FBR Quarterly Review

Vol. 10, No. 1, July – September 2010

A Review of Resource Mobilization Efforts of
Federal Board of Revenue

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Government of Pakistan
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Islamabad – Pakistan

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The FBR Quarterly Review July – September, 2010 has been prepared by the Research Team of Strategic Planning and Research & Statistics wing.

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December: 2010

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Abbreviations

AOPs	Association of Persons
ATT	Air Travel Tax
BPR	Business Process Reengineering
CD	Customs Duties
CFY	Current Fiscal Year
CER	Collection Efficiency Ratio
CPI	Consumer Price Index
CoD	Collection on Demand
DT	Direct Taxes
FBR	Federal Board of Revenue
FED	Federal Excise Duties
FY	Fiscal Year
RGST	Reformed General Sales Tax
LTU	Large Tax Payers' Unit
MCC	Model Customs Collectorate
NTN	National Tax Number
PCT	Pakistan Customs Tariff
PFY	Previous Fiscal Year
Q1CFY	Quarter 1 Current Fiscal Year
Q1PFY	Quarter 1 Previous Fiscal Year
RTO	Regional Tax Office
STD	Sales Tax Domestic
STM	Sales Tax Import
TARP	Tax Administration Reform Project
USAS	Universal Self-Assessment Scheme
VP	Voluntary Payments
VAT	Value Added Tax
WHT	Withholding Taxes
WPI	Wholesales Price Index

Foreword

Pakistan's economy is passing through a critical phase. The devastating flood has further aggravated the economic woes of the country, which has affected over 20 million populations and caused heavy damages to the infrastructure. However, despite all these negative pressures, government has endeavored to bring back the economy on track through prudent expenditure management and better resource mobilization. The current edition of FBR Quarterly Review has been prepared in the light of all these set backs. The current issue contains detailed analysis on the resource mobilization efforts of FBR and its other important achievements during the first quarter of FY: 2010-11.

Besides, in-depth analysis on the performance of FBR, an article on the economic analysis of GST in Pakistan has also been included, wherein attempt has been made to elucidate on the economic aspects of the Reformed General Sales Tax (RGST). The paper highlights that C-efficiency of GST ranges between 80-90 percent in the developed world and over 50 percent in the region, whereas in Pakistan only 28 percent of the total consumption is captured by the GST in Pakistan. Resultantly, productivity and tax GDP ratio of GST in Pakistan are also the lowest in the world. Therefore, despite looking for new venues of taxation, broad based GST would be a life line for the country to sustain.

I take this opportunity to appreciate the efforts made by the research team of the Strategic Planning and Research & Statistics Wing, FBR for their research endeavors and bringing out the current publication. I hope this research will also cater to the needs of wide array of FBR stakeholders.

We look forward to receiving comments and suggestions from our valued readers for improvement of the future issues of the FBR Quarterly Reviews.

(Sohail Ahmad)
Secretary Revenue Division/
Chairman FBR

December, 2010

I

FBR Tax Collection:

An Analysis of Q1: 10-11 Outturn[1]

The Economy

The economy of Pakistan has been jolted by a devastated flood in the country during the first quarter of the current fiscal year. The devastation has hit virtually all sectors of the economy, the impact on the population is truly staggering-over 20 million people have been affected. The economic damage has been estimated around $15 billion, or about 10 percent of GDP. Damage to infrastructure alone (roads, power plants, telecommunications, dams and irrigation systems, and schools and health clinics) is estimated around $10 billion (ADB & WB 2010).

The agriculture, which represents more than 20 percent of the GDP and provides employment to almost 50 percent of the workforce, has been extremely hard hit. At least 30 percent of the cotton crop has washed away, which is bound to devastate the textile industry. That will mean the textiles sector will have to import more cotton to feed the mills. The country will also face loss of wheat, rice, and maize crops, together with loss of about 10 million of livestock.

The overall growth of real GDP that prior to the floods was projected to be over 4 percent during FY: 2010-11, is now likely to fall in real term to 2-3 percent range. The same was 4.1 percent during last year. However, reconstruction activity could provide some boost to the growth rate, but it is likely that any positive affects will only show up in FY: 2011-12 and beyond, and even then it may not be sufficient to bring the growth rate back to the 2009 level of 4 percent for several years.

[1] The Research Team of the Strategic Planning and Statistics Wing of FBR has prepared this Chapter.

Similarly, with higher transport costs and food shortages, inflation, which is already in double digits, will move up with the increase in food prices.

On the fiscal front, considerable efforts have to be made to keep the budget deficit under control during CFY, for which revenue generation is the key agenda item of the government. On FBR part, a viable tax administration reform program is actively perused with the objectives to have a credible tax reform to ensure fiscal sustainability and to create fiscal space for increasing the social safety net, and increasing investment in human and physical capital. Moreover, in order to broaden the tax base and to correct the structural shortcomings in Pakistan's tax system and particularly, to ensure horizontal equity in the taxation system, a broad-based (Reformed) General Sales Tax (RGST) is being implemented in the country. Besides, the Federal Board of Revenue has chalked out a feasible audit plan including audit of withholding taxes to check the revenue leakages. It is expected that with the implementation of these and similar other initiatives, the resource mobilization efforts will get a momentum in the coming months of the fiscal year 2010-11.

FBR Revenue Target for FY: 10-11

Pakistan's economy is passing through a critical phase for the last few years. Higher inflation, slow economic growth coupled with energy crises and law and order situation are the main causes of setback. However, despite all these negative pressures, government has endeavored to prepare a balanced budget for the fiscal year 2010-11. Since resource mobilization is the key factor in attaining the desired result, therefore, FBR revenue target for FY: 2010-11 has been fixed by taking a number of additional tax measures to meet the increasing development needs of the country and to keep the budget deficit within acceptable limit.

Similarly, having awareness of the economic woes of common man caused by spiraling inflation, particularly due to rising prices of food items and utilities, effort has been made to ensure that burden of new tax measures is borne by the affluent class of society. A number of relief measures have also been taken to save the common man from the affects of inflation and to ameliorate their condition.

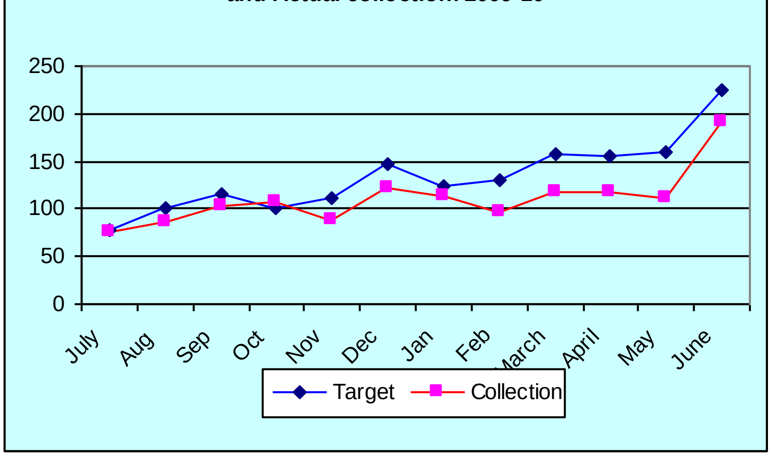
The revenue target for FY: 10-11 was originally budgeted at Rs. 1667 billion, but later on it was rationalized in the light of overall budgetary frame work of the Government. FBR has now been allotted a target of Rs 1,604.4 billion that required 21% growth over last year's collection of Rs. 1327.4 billion (Table 1). The direct taxes will remain top contributor by having 40.9% share in the assigned national target on the other hand the net collection of sales tax would be around 39.5%, followed by customs duty with a share of 10.8%, and the rest will be contributed by FED.

