

Request for Expression of Interest

Name of Project:- Advance Agreement for Preparation of Proposed Revenue Mobilization –DLI .

World Bank Loan/Credit:- Preparation Advance No. Q813.PK

The Federal Board of Revenue (FBR) Government of Pakistan has received financing from the World Bank towards the cost of the Project preparation Facility (PPF) for Revenue Mobilization Project and intends to apply part of the proceeds to following consulting services:

Name of assignment	Brief background	Qualification of consultants
Study on Tax Expenditure and its public dissemination through inclusion in the annual budget	Federal Board of Revenue is implementing Project Preparation Facility for Revenue Mobilization Project funded by the World Bank. FBR requires engagement of services of consulting Firm to technically review the Study on Tax Expenditure to reliably measure the quantum of tax expenditure under various fiscal statutes, as well as the effects of the tax expenditures on equity and efficiency, gather input on abuse of provisions undermining performance implications for budget control data on distributive consequences of tax relief and tax incentives.	<p>The successful Consultancy Firm who will be contracted to serve the needs of the study shall have the following minimum qualifications and should obtain the minimum qualifying score of 70:</p> <p>Shall have i. relevant experience of 5-7 years in conducting at least three studies of similar nature offered to other national, multinational, and international organizations. Experience with public organizations will be highly encouraged.</p> <p>ii. Shall have in its current office all the necessary equipment and facilities as well as experienced and professionally trained staff to handle requirements of the PMUs.</p> <p>iii. Shall maintain a good track record in serving national and international organizations, and multinational corporations; list of corporate clients should be provided.</p> <p>iv. Shall have preferably experience of 5 years providing the required services; certificate of registration should be provided.</p> <p>v. Shall have competence of existing and proposed personnel – this Shall require submission of comprehensive Curriculum Vitae (CVs) of the personnel who will be assigned to conduct the assignment. The firm should have at least following professionals on-board:</p> <p>a. Research expert: University degree in management or social sciences and having at least an experience of five years in conducting similar surveys/studies.</p> <p>b. Financial Expert: University degree in finance and having an experience of dealing with Income Tax & Sales Tax and studying/developing similar financial studies.</p>

The FBR now invites eligible consulting firms ("Consultants") to indicate their interest in providing the Services. Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services. The short listing criteria are: [Shall possess required qualifications and experience as elaborated in qualification of consultant column].

The attention of interested Consultants is drawn to paragraph 1.9 of the World Bank's Guidelines: Selection and Employment of Consultants [under IBRD Loans and IDA Credits & Grants] by World Bank Borrowers January (2011) ("Consultant Guidelines"), setting forth the World Bank's policy on conflict of interest.

The Consultants will be selected in accordance with the Selection Based on Consultants Qualifications set out in the Consultant Guidelines (January 2011)

Interested Consultants may obtain further information regarding Terms of Reference (TORs)/ Scope of assignment posted on FBR's Website at www.fbr.gov.pk/tenders/default /as or from the address given below between 0900 hours to 1600 hours on any working day.

Expression of Interest must be delivered to the address below not later than 1500 hrs on 5th September, 2013.

Shahid Soomro

Secretary (Procurement-II)

Revenue Mobilization Programme

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Measuring Quantum of Tax Expenditure under the Income Tax Ordinance, 2001

Terms of Reference

Federal Board of Revenue is looking to undertake a series of consultancy/research studies with a view to reliably measuring the quantum of tax expenditure under various fiscal statutes, as well as the effects of the tax expenditures on equity and efficiency. The first of such studies is to approximate the magnitude of tax expenditures under the Income Tax Ordinance, 2001 (hereinafter "the Ordinance").

