail price has also declined from over Rs. 270 to Rs. 250 per bag. This trend clearly indicates that price hike had more to do with the existence of a cartel like situation rather than the interplay of market forces.

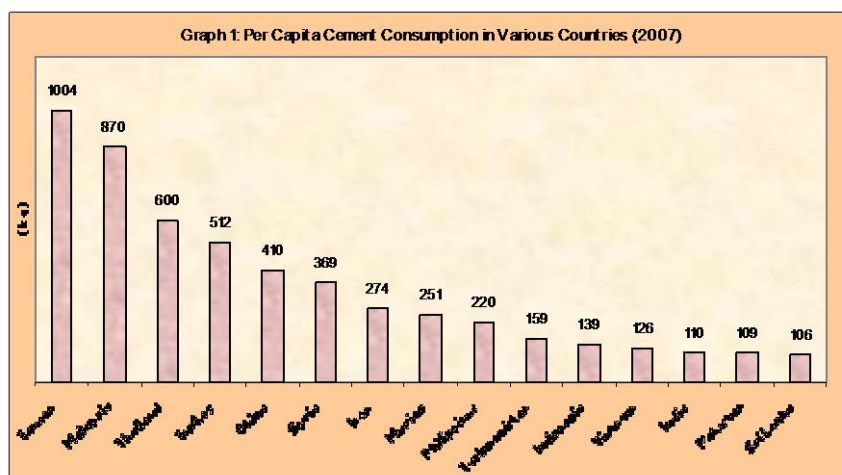
Table 4: Average Retail Price of Cement

| Date | Price (Rs. per 50 kg bag) | Increase/Decrease |
|-------------------------|------------------------------|-------------------|
| 06/3/2003 | 190.2 | |
| 11/9/2003 | 223.8 | 17.7 |
| 8/2/2007 | 271.3 | 21.2 |
| 10/1/2008 | 250.0 | -7.9 |
| Overall Increase | | 31.4 |

Source: Ministry of Industries

International Comparison: China is the leading producer of cement with 50% share in world's total production (Annex-I) followed by India, the USA, Japan, Russia and Korea. Even though Pakistan is on 19th position among the top 20 producers in the world, but its share in the world production is less than 1% which seems quite low when compared to Indian share of 6.2%. It is interesting to find that in recent years, the Indian cement industry has overtaken some of the leading producers like US and Japan.

Per capita consumption is another indicator of economic activity in a country. On the basis of this indicator again, Pakistan has not fared well when compared to other developing and emerging economies of the world (Graph 1). With per capita consumption of only 109 kg, its standing in relation to other emerging economies like Malaysia and Thailand is not promising. Incidentally, the Indian per capita consumption of cement is also low, which is surprising.



Tax Base and Structure:

Unlike the overall size of the industry, 28 manufacturing units of cement are registered with the sales tax and federal excise department. One of the units has lost its registration due to revision in the sales tax registration regime whereby a single number is now allotted to a corporation irrespective of the number of its manufacturing units and their locations within the country. For example if Bestway has two units operating within the country then it would have a single sales tax registration number (STRN) and so on. However, through an additional exercise, all STRN have been matched with the National Tax Number (NTN), which ultimately will be used as unique identifier of a taxpayer. The STRN along with NTN and the return filing status of cement manufacturers is presented in Table 5 which shows that units who have STRN do possess NTN and they are tax compliant as far as filing of return is concerned.