Table 1: Baseline Collection FY: 09-10 viz-a-viz Projections for FY: 10-11

(Rs. Billion)

Tax Heads	Collection FY: 09-10	Projections FY: 10-11	Growth (%)
Direct Taxes	526.0	656.3	24.8
Sales Tax	516.3	633.8	22.8
Federal Excise	124.8	141.0	13.0
Customs Duty	160.3	173.3	8.1
All Taxes	1,327.4	1,604.4	20.9

In order to have an insight of the mechanism of monthly distribution of the assigned target, Graph-1 below depicts the uneven distribution scenario from July, 2010 to June, 2011 viz-viz past year actual collection. The fluctuated nature is because of the seasonal trend which contributes major part in revenue realization during a fiscal year. First quarter of the fiscal year is traditionally slow in revenue realization, and generates around 17-18% of the target. This is because of the accounting and reporting mechanism of reconciliation with the banks, particularly during the first two months of the quarter. The impetus in revenue collection starts from the second quarter. The last two quarters generate more than 60% of the revenue. The technical reason which has made the distribution some what bumpy for the current fiscal year, is the change introduced in the mechanism of payment of advance taxes. The taxpayer has been allowed to pay advance tax by the end of quarter during CFY, whereas last year the payment of quarterly advance tax was linked with turnover tax and the taxpayer was allowed to pay due advance tax by 15th of the following month of end quarter. Thus, visible difference can be seen in the month wise position.



Graph-1: Month wise Comparison of Target: 2010-11 and Actual collection: 2009-10

FBR Revenue Position

It is highly encouraging that despite all economic odds like slow growth in GDP and decline of 3.6% in the bases of domestic taxes i.e the large scale manufacturing FBR has been able to achieve the revenue target of Rs 293.5 billion fixed for the first quarter of CFY.

The net collection during first quarter of FY: 2010-11 has been Rs.293.5 billion against Rs. 263.9 billion in the corresponding period of last year (Table 2). The collection grew by 11.2% during Q1: CFY.

Table 2: Collection during Q1: 10-11 Vs. Q1: 09-10

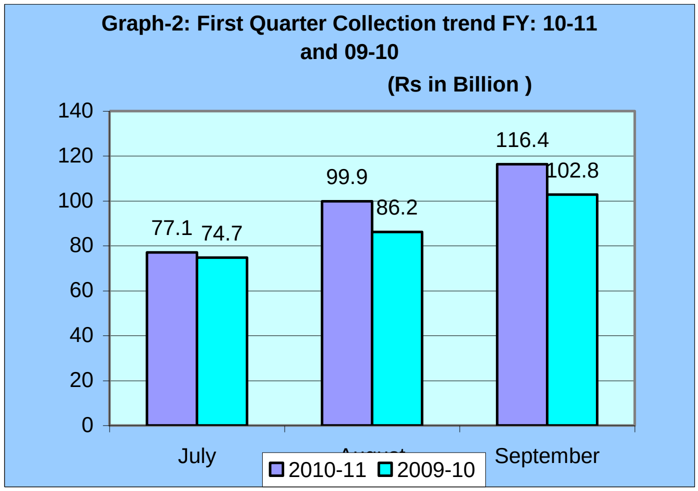
(Rs. Billion)

	Collection Q1: 10-11	Collection Q1: 09-10	Growth (Absolute)	Growth (Percent)
Direct Taxes	95.7	85.3	10.4	12.2
Sales Tax	133.7	117.1	16.6	14.2
Federal Excise	26.9	28.4	-1.5	-5.2
Customs Duty	37.2	33.1	4.1	12.4
All Taxes	**293.5**	**263.9**	**29.6**	**11.2**

The above table indicates that sales tax, customs duty and direct taxes have exhibited reasonable growths of 14.2%,12.4% and 12.2% respectively during Q1:FY:10-11 as compared to previous year. On other hand, the collection of federal excise duty has recorded negative growth of 5.2% during July-September, 2010-11. The major reasons are the negative growth in the large scale manufacturing industries by 3.6% during Q1: CFY, whereas the same was positive (0.9%) during the same period of last year. As a result, production and clearance of major spinners of federal excise duty has badly been affected. There has also been negative growth in the collection from cement, beverages and cigarettes. However, marginal growth has been recorded in the POL products etc. Secondly, due to shifting of banking and insurance services from federal excise net to sales tax, a loss of around one billion rupees was recorded in July 2010.

Graph-2 present further breaks down of Q1 into month wise performance. It may be noted that there has been marginal growth in

July being first month of the quarter, whereas over 15% increase in resource mobilization during August 2010 and further enhancement of over 13% in September 2010 over the corresponding period of PFY.



Graph-2: First Quarter Collection trend FY: 10-11 and 09-10

Analysis of Refunds/Rebates

FBR has undertaken a revolutionary step by setting up a Centralized Sales Tax Refund Office (CSTRO) in the FBR headquarters during CFY with focused attention on liquidating all pending sales tax refunds (which are around 39% of the total refund claims) and timely issuance of current claims. This step will resolve the liquidity issues of the taxpayers and will ultimately accelerate the on going economic activities in the country. This is evident from the information provided in Table 3. Approaching the issue in a holistic manner it is clear that there has been 34.1% growth in the total refunds payments. The reason is that, refund arrears related to the stuck up amounts are now being cleared expeditiously. Similarly, to clear the large backlog, the sales tax pendency is also being liquidated promptly but will take more effort to completely clear the deck. The refund claims of income tax and customs duty are also increasing and being paid promptly.

Table 3: Comparative Position of Refunds/ Rebates Payments: Q1: 10-11 - Q1: 09-10

(Rs. Billion)

	Refunds/ Rebates		Difference	
	Q1:10-11	Q1:09-10	Absolute	Growth (%)
Direct Taxes	11.3	9.0	2.3	25.6
Sales Tax	8.8	6.3	2.5	39.7
Federal Excise	0.0	0.0	0.0	0.0
Customs	2.7	1.7	1.0	58.8
All Taxes	**22.8**	**17.0**	**5.8**	**34.1**

Detailed Analysis of Individual Taxes

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

***Direct Taxes*:**

The gross, refund and net collection of direct taxes during the 1st quarter of CFY has been Rs 107 billion, Rs 11.3 billion and Rs 95.7 billion as against Rs. 94.4 billion, Rs. 9 billion and Rs. 85.3 billion, respectively, in the comparable period of PFY, indicating growth of 13.4% in gross, 25% in refund and 12.2% growth in net term (Table 4). The growth in revenue collection would have been higher by about Rs 5 billion on account of collection on demand, which is normally created through audit cases of pervious year. Had the audit been completed, by the end of September 2010, more revenue would have been collected under current and arrear demand?

Table 4: Direct Taxes Collection

(Rs. in Million)

Heads	Collection during Quarter-1		Growth (%)
	FY: 10-11	FY: 09-10	
Gross	107,010	94,379	13.4
Refund	11,292	9,033	25.0
Net	95,718	85,346	12.2

Components of direct taxes:

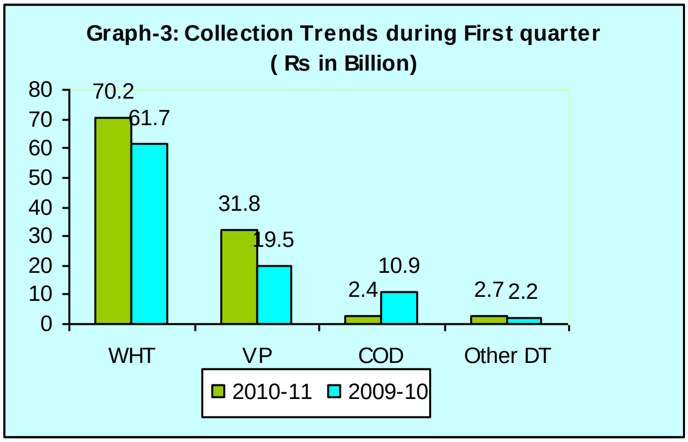
Direct taxes can be categorized into four sources i.e Collection of Demand (COD), Voluntary Payments (VP), Withholding Taxes (WHT) and other direct taxes which consist of Workers Welfare Fund (WWF) and Workers Profit Participatory Fund (WPPF). Of major components of direct taxes, 66% of gross income tax is contributed by the WHT, followed by VP having 30% share in total; and 2.5% & 2.2% is contributed by other direct taxes and CoD (Table 5).

Table 5 Direct Taxes: Head-wise Analysis
(July – September

(Rs. in million)

S.No.	Description	Collection		% Growth
		2010-11	2009-10	
1.	Collection on Demand	2,395	10,878	-78.0
2.	Voluntary Compliance	31,805	19,511	63.0
3.	Collection at Source	70,153	61,749	13.6
4.	Other Direct Taxes	2,657	2,244	18.4
	Direct Taxes (Gross)	107,010	94,379	13.4
	Refunds	11,292	9,033	25.0
	Direct Taxes (Net)	95,718	85,345	12.2

Graph 3 presents individual performance of the four major revenue heads of the direct taxes during first quarter of CFY viz PFY. There has been increased in WHT and VP, whereas, the collection under COD has declined and that is mainly due to the audit issue which has not been completed during Q1: of CFY, resultantly revenue could not be realized under current and arrear demand. The base of other direct taxes has shrunken due to transfer of capital value tax to the provinces.



The growth pattern indicates that there has been marked improvement in voluntary payment, where 63% growth has been registered during the first quarter of CFY over the corresponding period of PFY, followed by Withholding tax which has registered a sizable growth of 13.6%. However, there has been negative growth of 78% in CoD. Similarly, other direct taxes (including WWF, WPPF.) have also registered a growth of 5.5%.

Detailed analysis of the major components of direct taxes:

Collection on Demand (CoD): The collection on account of demand creation has recorded massively declined during the 1st quarter of CFY by 78%. Of the two components of CoD, the collection under arrear demand has significantly declined by 81% over the PFY. The second component, i.e., current demand has yielded a negative growth of 75% (Table 6) over the corresponding period of PFY. This is mainly due to delay in anti tax evasion activities against tax defaulters. It is expected to receive a boost during the 2nd quarter of the year when initial assessment of the returns will be completed and cases will be ripe for audit/ assessment through random selection criteria.

Table 6: Collection on Demand
(July – September)

(Rs. in million)

Description	2010-11	2009-10	Change %
a) Arrears	1,117	5,807	-80.8
b) Current	1,278	5,071	-74.8
Collection on Demand (A+B)	**2,395**	**10,878**	**-78.0**

Voluntary Payments: VP comprises of payments with returns and advance tax payments on the basis of self-assessed expected income. On the whole, Rs. 31.8 billion has been generated during the 1st quarter of CFY on account of VP as compared to Rs. 19.5 billion in the corresponding period of last year. Thus, there has been a growth by 63%, which is mainly due to higher payment of advance tax. The growth in advance payment is due to the change introduced in the advance tax payment system explained as above. On the other hand, the second component i.e., payment with returns has registered a negative growth of 42.2% over PFY (Table 7).

Table 7: Voluntary Compliance
(July – September

(Rs. in million)

Description	2010-11	2009-10	Change %
a) With Returns	2,245	3,882	-42.2
b) Advance Tax	29,560	15,629	89.1
Voluntary Payments (A+B)	**31,805**	**19,511**	**63.0**

Withholding Taxes: This component has been the major contributor of the income tax gross collection. As indicated, the share of WHT in gross collection has gone up to 66% in Q1: CFY:10-11 from 65% in Q1: 09-10.

Among these sources, significant growth of 31.9% in collection has been recorded in dividends, mainly due to increase in the profitability of the business in the country. Similarly, around 30% growth was recorded in WHT on salaries. The reason of higher growth in the collection from salaries has been due to 50% increase in the salaries of the government employees with effect from July, 2010.

Box 1

Relief Measures to Salaried/ other individuals and senior citizens

1) In order to provide relief to over 780,000 taxpayers, the basic exemption limit for salaried individuals and non salaried tax payers has been enhanced from Rs.200,000 and Rs.100,000 respectively to Rs.300,000.
2) Senior citizens (aged 60 years or more) mostly face hardship in their old age. In order to reduce their tax burden, the government has enhanced the maximum limit of income for availing 50% tax relief from Rs. 750,000 to Rs. 1,000,000

Box 2

Other Relief Measures.

1) Reduction in rate of withholding tax on electricity bills of commercial and industrial consumers exceeding Rs. 20,000 per month from 10% to 5%. This measure will benefit over 6,600 tax payers.
2) Continuation of Prime Minister’s relief Package to rehabilitate the economic life in Khyber Pakhtunkhawa, FATA and PATA, irrespective of cost to the exchequer.

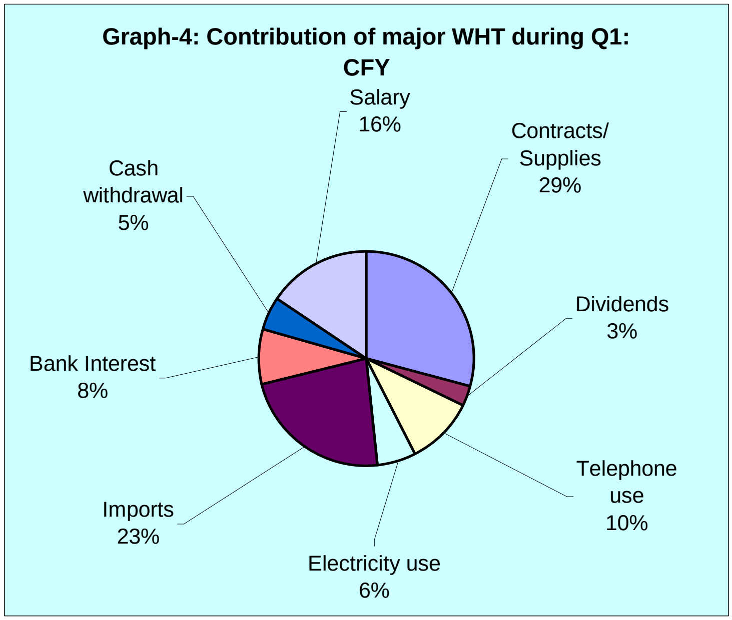
Like wise 31.8% growth has been recorded in the collection under the head of import mainly due to enhancement of WHT on commercial import from 4% to 5% during CFY. Growths of 21.4% and 20.5% were also recorded in case of export and bank interest respectively (Table 8). The bank interest rate has been increased by the government during the period under review.

Table 8: A comparative Position of Withholding Taxes

(Rs. Million)

Tax Heads	Q1: 10-11	Q1: 09-10	Growth (%)
Contracts/ Supplies	17,314	18,089	-4.3
Imports	13,663	10,366	31.8
Salary	9,264	7,132	29.9
Telephone use	6,085	5,264	15.6
Bank Interest	4,870	4,042	20.5
Exports	4,460	3,674	21.4
Electricity use	3,419	3,366	1.6
Cash withdrawal	2,961	2,894	2.3
Dividends	1,845	1,399	31.9
Sub-Total	63,881	56,225	13.6
Other WHT	6,272	5,524	13.5
Total WHT	**70,153**	**61,749**	**13.6**
Share in Gross	65.6%	65.2%	

Within WHT, the major share in the collection has been from major sources, namely, contracts/supplies (29%), imports (23%), salary (16%) telephone (10%), and bank interest/ securities (8%)(Graph-4).