Table 5: Tax-wise Base of Cement Industry 2006-07

| | NTN | STN | MANUFACTURER | FED | Sales Tax | Income Tax |
|----|---------|---------------|---|-----|-----------|------------|
| 1 | 0700886 | 0101252300446 | Al Abbas Cement Industries | Y | Y | Y |
| 2 | 0709663 | 0101252300855 | Anwarzaib White Cement Limited | Y | Y | Y |
| 3 | 0712595 | 0703252300382 | Askari Cement Limited | Y | Y | Y |
| 4 | 0712213 | 0601252300237 | Attock Cement Pakistan Limited | Y | Y | Y |
| 5 | 0801477 | 0504252300291 | Army Welfare Trust (AWT), Nizampur | Y | Y | Y |
| 6 | 0656656 | 0701252301473 | Bestway Cement Limited | Y | Y | Y |
| 7 | 0710034 | 0504252300137 | Cherat Cement Company Limited | Y | Y | Y |
| 8 | 1213275 | 0402252300164 | D G Khan Cement Company | Y | Y | Y |
| 9 | 0710160 | 0101252300519 | Dadabhoy Cement Industries Ltd | Y | Y | Y |
| 10 | 2257771 | 0705252300364 | Dandot Cement Company Limited | Y | Y | Y |
| 11 | 0701669 | 0204252300246 | Dewan Cement Limited (Pak Land Cement) | Y | Y | Y |
| 12 | 1762090 | 0507252300446 | Dewan Hattar Cement Limited (Saadi Cement) | Y | Y | Y |
| 13 | 0787426 | 0702252300137 | Fauji Cement Company Limited | Y | Y | Y |
| 14 | 0710403 | 0701252300146 | Fecto Cement Limited | Y | Y | Y |
| 15 | 2217220 | 0805252300191 | Flying Cement Company Limited (Zaman Cement) | Y | Y | Y |
| 16 | 0786559 | 0705252300282 | Gharibwal Cement Limited | Y | Y | Y |
| 17 | 1524465 | 0202252300182 | Javedan Cement Limited | Y | Y | Y |
| 18 | 1758919 | 0502252300155 | Kohat Cement Ltd | Y | Y | Y |
| 19 | 0009807 | 0503252300128 | Lucky Cement Limited | Y | Y | Y |
| 20 | 0786576 | 0409252300191 | Maple Leaf Cement Factory | Y | Y | Y |
| 21 | 0200152 | 0507252300282 | Mustehkam Cement Ltd | Y | Y | Y |
| 22 | 0823638 | 0214252300146 | Pakistan Slag Cement Industries | Y | Y | Y |
| 23 | 2195571 | 0703252300464 | Pakistan Cement Company Limited | Y | Y | Y |
| 24 | 0815398 | 0409252300437 | Pioneer Cement Limited | Y | Y | Y |
| 25 | 1812351 | 0108252300137 | Rohri Cement (A.C Rohri Cemenet) | Y | Y | Y |
| 26 | 1815912 | 0601252300646 | Shahbaz Cement Limited | Y | Y | Y |
| 27 | 0712394 | 0101252300364 | Thatta Cement Company Limited | Y | Y | Y |
| 28 | 0704100 | 0101252300282 | Zeal Pak Cement Factory Limited | Y | Y | Y |

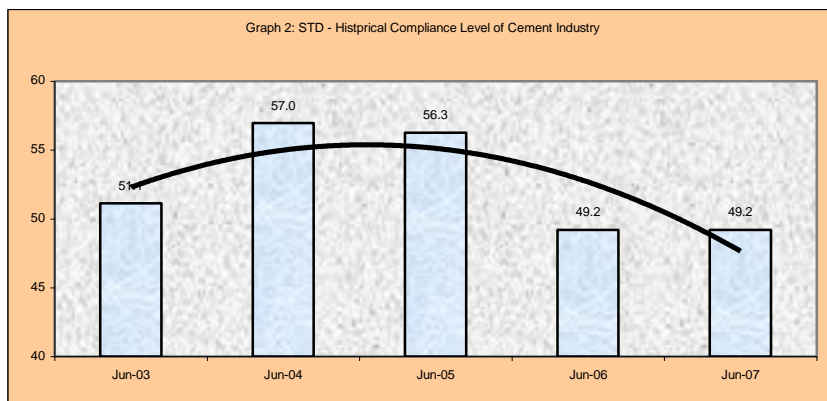
Besides manufacturers, the other important players within the cement sector are importers and exporters, distributors, and wholesale and retail traders. The distribution of 937 registrants has been given in Table 6. The largest share of 69% belongs to wholesalers and retailers (WS&R) category, followed by 27% distributors, 3% manufacturers and the rest are importers & exporters. Over the years, the number of distributors has nearly doubled, and there is 52% increase in the number of domestic traders (WS&R).