Analysis of Income Tax Returns/Statements (2010 VS 2009 Upto 30th November)

The number of returns/statements filed upto the end of November 2010 has exhibited a negative growth of 9.5 % while tax paid has gone up by 49.6% (Table 9). The details of the returns and statements are highlighted below:

- A total of 1,672,873 returns and statements have been received from companies, association of persons (AOPs), salaried and non-salaried individuals; importers, exporters, and contractors etc. Number of all type of returns has reflected a modest growth and accordingly, but tax paid with returns has exhibited substantial growth.
- A further analysis confirms that over 42% of income and corporate tax has been received with returns during FY 10-11 and the rest is deposited with the statements.

- It is encouraging that all the returns have exhibited a positive growth not only in the number of return but also in tax payments.
- A decline of 16.8% in the submission of statements has been recorded.

Table 9: Income Tax Returns upto the end of Q1: 10-11 viz-viz Q1: 2009-10

(Rs. Million)

	Returns/Statements		
	FY:10-11	**FY:09-10**	**Growth (%)**
Returns			
Corporate Cases	1,740	1,544	12.7
AOPs	32,998	29,225	12.9
Salaried Individuals	106,959	109,516	-2.3
Non-Salaried Individuals	565,971	548,115	3.3
Sub Total Returns	**707,668**	**688,400**	**2.8**
Statements			
Salary certificates/statements	18,278	18,142	0.7
No of employees in the statement	891,568	1,054,650	-15.5
Importers	2,116	12,212	-82.7
Exporters	4,770	8,225	-42.0
Retailers up to 5m turnover	13,336	13,485	-1.1
Above 5m turnover	457	571	-20.0
Contractors/ Suppliers	12,280	24,124	-49.1
Other	22,400	28,487	-21.4
Sub Total Statements	**965,205**	**1,159,896**	**-16.8**
Total	**1,672,873**	**1,848,296**	**-9.5**

.Note: The Provisional numbers are upto30th November 2010

Sales Tax: The Sales Tax (ST) is the top revenue generation source of federal tax revenues by contributing 45.5% of the total taxes during first quarter of FY: 2010-11. The gross and net collection of sales tax has been Rs.142.4 billion and Rs. 133.7 billion showing a growth of 15.6% and 14.2% respectively over the corresponding period last year. The reason behind this vibrant performance is that a robust growth of 22.7% has been attained in the sales tax collected at import stage.

Sales Tax can be categorized into two major components (i) sales tax on imports and (ii) sales tax on domestic supplies. The share of sales tax on imports in the total sale tax collection has improved from 44.5% in Q1:2009-10 to 47.8% during July-September, 2010-11. The component-wise sales tax collection is presented in the following (Table 10).

Table 10 : Collection of Sales Tax during July-September: FY: 10-11

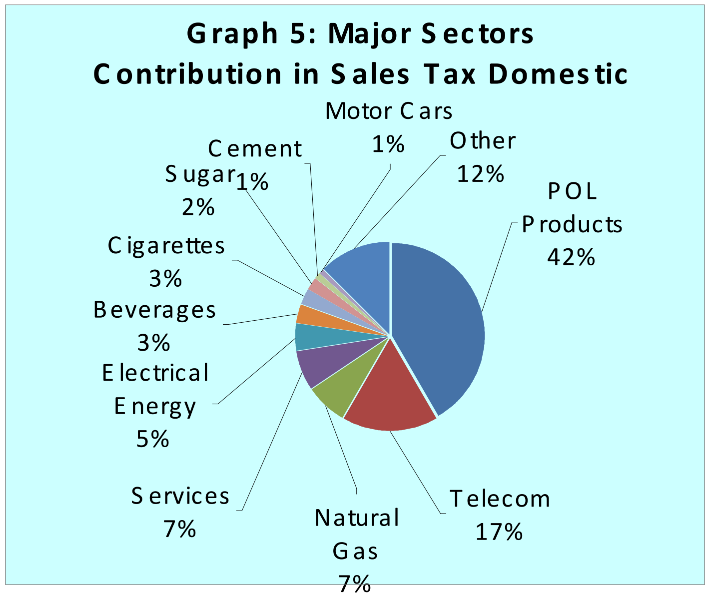
(Rs. Million)

Tax-Head	Collection Quarter 1			Growth (%)		
	Gross	Refund	Net	Gross	Refund	Net
Sales Tax Imports	63,960	3	63,957	22.7	-50.0	22.7
Sales Tax Domestic	78,514	8,770	69,744	10.3	40.6	7.4
Sales Tax (Total)	**142,474**	**8,773**	**133,701**	**15.6**	**40.5**	**14.2**

Sales Tax (Domestic) Collection:

The contribution of domestic sales tax collection has been over 50% in total sales tax collection. Ten major commodities continued to contribute a higher proportion of around 88%, in overall sales tax domestic collection. These ten sectors are petroleum products, telecommunication, natural gas, sugar, electrical energy, cigarettes, other services, beverages, cement and motor cars. The cumulative collection from these 10 major commodities during first quarter of

CFY has been Rs 61.6 billion as against Rs 58.4 billion during the same period of last year. The growth has been recorded at 4% (Table 11). The sector wise contribution of sales tax domestic is depicted in Graph 5.



Commodity-Wise Analysis: The top contributor is the POL Product, which has yielded Rs 29.1 billion July-September, 2010-11, as against Rs 26.7 billion during the corresponding period of last year. The collection from petroleum products has recorded a growth of 8.7% during the period under review, as compared to collection of same period last year. The growth is partially attributable to low input/output ratio during Q1:FY: 2010-11 as compared to previous year.

Table 11: Sector-Wise Net Collection of Sales Tax Domestic

(Rs. Million)

SNo.	Sectors	July-September		
		FY:10-11	FY:09-10	Growth(%)
1	POL Products	29,052	26,720	8.7
2	Telecom	11,549	10,888	6.1
3	Natural Gas	5,173	5,207	-0.7
4	Services	4,845	2,912	66.3
5	Electrical Energy	3,329	3,300	0.9
6	Beverages	2,230	1,757	27.0
7	Cigarettes	1,948	1,761	10.6
8	Sugar	1,505	3,788	-60.3
9	Cement	739	1,408	-47.5
10	Motor Cars	672	957	-29.7
	Sub Total	**61,042**	**58,698**	**4.0**
	Other	8,702	6,239	39.5
	Grand Total	**69,744**	**64,937**	**7.4**

The second higher revenue spinner is telecommunication sector, which has registered a positive growth of only 6.1% during Q1:FY: 10-11. It has been observed that for the last couple of years, the growth in the collection of telecommunication has slowed down possibly due to reduction in tax rates from 21% to 19.5% and saturation of mobile connectivity in urban areas.

The other revenue spinner is natural gas, the collection has declined marginally mainly due to payment of Rs 1.4 billion refunds during July-September, 2010-11 as compared to nil payment during the same period of previous year. A growth of 10.6% in collection from cigarettes has been attained, mainly due to 6.5% growth in the taxable sales of cigarettes and reduction in the input out ratio from

57.5% in Q1: 2009-10 to 53% during July-September, 2010-11. The collection of sales tax from electrical energy has increased by only one percent during Q1: 2010-11. The reason for slow growth has been payment of higher refunds by around one billion rupees in Q1: 2010-11 as compared to the previous year. The collection from services (other than telecom) indicated a robust growth of 66%. A growth of 27% has been reflected by the beverages sector, mainly due to lower input/out ratio from 77.8% to 70.8% and higher sales by 10.1%.

As far as the collection of sugar is concerned, the rate of 15% was in operation in the first half of first quarter, 2009-10 which is 8% during 2010-11. Moreover, higher input-output ratio 25.3% on account of sugar during 2010-11 against 9.5% has also affected the collection of sales tax on domestic. A decline of 47.5% in the collection of cement is attributable to a decline of 20.5% in the taxable sales and higher input-out ratio during Q1: 2010-11 as compared to previous year.