Table 6: Sales Tax Registrants and Compliance Level

| Categories | Registrants | | | | |
|---------------|-------------|-------------|-------------|-------------|-------------|
| | Jun-03 | Jun-04 | Jun-05 | Jun-06 | Jun-07 |
| Manufacturers | 25 | 26 | 27 | 27 | 28 |
| Importers | 4 | 5 | 6 | 11 | 14 |
| Exporters | 1 | 1 | 1 | 1 | 2 |
| Distributors | 128 | 152 | 171 | 232 | 250 |
| Wholesalers | 372 | 399 | 429 | 452 | 486 |
| Retailers | 49 | 100 | 109 | 147 | 157 |
| Total | 579 | 683 | 743 | 870 | 937 |
| | Filers | | | | |
| Manufacturers | 25 | 26 | 27 | 27 | 28 |
| Importers | 1 | 2 | 3 | 7 | 8 |
| Exporters | 1 | 1 | 1 | 1 | 1 |
| Distributors | 107 | 129 | 135 | 145 | 157 |
| Wholesalers | 120 | 139 | 152 | 148 | 169 |
| Retailers | 42 | 92 | 100 | 100 | 98 |
| Total | 293 | 386 | 415 | 427 | 461 |
| | Compliance | | | | |
| Manufacturers | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Importers | 25.0 | 40.0 | 50.0 | 63.6 | 57.1 |
| Exporters | 100.0 | 100.0 | 100.0 | 100.0 | 50.0 |
| Distributors | 83.6 | 84.9 | 78.9 | 62.5 | 62.8 |
| Wholesalers | 32.3 | 34.8 | 35.4 | 32.7 | 34.8 |
| Retailers | 85.7 | 92.0 | 91.7 | 68.0 | 62.4 |
| Total | 51.1 | 57.0 | 56.3 | 49.2 | 49.2 |

An interesting feature of sales tax registered persons is that *all* manufacturers of cement are sales tax compliant since 2003, which is an encouraging development. On the other hand, even though the compliance level of importers has been fluctuating, this is not a serious concern as trade activity is not a regular phenomenon. However, the most disturbing aspect is the tax compliance of distributors, wholesale and retail traders. Despite a regular increase in the number of registered persons within these three categories, the tax compliance has not improved. Incidentally, the 2nd panel of Table 6 shows a rising trend in the number of filers within these categories; which, indirectly implies that many of the already registered persons are opting out of the system for some peculiar reason. This aspect needs verification to improve resource mobilization from this important sector of the economy.

Meanwhile the decline in the overall compliance level in recent years is evident from Graph-2.



The Rate Structure:

Although the enhancement of tax revenues remains one of the priority areas for the governments, nevertheless, it is also important that the taxation system is non-distortionary. It is a well-documented fact that higher tax rates usually encourage evasion. In line with this empirical evidence, the Federal Board of Revenue during last few years has reduced the duty rates of direct and indirect taxes significantly under the tax policy reforms initiatives. The cement sector is no exception in this regard and the manufacturers have got a boost from a substantial decline in the FED rates. For instance, the rate of FED in 2000-01 was reduced by around 29%. It was further reduced by 25% in 2003-04, and on the whole, nearly 46% reduction in FED has been introduced during last ten years (Table 7).

Table 7: FED Rate Structure for Cement

| Year | FED Rate |
|----------------|------------------------|
| 1998-99 | Rs. 1400 per MT |
| 1999-00 | Rs. 1400 per MT |
| 2000-01 | Rs. 1000 per MT |
| 2002-03 | Rs. 1000 per MT |
| 2003-04 | Rs. 750 per MT |
| 2007-08 | Rs. 750 per MT |

The sales tax is charged at a uniform rate of 15% on the domestic sales of cement and import. The statutory rate of customs duties has been reduced to zero percent on the import of cement clinkers from 2007-08 against 20% till the last year but 20% customs duties remains in place on white cement. The policy of reducing tax rates has also been applied to the income and corporate taxes. The income tax rates for public and other companies have been reduced to 35% from 44% and 55% in 1992-93, in other words a decline of 20% and 36% respectively. This decline has also benefited to the cement industry.