Sales Tax Compliance by Taxpayers:

There are 94,727 total e-rolled registrants of sales tax under various categories, while the filers are 83,496 during July-September, 2010, thus, the compliance ratio is 88.1% (Table 12). The manufacturing sector has exhibited higher compliance of 91.3% while the compliance of all other categories ranged between 81.2 to 89.6%. Though the compliance ratio seems encouraging, but it should be 100% because all the registrants are e-rolled and active taxpayers and there seem no cogent reasons for non filing. Therefore, it warrants for an effective audit of all the sectors.

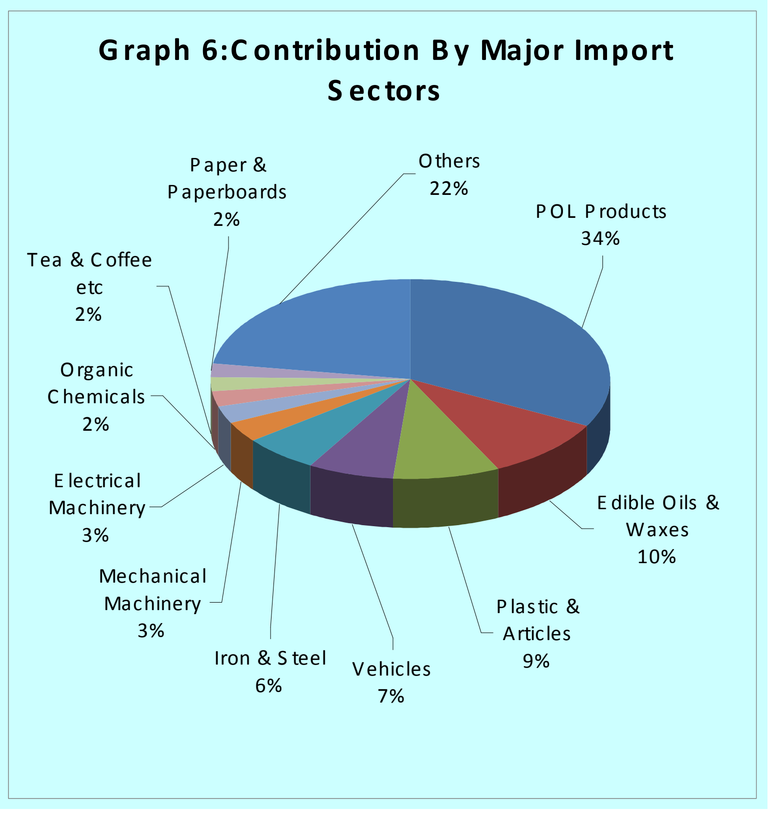
Table 12: Sales Tax Compliance by Taxpayers during Q:1 CFY

	July - September		
	No of Registrants	**No of Filers**	**Compliance (%)**
Manufacturers	25,568	23,351	91.3
Importers	26,882	24,083	89.6
Exporters	6,089	5,256	86.3
Distributors	5,124	4,430	86.5
Wholesalers	19,118	16,562	86.6
Retailers	3,496	2,953	84.5
Services	8,450	6,861	81.2
Total	**94,727**	**83,496**	**88.1**

Source: Sales Tax Data Processing Center FBR

Sales Tax Collection at Import Stage

The collection from sales tax at import stage has performed well by collecting Rs 64 billion during first quarter of CFY, as compared to Rs 52.1 billion during the same period of PFY. Thus a growth of 22.7% has been recorded when compared with same period of last year. The collection from top 10 commodities groups has been presented in Table 13. Major 10 commodities groups have generated almost 78% of the sales tax collection at imports. Petroleum products have contributed around 33% in the total sales tax at import stage, followed by edible oil (10%) etc. (Graph 6).



As indicated above, petroleum products are the leading collection of sales tax. However, the collection from POL products has come down from 34% during 2010-11 from 41% during corresponding period last year. A higher growth of 80% in the collection of edible oil has been generated during July-September, 2010-11 due to 88% growth in its imports (Table 12). Similarly, the collection from plastic products has decreased by 44% against 37.3% growth in imports.

Automobile is the fourth major and significant revenue spinner of sales tax on imports. Its collection improved by 56.6% which has driven by higher growth of 38.2% in the imports.

As far as the remaining items are concerned, all of them have generated double digit growth in the collection of sales tax except organic chemicals, which is due to higher growth in the imports of these items.

Table 13: Chapter-Wise Collection of Sales Tax on Imports

(Rs Million)

PCT Code	Description	2010-11	2009-10	Growth (%)
27	POL Products	20,945	21,386	-2.1
15	Edible Oils & Waxes	6,419	3,568	79.9
39	Plastic & Articles	5,566	3,866	44.0
87	Vehicles	4,451	2,843	56.6
72	Iron & Steel	3,919	3,109	26.1
84	Mechanical Machinery	2,053	1,625	26.3
85	Electrical Machinery	1,818	1,533	18.6
29	Organic Chemicals	1,555	1,539	1.0
9	Tea & Coffee etc	1,472	1,101	33.7
48	Paper & Paperboards	1,410	1,143	23.4
	Sub-total	**49,608**	**41,713**	18.9
	Others	14,349	10,413	37.8
	Grand Total	**63,957**	**52,126**	**22.7**

Customs Duty:

Customs duty has contributed around 13% and 19% in the total taxes and indirect taxes respectively collected by FBR during Q1:2010-11. The collection of customs duty in terms of gross, refund/rebate and net collection has been presented in Table 14.

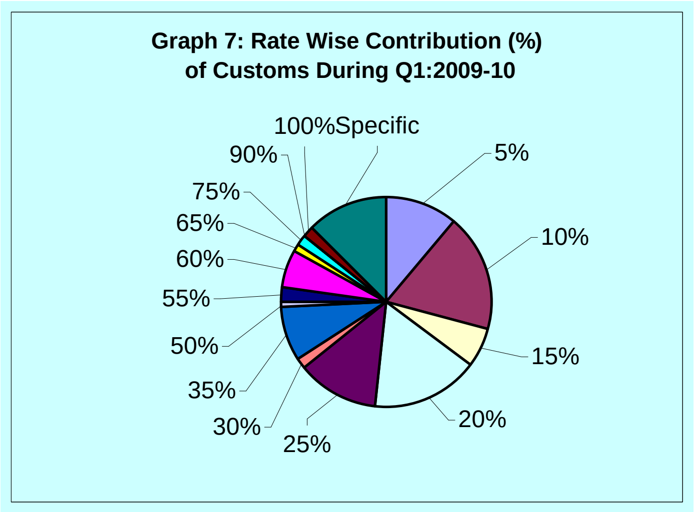
Table-14 : The Collection of Customs Duties

(Rs. in Million)

Heads	Quarter-1		Growth (%)
	FY: 10-11	FY: 09-10	
Gross	39,916	34,749	14.9
Refund	2,751	1,684	63.4
Net	37,165	33,064	12.4

There are two broad components of value of imports i.e. dutiable imports and duty free imports. Duty free imports have improved strongly by 38% while dutiable imports grew by only 7.4%. It illustrates that the growth of customs duty is greater than its base i.e. dutiable imports.

Rate wise analysis reveals that around 88% of the customs duty is collected through advalorem rate while 12.5% shared by specific rates during Q1:2010-11.



Further insight in the rate wise analysis indicates that almost 72% customs duty is collected through the six major slabs of 5%, 10%, 15%, 20%, 25% and 35%(Graph 7)

Major Sectors of Revenue Generation

While analyzing the customs duty by sectors, it highlights that fifteen major revenue spinners has contributed around 81% in the total dutiable value imports and 72% of customs duty has been realized by these sectors during first three months of CFY. The detail of revenues of customs duty has been highlighted in Table-15.