Additionally, in order to make local cement industry competitive, customs duty on the plant, machinery and equipment as well as the import of raw material not manufactured locally is reduced to zero. Similarly, a further incentive has been given to the cement manufacturers in the shape of zero-rating of export sales of cement.

Analysis of Tax Contribution by the Industry:

As indicated, the industry is liable to pay all types of federal taxes and duties whenever these are applicable. However, it has to be emphasized that the income tax is the actual contribution of the industry as its burden is not passed on to the final consumers. On the other hand, the incidence of other taxes that are indirect in nature, the burden is passed on to consumers. From national stand-point, even though both, the direct and indirect taxes are important for mobilizing resources, but the significance of the former cannot be denied to achieve equity gains. With a progressive income tax system, the resources flow automatically from higher income to low income groups and the objective of redistribution of income is achieved. Within this scenario, the significance of the industrial sector, particularly the large taxpayers, to comply with tax obligations becomes even more important.

Concentrating on tax paid by the industry over the years, it is evident (Table 8) that during the last three years, the tax contribution in total tax collection has hovered around 2.5% only. While the indirect taxes

contributed by the industry were about Rs. 20 billion in 2006-07 as compared to Rs. 12.6 billion in 2000-01, the direct tax contribution has been quite low. It also appears quite inconsistent with expansion in the industry. It is imperative to mention here that the production of cement has increased by 113% during the same period, apparently showing a discrepancy in the production and revenue trends. Compared to dismal share of direct taxes, the share of indirect taxes has ranged between 3.6% to 3.9%. Within indirect taxes, the largest contribution comes from FED with a share of 75% in 2006-07, followed by GST adding nearly 25% to indirect tax receipts. Since import of cement is nearly negligible, its share is also insignificant.

Table 8: Tax Revenue Profile of the Cement Industry

(Rs. Million)

| Heads | Collection (Rs. Million) | | | Percentage Share in Respective Taxes | | |
|------------------------|--------------------------|-----------------|-----------------|--------------------------------------|-------------|-------------|
| | 06-07 | 05-06 | 04-05 | 06-07 | 05-06 | 04-05 |
| Income Tax | 1,101.0 | 678.0 | 321.0 | 0.33 | 0.30 | 0.18 |
| Sales Tax (Import) | 50.5 | 25.2 | 4.2 | 0.03 | 0.01 | 0.00 |
| Sales Tax (Domestic) | 4,926.3 | 5,377.0 | 3,773.0 | 3.69 | 4.36 | 4.03 |
| Sales Tax (Total) | 4,976.8 | 5,402.2 | 3,777.2 | 1.61 | 1.83 | 1.58 |
| Federal Excise Duty | 15,004.0 | 12,154.0 | 11,056.0 | 20.90 | 21.99 | 20.82 |
| Customs Duty | 10.2 | 25.5 | 11.1 | 0.01 | 0.02 | 0.01 |
| Total (Indirect Taxes) | 19,991.0 | 17,581.7 | 14,844.3 | 3.89 | 3.60 | 3.65 |
| Total | 21,092.0 | 18,259.7 | 15,165.3 | 2.49 | 2.56 | 2.57 |

The cement sector has witnessed a vast expansion and a robust growth of 88% during last five years; however, the combined growth in FED and STD has been 38% only. Here we present a detailed analysis of tax collection by type of taxpayer.

Sales Tax Domestic: Cement is one of the top ten revenue generators of domestic sales tax. The data pertaining to last five years reveals an average annual increase of 10.6% in collection. Whereas the domestic sales tax receipts increased by 23% and 42.5% during 2003-04 and 2005-

06, the collection declined by 14.8% in 2004-05 and by 8.4% during 2006-07. Thus, there is an obvious inconsistency in GST receipts. Secondly, whatever is received as domestic sales tax, almost entirely originates from the manufacturers. The other categories have also contributed but surprisingly their share has declined over the years. Whereas the distributors and wholesalers have contributed 3.3% and 1.2% of STD revenue in 2002-03, this share of each category has plummeted to 0.1% in 2006-07. It is relevant to mention that the number of registrants in the categories of distributors and wholesalers during the same period has increased by 95% and 31% respectively.

On the whole, notwithstanding the expansion in production capacity and boost in economic activity, the contribution of cement industry in total GST collection has declined over the time. The declining trend has continued in 2007-08 as well. The unit-wise analysis reveals that out of 28 manufacturing units, the contribution of top ten units has varied between 58% and 77% during last three years. Among the major contributors are the DG Khan Cement with 13.5% share in collection, followed by Lucky (12%) and Attock (10.4%).

Table 9: Category-wise Collection of Domestic GST

| Categories | (Rs. Million) | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 02-03 | 03-04 | 04-05 | 05-06 | 06-07 |
| Manufacturers | 3438.0 | 4226.0 | 3761.0 | 5374.5 | 4923.0 |
| Importers | 0 | 0 | 0 | 0 | 0 |
| Exporters | 0 | 0 | 0 | 0 | 0 |
| Distributors | 117.0 | 136.3 | 7.4 | 1.4 | 1.3 |
| Wholesalers | 44.0 | 65.0 | 4.0 | 1.0 | 2.0 |
| Retailers | 2.0 | 3.7 | 0.6 | 0.1 | 0.0 |
| Total | 3601.0 | 4431.0 | 3773.0 | 5377.0 | 4926.3 |
| Collection as % of Total STD | 4.0 | 4.8 | 4.0 | 3.5 | 2.9 |

Input/Output Ratio: Based on the GST returns, the Input-Output ratio and actual tax paid by the major producers of cement is given in Table 10. The input claims of the major producers have been around 50% or more

during last two years, which is on the higher side. Overall effective rates of sales tax for cement industry have come down from 7.9% in 2003-04 to 5.8% in 2006-07. This has been one of the key reasons of reduced sales tax collection from this source.

The high input claims by the manufacturers have raised valid concerns in the light of the fact that all plant, machinery and equipments are mostly zero-rated. There is, therefore a suspicion that the facility of input adjustment is being misused, thereby causing revenue losses to the national exchequer. However, to verify this claim there is a need to undertake comprehensive audit of the industry. Furthermore, since FBR has undertaken wide-ranging facilitation measures over the last few years, it is about time to introduce a system of effective audit and penalties to create deterrence and minimize tax evasion.

Table 10: STD- Input/Output Ratio of Major Units

(Rs. Million)

| Units | 2006-07 | | | | 2005-06 | | | |
|-----------------|---------|-------|--------------------|----------|---------|-------|--------------------|----------|
| | Output | Input | Input/Output Ratio | Tax Paid | Output | Input | Input/Output Ratio | Tax Paid |
| D.G Khan | 1239 | 577 | 46.6 | 663 | 1368 | 653 | 47.7 | 719 |
| Lucky | 1652 | 1012 | 61.3 | 591 | 1107 | 660 | 59.6 | 447 |
| Maple Leaf | 738 | 492 | 66.7 | 253 | 782 | 570 | 72.9 | 290 |
| AWT (NZP) | 576 | 247 | 42.9 | 332 | 667 | 307 | 46.0 | 360 |
| Fauji | 530 | 127 | 24.0 | 387 | 621 | 188 | 30.2 | 433 |
| Attock | 477 | 207 | 43.4 | 512 | 489 | 184 | 37.6 | 390 |
| Bestway | 518 | 189 | 36.5 | 330 | 521 | 172 | 33.0 | 326 |
| Pioneer | 557 | 232 | 41.7 | 338 | 332 | 207 | 62.2 | 211 |
| Cherat | 390 | 239 | 61.3 | 131 | 343 | 235 | 68.4 | 116 |
| Dewan Hattar | 376 | 143 | 38.0 | 232 | 507 | 262 | 51.7 | 240 |
| Major Ten Units | 7051 | 3465 | 49.1 | 1610 | 6737 | 3437 | 51.0 | 3531 |