Table-15 : Sector-Wise Gross Collection of Customs Duties

(Rs. Million)

PCT Ch.	Description	CD Collection July-September		
		FY:10-11	FY:09-10	Growth (%)
87	Vehicles and Parts	6,748	4,366	54.6
15	Edible Oils	4,530	3,177	42.6
84	Mechanical Machinery	2,765	2,609	6.0
27	Petroleum Products	2,335	3,739	-37.6
85	Electrical Machinery	2,212	2,489	-11.1
39	Plastic & Articles	2,036	1,516	34.3
72	Iron & Steel	1,563	1,460	7.1
48	Paper & Paperboard	1,266	1,149	10.2
54	Textile Materials	921	449	105.1
9	Tea/Coffee etc	831	654	27.1
29	Organic Chemicals	794	939	-15.4
55	Staple Fibre	681	377	80.6
32	Dyes, paints etc	657	604	8.8
33	Cosmetic and Perfumery	616	451	36.6
34	Soap & Artificial Waxes	584	428	36.4
	Sub Total	**28,539**	**24,407**	**16.9**
	Other	10,877	10,341	5.2
	Grand Total	**39,916**	**34,748**	**14.9**

Like previous year, automobile has been the top revenue generator of customs duty. The collection of customs duty from automobile has reflected a growth of 54.6% against growth of 52.4% in dutiable imports. This vibrant performance has improved its share from 12.6% to 17.1% from Q1:2009-10 to Q1:2010-11.

During Q1:2010-11, edible oils (CH: 15) has been the second higher source of collection of customs. It grew by 42.6% against 93.9% growth in the value of dutiable imports. This mismatch has been due to specific rates of custom duties.

A low growth of 6% in the collection of mechanical machinery has been recorded against a decline of 2.8% in the dutiable imports. The main reason behind low growth is decline in the import of industrial goods 8.8%, construction machinery by 19.1% etc due to reduction in the value of imports. As far as electrical machinery is concerned, the collection has come down by 11.1% against 31% reduction in the dutiable imports.

The dutiable import of petroleum products has decreased substantially by 37.6% which has vastly affected the receipts of customs duty from POL product.

All the remaining items except organic chemicals (CH: 29), the collection of customs have increased against increased dutiable imports.

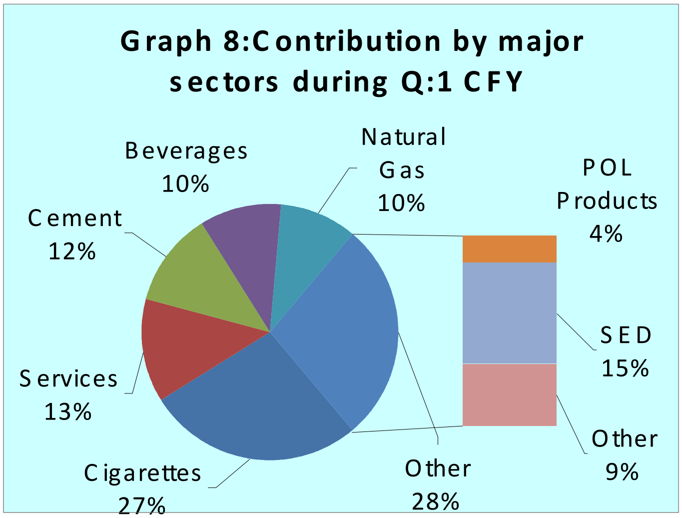
Federal Excise Duties: The contribution of FED in total collection has been 9.1% despite a narrow base tax. The collection under FED has been Rs 26.9 billion during July-September, 2009-10 entailing a decline of 5.2% (Table 15). The less than expected performance is mainly due to severe floods in August 2010, which has badly affected the large scale manufacturing sector. Similarly, decline in the production of major revenue spinners like cigarettes, cement, beverages and POL products has adversely affected the revenue realization from these sectors.

Table 16 : Federal Excise Duty Collection

(Rs. in Million)

Heads	Collection during Quarter-1		Growth (%)
	FY: 10-11	FY: 09-10	
Gross	26,911	28,395	-5.2
Refund	0.0	5	-
Net	26,911	28,390	-5.2

Around 76% of FED collection has been contributed by top six revenue spinners, namely; cigarettes, services, cement, beverages, natural gas and POL products. Apart from that, SED contributed robustly by around Rs. 4 billion during July-September, 2010-11. Graph 8.



The tax receipts of all major revenue spinners have been highlighted in Table-17.

Table-17: The Collection of FED from Major Revenue Spinners

(Rs. Million)

Commodities	FY: 10-11	FY: 09-10	Growth (%)
Cigarettes	7,323	7,804	-6.2
Services	3,508	5,431	-35.4
Cement	3,217	4,170	-22.9
Beverages including Concentrates	2,765	3,203	-13.7
Natural Gas	2,601	1,525	70.6
POL Products	1,064	1,160	-8.3
SED	3,978	3,758	5.9
Sub Total	**24,456**	**27,051**	-9.6
Other	2,455	1,339	83.3
Grand Total	**26,911**	**28,390**	**-5.2**

Cigarette is the top contributor of FED with 27% share in total collection of FED. Its collection has recorded a 6.2% during the Q1 CFY. The decline is attributable to 5.2% reduction in the production of cigarettes during the period.

The collection of FED from services has been Rs. 3.5 billion during Q1:2010-11 as compared to Rs. 5.4 billion in the corresponding period last year. During July, 2009, the collection from banking and insurance companies was accounted for before transfer to sales tax and resultantly, a lesser collection of one billion rupees was recorded in July, 2010. Like top two revenue generators of revenues, the collection from cement has also come down by around 23% in the face of 15% decline in the production of cement. Similarly, the collection of beverages has reflected a decline of 13.7% in the collection mainly due to 15% reduction in the production of beverages. Similarly, the collection from natural gas has shown a massive growth of 71%. On the other hand, the collection of SED@1% has recorded a growth of about 5.9% in the first quarter of CFY as compared to corresponding period last year.

Concluding observations

Despite all economic odds together with devastated flood, which has badly affected the economy, FBR has been able to attain a growth of 11.2% during first quarter of CFY. However, FBR is making all out efforts to generate sufficient revenues in the remaining months of the fiscal year to accelerate the growth pace to meet the target. In order to achieve the desired goal efforts have been made to broaden the tax base and to correct the structural shortcomings in Pakistan's tax system, a broad-based (Reformed) General Sales Tax (RGST) is proposed to be implemented in the country. Besides, the Federal Board of Revenue has chalked out a feasible audit plan including audit of withholding taxes to check the revenue leakages. It is expected that with the implementation of these and similar other initiatives, the resource mobilization efforts will get a momentum in the coming months of the fiscal year 2010-11 and the target of Rs 1604.4 billion is likely be achieved.

II

Economic Analysis of the Reformed GST/VAT in Pakistan

By Umar Wahid[2]

Introduction

Sales Tax is not a new tax in Pakistan. In 1947, when Pakistan emerged as an independent nation on the world map, the sales tax at that time was a provincial subject covering a limited area of commercial activity. However, the government at that time decided to transfer the power of sales tax collection from the provincial governments to the federal government. Thus during the year 1951 sales tax was converted into a federal tax and its scope was enhanced both to imports and domestic sale of goods by manufacturers and licensed wholesalers. The enactment of the Sales Tax Act, 1990 introduced its value added version renamed as General Sales Tax (GST).[3] This was levied on goods only (with many exemptions) and that too at the manufacturing and import stages. A major leap forward was taken in 1995-96 when ST was converted into a full-fledged VAT mode tax with all its basic features; self-assessment, functional distribution, input tax credit facility and audit based procedures. In order to further increase its base, its coverage was extended to wholesalers and retailers in 1998. Following the trend observed in many less developed economies where documentation was limited, Pakistan also embarked on the levy of ST on goods rather than services. With the expansion of service sector in 1990s, the anomaly that goods are being taxed but not the services was removed and the scope of ST was extended to

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[3] There is no difference in the usage of the terms Sales Tax, GST, VAT, and RGST, all having the same meanings.

services in 2000. Currently the same general sales tax system with number of exemptions and zero-rating is in vogue in the country.

Sales Tax in its present form was introduced in Pakistan at the standard rate of 12.5 %, this rate was effective from 1990 to 1995. With an ever increasing need for additional revenues to reduce budget deficit, the GST rate was raised to 18% in 1996 with a reduced rate of 2% introduced to bring the small businessmen into the tax net. In response to the taxpayers' pressure, the rate was cut to12.5% and 15% in 1998. However, a standard rate of 15% was introduced in 1999 which continued till 2001. Another experiment was carried out in 2001 when a higher rate of 20 % was introduced on a range of industrial raw materials, plus 3% further tax, which was treated a penalty system on the supplies made by the registered persons to the unregistered persons. Introduced with a noble intention of encouraging documentation in the economy, the move nonetheless complicated the situation by introducing a system of multiple tax rates. The concept of Zero-rating was introduced 2004-05 and gin cotton was zero-rated from sales tax. However, in 2005-06, the scope of zero-rating was extended to five major export oriented sectors like textile, leather, sports, surgical and carpets which continued till date. During 2007-08 to 2009-10 the sales tax rate was 16%. However, currently the standard sales tax rate is 17%. Thus, from last so many years sales tax is being administrated at multiple rates with host of exemptions and zero-rating. Besides creating administrative difficulties, it also increased the cost of compliance for the registered persons.

Abandoned literature is available on the designing and implementation of ST/VAT world wide. However, there is general consensus of many experts that the performance of ST/VAT system depends on the three main factors:

a) The structural characteristic of the tax, i.e. rate, exemption, bases & threshold

b) The capacity of the tax administration to manage the system in an efficient way

c) The degree of compliance of taxpayer

The interactions between these factors are crucial. For example a high standard rate may encourage evasion while multiple low rates, may leads to misclassifications and create high compliance and administrative burden. Reasonable high registration and collection threshold may ease the burden on tax administration by allowing them to concentrate on the large taxpayers. Exemption by sectors of activity may create distortion and incentive, for evasion, which required additional administrative capacity. Inefficient tax administration burdensome administrative requirements and complex ST/VAT mechanism may also reduce the degree of compliance of taxpayers. Pakistan has the opportunity to learn from the experience of the economies of those countries where successful ST/VAT system is operational and yield good results.

Revenue Performance:

The contribution from sales tax relative to total revenues collected by the Federal Board of Revenue for the period 1999-2000 to 2009-10 has fluctuated overall revenues since 1999. Since its inception of the broad based ST in VAT mode in 1999-2000, the ST to GDP ratio has averaged approximately 3.7 percent for the period 1999 to 2005, the predictions were there that the ratio will increase further in the next few years. However, the concept of zero- rating was introduced in FY: 2005-06 and five major export oriented sectors were zero- rated both at import and domestic level and continue till date, which eroded the sales tax base. Thus the tax to GDP ratio of

ST remains at the same low level of 3.7 percent till to data. Table 1 below illustrates the relationship between ST, Tax Revenue, and GDP for the period 1999-2000 to 2009-10. The average percent share of ST in total tax revenue and GDP is 39 percent and 3.5 percent respectively. Visible fractional fluctuation in the GST collection and increase in tax GDP ratio over the years may be noticed which is due to broadening /contraction of ST base during these years.

Table-1 Relationship of GST to Total Taxes and GDP (1999-2000 to 2009-10)

Year	GDP(MP) (Rs. in million)	Total Taxes (Rs. in million)	GST Total (Rs. in million)	GST/Tax Revenue %	GST/ GDP %
1	2	3	4	5	6
1999-2000	3,826,111	347,104	116,711	33.6	3.1
2000-2001	4,209,873	392,277	153,565	39.1	3.6
2001-2002	4,452,654	404,070	166,561	41.2	3.7
2002-2003	4,875,648	460,627	195,139	42.4	4.0
2003-2004	5,640,580	520,783	219,167	42.1	3.9
2004-2005	6,499,782	590,387	238,537	40.4	3.7
2005-2006	7,623,205	713,442	294,798	41.3	3.9
2006-2007	8,673,007	847,236	309,396	36.5	3.6
2007-2008	10,242,799	1,008,091	377,430	37.4	3.7
2008-2009	12,739,336	1,161,150	451,744	38.9	3.5
2009-2010	14,668,423	1,327,809	516,348	38.9	3.5

The performance of sales tax in Pakistan can further be evaluated through standard performance criteria i.e C-efficiency also known a consumption efficiency and productivity known as collection efficiency.

C-Efficiency of ST

ST/VAT in a wide diversity way is implemented in different countries. Each country has a specific mix of rates, exemptions, and threshold etc, derived from local, historic, economic & Political conditions. While evaluating the ST/VAT these diversities have to be kept in mind to consider whether there is a “perfect” and at least a “best perfect” ST/VAT system in the world.

C-efficiency which is an appropriate tool to judge the performance of the ST/VAT is defined as the ratio of the share of ST/VAT revenue to consumptions divided by standard rate, expressed as percentage.

$$\frac{\text{ST Revenue/Consumption X100}}{\text{Standard rate}} \quad \text{X100= C efficiency}$$

This ratio using national consumption as a bunch mark is more appropriation then the gross domestic product (GDP) as ST/VAT is tax on domestic consumptions.

In theory, “perfect” ST/VAT system where all consumptions are taxed at a uniformed rate will have C-efficiency of 100%. Any other values higher and lower than 100% indicate deviation from the single tax rate applied on all consumptions. Zero-rating of some consumption items always leads to C- efficiency less than 100%, whereas inclusion of investment and break in the VAT chain may lead to more than 100% C- efficiency ratio. So 100% C- efficiency does not imply perfect VAT, it can serve as a useful indicator of the productivity of ST revenue per percentage point of GST rate (Satya Poddar and Ehtesham 2009)

A high efficiency ratio is taken as evidence of a GST/VAT bearing uniformity on a broad based with effective tax collection. On the other hand, a low C-efficiency may indicate an erosion of the tax base either by exemptions or reduced rates, poor compliance or poor tax administration and or a combination of these. The application of low ST/VAT and zero rates to many goods & services may lead to a below average CER.

Thus countries with similar standard rates can have significantly different revenue performance as measure by Consumption Efficiency Ratio (CER). According to the OECD report, 2006, the standard rate of VAT is 15% both in Luxemburg and Mexico yet the C- efficiency of Luxemburg is over 68%, while in Mexico the tax yielded only 30.4% of the consumption. The reasons may obviously be due to difference between the level of exemptions and zero rating provided to the taxpayers by these countries.

Now coming to Pakistan, the performance of sales tax in Pakistan is depressing (Table- 2) Average C-efficiency of the ST is 28% which is extremely low by international standard. The data available of some of the developed countries reveals that in Canada the CER is 46%, Japan is having 67% ratio and New Zealand where VAT has the highest C- efficiency of 94%. The emerging nations like Singapore and Indonesia are having the ratio of CER at 70% and 48% respectively. Sri lanka having similar economy like Pakistan and also an effective member of SAARC is having 40% CER. The C-efficiency ratio in New Zealand is the highest because single rate is applied and almost all goods and services are subjected to VAT. In Canada the efficiency is less than New Zealand, despite single rate is applied but, zero-rating has been allowed on food and medicine, and rebates for housing and non profit sectors. Similarly in Japan and Singapore, both have single VAT rate to a comprehensive base including food, yet C-efficiency is lower than New Zealand because of exemptions to a large part of supplies made by non profit organizations.