Federal Excise Duty: Cement is the second major revenue spinner after cigarettes as far as FED collection is concerned. Here again, the revenue from cement has declined over the years. This pattern has continued during current fiscal year as well. While there has been a decline of around 4% during July-December 2007 as compared to the

corresponding period of last year, part of the decline has occurred in July 2007 due to the procedural change. During November and December the recorded growth was zero and 7.3% respectively. On the other hand a healthy growth of 15.6%, 17.7% and 23.1% was witnessed in August, September and October, 2007.

The top three contributors in FED revenue are Lucky Cement, DG Khan Cement and Bestway, who jointly contributed about 35% of FED revenue. The share of major ten units in collection was 73% in 2006-07.

Income Tax: Like many other industries, the income tax contribution of the cement industry remains quite low. The direct taxes realized from cement manufacturers was only Rs. 321 million in 2004-05 that has increased to Rs. 1.1 billion in 2006-07. This income tax contribution was only 0.18% of the total tax receipts in 2004-05, that has gone up to 0.33% in 2006-07. An alternative way of looking at this alarmingly low contribution is through the share of income tax calculated from total direct and indirect taxes generated within a particular year. Looking in this way, the direct tax contribution of Rs. 321 million in Rs. 15165 million reduces to 2.1% only mobilized during 2004-05. Whether or not this contribution of income tax justifiable remains an open question for further analysis?

Concluding Observations

The preceding analysis uncovers multifaceted issues concerned with the cement industry in Pakistan. There are various question marks but situation warrants their solutions. Undoubtedly, the industry witnessed significant expansion in term of its capacity but its contribution to the national exchequer in the form of tax revenues has been quite unsatisfactory. In fact, the situation has worsened steadily since 2006-07.

This assertion holds true when viewed within the context of wide array of incentives awarded by the Government to the industry from time to time. The reduction of duty and tax rates has been the most visible concession.

The simple rationale behind this move was that the revenue loss due to reduced rates would be compensated by expansion in production. However, this anticipated benefit has not taken place. Instead, the input claims by the industry have risen exponentially over the years thereby jeopardizing the collection of tax revenues as per the requirement of the government for its infrastructure development needs. Prima facie, this has not worked well partly due to deficient and inadequate system of audit and penalties to deter tax evasion.

Unfortunately, despite the huge significance attached to this sector some very basic and vital statistics are not available with the Government. To be honest, even the size of the industry in terms of its capacity, production, and capacity utilization are generally unknown. There is serious discrepancy between available information within various government departments. If it is not for inaccuracy of data, then the natural question is why additional investment, in the expansion of existing plants and new plants is taking place when the existing capacity is not being fully exploited. One possible reason could be a deliberate attempt of underreporting of production by the industry. But if this claim turns out to be correct, then it literally means underreporting of value addition by the industry. In turn, underreported value added by one of the leading manufacturing sectors implies that the overall contribution of the manufacturing sector in GDP is underreported and finally the GDP figures do not remain robust. This is a serious conclusion with far reaching implications. Thus the onus falls on Federal Bureau of Statistics and Ministry of Industries to work together to prepare true statistics of the industrial sector of the economy, particularly the cement industry. Unfortunately, without basic statistics, it is impossible to have proper planning of the economy. As a consequence, the resource mobilization by FBR would also remain sub-optimal as appears to be the case today.