Why the performance of sales tax in Pakistan is dismal? The answer is quite clear, multiple sales tax rates are applied to different sectors since introduction of Sales Tax Act 1990 and the complexity is continued right from the day one till to date. Currently, the standard ST rate is 17%, yet retailers are taxed differently with respect to their turnover. Similarly, selected raw materials are taxed at 22% and 19%, CNG is subjected to 26% and sugar 8%. In total there are 13 different ST rates in vogue in the current ST regime. On the other hand the tax regime carries host of exemptions. Considerable numbers of commodities/ activities have been covered under the SRO based exemptions, while 78 activities/items are exempted from ST under 6^{th} scheduled of sales tax act 1990. More ironically 5 major sectors like textile, leather goods, sport goods, surgical goods and carpets are entirely zero- rated both at import and domestic stages, beside there are large number of items enjoy zero-rating at different stages. Other reasons which make the system more inefficient are poor administration, low compliance and exclusion of most part of the services, and lack of audit and enforcement.

With this complicated taxation structure, the efficiency of ST can never be improved. The experience of those countries where the ST/VAT system is operating successfully, yielding higher efficiency ratio has exhibited that unified rate of ST/VAT with minimum exemptions together with strong automated system of accounting and reporting is the key of their success. Thus a strong argument for implementation of Reformed GST in the country is justified.

Pakistan is in a state of affair where there is no way out except enhancement in the resource mobilization an effort of the government and increasing the tax GDP ratio. Apart from looking for other venue of taxation, ST in Pakistan has to be streamlined in line with best international practice.

ST/VAT Productivity

Another tool of measurement is the Productivity or collection efficiency of ST. This indicator is defined as the ratio of the share of GST/VAT revenue to gross domestic production (GDP) divided by standard rate, expressed as percentage.

$$\frac{\text{ST Revenue/GDP X100}}{\text{Standard rate}} \text{ X100= Productivity}$$

A low C- efficiency translates into lower revenue productivity. In countries where C- efficiency is higher the productivity of ST/VAT is also higher. In New Zealand where C-efficiency is over 90%, the productivity of VAT is also the highest at 72%, in Japan productivity of VAT is 48% and Indonesia has improved its VAT productivity to 35.3%.

In contrast GST productivity in Pakistan is extremely low when compared with these selected countries. ST productivity reflected in Table 2 highlights that on an average collection efficiency of ST in Pakistan is 23.9%, established positive correlation with the C-efficiency. Low productivity implies that it collects even less than quarter of tax compared to what it would have been collected if a uniform standard ST rate was applied on all the value addition of the economy. Resultantly, the sales tax to GDP ratio is hovering below 4% since decades. The statistics of other countries reveals that Pakistan's ST/ GDP ratio is one of the lowest in the world. Cross countries comparison shows that this ratio is above 7% in most of the developed and emerging nations like New Zealand (9.1%), China 6.6% and Turkey 8.2%. In order to enhance the productivity and tax GDP ratio of ST in Pakistan, a broad based RGST has to be implemented and administered.

Table-2 C-efficiency and Productivity d ratios of GST
(1999-2000 to 2009-10)

(Rs in Million)

Year	GDP(MP)	Consumption Expenditure	GST Collection	C-Efficiency	Productivity
1	2	3	4	5	6
1999-2000	3,826,111	3,182,037	116,711	24.5	20.3
2000-2001	4,209,873	3,491,436	153,565	29.3	24.3
2001-2002	4,452,654	3,667,651	166,561	30.3	24.9
2002-2003	4,875,648	4,029,652	195,139	32.3	26.7
2003-2004	5,640,580	4,647,179	219,167	31.4	25.9
2004-2005	6,499,782	5,511,363	238,537	28.9	24.5
2005-2006	7,623,205	6,544,525	294,798	30.0	25.8
2006-2007	8,673,007	7,339,047	309,396	28.1	23.8
2007-2008	10,242,799	9,113,741	377,430	25.9	23.0
2008-2009	12,739,336	11,283,781	451,744	25.0	22.2
2009-2010	14,668,423	13,127,809	516,348	24.6	22.0

Case for Implementation of Comprehensive RGST in Pakistan

Although ST has exhibited some buoyancy in its revenue generation in the country yet its standard performance indicators reveals its extremely low efficiency when compared to most of the countries including Sri Lanka, where services are under the tax net, exemptions is allowed to a limited number of commodities, the compliance of trading sector is quite high as compared to Pakistan and zero- rating is allowed to export only. The reasons are obvious, the Sales Tax Act, 1990, which was originally designed on the basis of accepted value added taxation doctrines, was compromised over the years and increasingly became distorted and narrow-based. In the wake of ever-expanding exemptions, special regimes, multiplicity of rates and several other deviations from international best concepts and practices, not only the tax base of sales tax has been eroded but also lack of documentation of the national economy has proved a big hindrance in the development of effective tax policy options.

It will be very difficult to drag along with such an inefficient tax without its comprehensive overhauling for longer period, when the country is in dire need of resources to meet the increasing expenditure. There is a vast scope of revenue generation from ST in the country. Using the option of increasing the ST rate as the easy revenue generation source has to be stopped, because it has now started giving diminishing return. Due to financial constraints of the government, it is imperative to step up the generation of the tax revenues led by RGST as similar tax has demonstrated miraculous improvement in revenues of many countries. Implementation of comprehensive RGST covering almost all the consumptions and services with a unified standard rate, rationalized threshold and uniform procedures would be a milestone towards a better fiscal landscape of the country.

Analysis of RGST on inflation

It is generally argued by many people that RGST will increase inflationary pressure whereas experts have predicted that the overall impact of RGST would be 0.59 percentage points. This result is based on CPI data of 374 items comprising 92 broader groups of products. An analysis has been carried out by experts, reveals that out of 92 categories of commodities 29 broader categories are having 55.9 percent weight in CPI basket and will remain exempt from R-GST levy. Only 13 categories having 8.29 percent weight in CPI basket will be taxed under Federal RGST, while 7 categories having 5.28 percent weight will be taxed under Provincial R-GST law. The reduced RGST rate of 15% from 17% will benefit 43 categories having 30.51 percent weight in CPI basket (FBR & Finance Division study 2010).

Table 3: Impact of RGST on inflation

	Categories	**Weight in CPI**	**Contribution to additionality**
Remain Exempt	29	55.92	0.00
New Inclusions in R-GST	20	13.57	1.23
____ Federal	13	8.29	0.94
____ Provincial	7	5.28	0.29
Beneficiaries of Lower Rate	43	30.51	-0.64
Total	**92**	**100**	**0.59**
CPI Target R-GST (FY-2010-11)			**14.00**
CPI After R-GST			**14.59**

Another analysis based on whole sale price and retail price has suggested that there is marginal difference between average price with ST and average price with RGST. The major inflationary impact will come from imposition of RGST on such goods which are currently exempted from GST, while the prices of goods on which ST is already levied will decline. As a whole an average prices will decline by 0.58 percentage point.

The issue of inflationary impact of RGST is debatable as there are number of ways of calculation. However, it can safely be said that the impact of inflation “only” due to implementation of RGST may, as a whole, range between 0.59-1.0 percentage points.

It can be concluded with a note that apart from taping the un taxed areas, the government must go for implementation of the RGST. Economic decisions are always taken in the best interest of the nation irrespective of consensus. Moreover, success of the proposed RGST would largely depend on the home work done by FBR, political determination of the government. A well tested automated accounting and reporting mechanism together with effective audit and enforcement system, capacity building of the tax machinery and awareness of the taxpayers is the key of success of RGST in Pakistan.

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