Annex-I: World Cement Production at a Glance

(Qty 000 Tonnes)

| Countries | 2003 | Share (%) | 2004 | 2005 | 2006 | 2007 | Share (%) | Growth (07/03) |
|--------------|------------------|--------------|------------------|------------------|------------------|------------------|--------------|----------------|
| China | 750,000 | 34.6 | 934,000 | 1,000,000 | 1,100,000 | 1,300,000 | 50.0 | 73.3 |
| India | 110,000 | 5.1 | 125,000 | 130,000 | 155,000 | 160,000 | 6.2 | 45.5 |
| USA | 92,600 | 4.3 | 99,000 | 99,100 | 99,700 | 96,400 | 3.7 | 4.1 |
| Japan | 72,000 | 3.3 | 67,400 | 66,000 | 68,000 | 70,000 | 2.7 | -2.8 |
| Russia | 40,000 | 1.8 | 43,000 | 45,000 | 54,000 | 59,000 | 2.3 | 47.5 |
| Korea | 56,000 | 2.6 | 53,900 | 50,000 | 52,000 | 55,000 | 2.1 | -1.8 |
| Spain | 40,000 | 1.8 | 46,800 | 48,000 | 50,000 | 50,000 | 1.9 | 25.0 |
| Turkey | 33,000 | 1.5 | 38,000 | 38,000 | 45,000 | 48,000 | 1.8 | 45.5 |
| Italy | 40,000 | 1.8 | 38,000 | 38,000 | 46,000 | 44,000 | 1.7 | 10.0 |
| Mexico | 31,500 | 1.5 | 35,000 | 36,000 | 40,000 | 41,000 | 1.6 | 30.2 |
| Brazil | 40,000 | 1.8 | 38,000 | 39,000 | 37,000 | 40,000 | 1.5 | 0.0 |
| Thailand | 35,000 | 1.6 | 35,600 | 40,000 | 40,000 | 40,000 | 1.5 | 14.3 |
| Indonesia | 340,000 | 15.7 | 36,000 | 37,000 | 40,000 | 35,000 | 1.3 | -89.7 |
| Germany | 28,000 | 1.3 | 32,000 | 32,000 | 30,000 | 34,000 | 1.3 | 21.4 |
| Iran | 31,000 | 1.4 | 30,000 | 32,000 | 33,000 | 34,000 | 1.3 | 9.7 |
| Egypt | 26,000 | 1.2 | 28,000 | 27,000 | 29,000 | 29,000 | 1.1 | 11.5 |
| Saudi Arabia | 23,000 | 1.1 | 23,000 | 24,000 | 26,000 | 28,000 | 1.1 | 21.7 |
| France | 20,000 | 0.9 | 21,000 | 20,000 | 21,000 | 21,000 | 0.8 | 5.0 |
| Pakistan | 10,845 | 0.5 | 12,862 | 16,353 | 18,483 | 20,632 | 0.8 | 90.2 |
| Others | 348,590 | 16.1 | 367,656 | 374,888 | 500,000 | 394,968 | 15.2 | 13.3 |
| Total | 2,167,535 | 100.0 | 2,104,218 | 2,192,341 | 2,484,183 | 2,600,000 | 100.0 | 20.0 |

Source: US Geological Survey/BOI Pakistan

III

FBR Reform Program: eFBR Portal – A Virtual Tax Office¹¹

What is eFBR Portal?

In order to facilitate the taxpayers in e-Filing their income tax and sales returns/statements, FBR has launched a modern facility for its taxpayers in the form of web based e-filing. For the first time in Pakistan, the taxpayers can e-File their Income Tax and Sales Tax Returns/ Statements through the Taxpayer Facilitation Portal (<http://e.fbr.gov.pk>). FBR has recently launched e-Payment facility initially for the taxpayers of LTU Lahore, which will be expanded country wide shortly. By launching these e-services, FBR has made the taxpayer's offices/homes as virtual tax offices and virtual banks whereby they can work any time round the clock without visiting tax offices and banks hence devoting their precious time in doing their business efficiently.

Response to eFBR at a Glance

The e-Filing is mandatory for corporate taxpayers but the non-corporate taxpayers have also welcomed the e-Services of eFBR, which is evident from the fact that 15,500 taxpayers have been enrolled to avail the e-Services out of which 10,000 are corporate and 5,000 non-corporate taxpayers. Every month about 6,500 taxpayers file their sales tax returns and around 12,000 withholding statements are being filed electronically every month. e-Services are not only used by the taxpayers but their tax consultants are also widely using it. So far 281 tax consultants have been enrolled as e-Intermediary with eFBR Portal wherein they have registered 4,313 taxpayers as their clients to work on their behalf.

Taxpayers Education, Help & Support

The e-FBR is designed with a view to facilitating the taxpayers in preparing and electronically submitting their declarations while sitting in

¹¹ Author: Mr. Imtiaz A. Khan (GM Software Development, Pakistan Revenue Automation Limited - PRAL)

their offices/homes over the internet on 24x7 basis. This facility is available for all the taxpayers and tax consultants round the clock. In order to educate and guide the taxpayers in using the e-Services offered at eFBR Portal, various seminars have been conducted by FBR/PRAL in all the major cities. Technical help is provided through a **Call Centre** operating from 9 AM to 9 PM, which can be accessed by dialing (051) 111-772-772 and [eSupport@pral.com.pk](mailto:esupport@pral.com.pk). Tax related queries are answered during the office hours at toll free number 0800-00-227 and Helpline@fbr.gov.pk .

e-Services

In order to avail the e-Services offered by FBR, the taxpayers have to first e-enroll them with the eFBR Portal by making online request at <http://e.fbr.gov.pk> . The e-Filing facility is equipped with built-in automatic tax calculations, thus providing accuracy and efficiency with ease. Almost all the prescribed returns of income tax and sales tax along with associated withholding/invoice summary statements can be e-filed at eFBR. Both the features of **Online Data** entry as well as attaching pre-filled Excel sheets, prepared in **offline mode**, containing data processed from various automated business systems can be used to e-file the Statements.

e-Payments

e-Payment service, recently launched at eFBR, relieves the taxpayers from the hassle of staying in long queues at the bank counters. Taxpayers can not only prepare their declarations electronically but will also be able to schedule the payments in advance for actually taking effect on a specific date, hence keeping their cash in business circulation till the due date of payment.

Revising the Declarations

Just like e-Filing the declarations, i.e., returns and statements, revising them is also very easy at eFBR Portal. Original document is stored & locked for any changes and a copy of the same is made available to the

taxpayer for revising his declaration and e-Filing again as revised declaration.

Acknowledgements

All the documents/requests submitted at eFBR portal are acknowledged electronically through a bar-coded acknowledgement receipt which can be printed by the taxpayer and can even be saved in his computer for future use.

e-Folder

Each enrolled taxpayer of eFBR portal is issued an electronic folder (e-Folder) in which history, of declarations made by him electronically, is recorded in chronological order. All the filed declarations can be viewed and printed by the taxpayer from his e-Folder.

SMS

SMS feature is also available, upon request of the taxpayers, wherein they can opt for receiving SMS messages at their mobile phones at the time of Declaration Acceptance, e-Payment advices, e-Payment Clearances, etc. This feature keeps the taxpayers updated about their tax related matters all the time even when they are away from their offices.

System Alerts

System alerts keeps all the logged-in users updated about any new announcements, notifications, etc. while they are working on eFBR. This service also keeps them informed about any acceptance, rejection, objection, query, etc. raised by the tax officers on their tax declarations.

News Bulletin

News Bulletin is available to all the visitors of eFBR which provides updated information about the Notification, Special Features introduced, Extensions granted, etc. relating to e-Services offered/enhanced from time to time at the portal.

Income Tax Assistant (ITA2007) & eFBR

Taxpayers using Income Tax Assistant (ITA2007) software utility can prepare their returns in offline mode and subsequently e-file at eFBR portal by using Export/Import features introduced in the system by just click of a button.

Security Measures

Secured access is provided to the taxpayers by authentication through user-id, password and pin code. Access can further be controlled through fixed IP address of the user so that even the authorized users should work on the system through the designated IP addresses only. Moreover communication with the system is secured through SSL (128 bit encryption over <https://e.fbr.gov.pk>) and thus allowing users to logon to the eFBR system through normal as well as secured link. In addition, system is capable of receiving digitally signed data by the interest taxpayers.