2. The government may use a tax system as a tool to implement its policies and to finance public expenditures. Thus, when the government desires to provide a financial incentive for individuals or businesses to engage in a particular course of action or to share costs situations, it may employ either direct budgetary spending (e.g. by providing a subsidy) or provide incentives through the tax system (tax expenditures).
3. Tax expenditure leads to a favorable treatment of particular types of activities or taxpayers. In other words, the tax expenditures are revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of liability. Thus, tax expenditures can take various forms and may either reduce tax liabilities or simply defer them. Tax exemptions, deductions or allowances, rebates or "offsets", rate reliefs and provisions for income averaging or income or tax deferral are different forms of tax expenditure.
3. Tax expenditures have several consequences that are of interest to the Government of Pakistan. Firstly, the abuse of such provisions in the tax system may have substantially undermined its integrity. Secondly, tax expenditure can have potential implications for budget control and fiscal management because they are often open-ended with financial costs difficult to measure and forecast. Thirdly, tax expenditures may cause market distortions, as the allocative effects of assistance provided through tax concessions may distort decisions and relative prices facing firms or other taxpayers. Fourthly, the distributive consequences of the tax reliefs and tax incentives are generally hidden and may be quite regressive

compared to direct spending programs for which the distributional consequences are clearer. Fifthly, unlike direct subsidies, tax expenditures traditionally have been subject to little parliamentary debate or public scrutiny, which renders them susceptible to lobbying by interest groups. Thus, the intrinsic and inherent difficulty in measuring and reporting tax expenditures favors the politically powerful who are able to obtain tax relief at the expense of the less organized and less represented segments of the society.

5. Table below identifies some examples of tax expenditures, with illustrations from the Ordinance.

<i>Type of Tax Expenditure</i>	<i>Illustration</i>
Tax exemptions	Basic statutory exemption of Rs. 180,000/- in the case of individuals under Section 9 read with Para 1A of the 1 st Schedule to the Ordinance.
Tax concessions	Part 2 & 3 of the 2 nd Schedule to the Ordinance.
Tax Credits	Donations under Section 2(36)/58, read with Clause 61 of the Ordinance.
Tax deductions	Donations to specified NPOs/Zakat paid.
Allowances	Depreciation allowance.
Rebates/Offsets	Rebate on investment under Section 62 of the Ordinance.
Tax averaging	As provided in Section 12(6) of the Ordinance.
Tax deferrals	Previous recovery of salary income can be spread over the number of years involved.

6. Other types of tax expenditures have been interspersed in different sections of the statute, such as exemptions for agricultural income, foreign remittances capital gains on real estate and various other sectors of the economy, introduced inter alia through SROs, notifications, rules and departmental circulars.

7. An important step in the measurement of tax expenditures in respect of any fiscal statute is that of benchmarking. The decision to assign an appropriate benchmark for determining tax expenditures is ultimately a matter of judgment since benchmarks have taken variable forms across countries and within a country overtime. However, the principal criterion of benchmark design is that it represents neutral tax treatment of similarly placed activities or classes of taxpayers. The consulting firms aspiring to bid for the assignment must have sound understanding

of the subject and are expected to have a grasp of basic information on methodology and knowledge of the Pakistan tax system.

8. The consulting firms are required to submit Expression of Interest (EOIs) focusing upon the methodology for the determination and quantification of tax expenditures, including the determination of the benchmark, means and sources of data collection and quantification of revenue loss for each tax expenditure provision identified, and an analysis of equity, efficiency, and the effectiveness of the measure in achieving its ostensible objectives. The EOI should list the professionals to be engaged on the assignment along with their CVs indicating their academic qualifications, expertise and relevant experience.

9. The deliverables include (a) preparation of comprehensive list of tax expenditure provisions available in the Ordinance; (b) estimate the annual revenue cost of each of tax expenditure provision identified in the context of F/Y 2012-13; (c) an analysis of the equity and efficiency of each provision, and evaluation of outcomes against intended objectives; (d) policy recommendations on how to modify a certain provision to make it more cost-effective, efficient, and less distortionary; and (e) recommendations on how tax expenditures should be handled as part of the budget preparation, monitoring, and reporting together with an evaluation of current process and procedures in Pakistan.

10. The EOIs of the firms will be evaluated and only pre-qualified firms would be asked to make presentations in order to finalize the methodology, deliverables, and the timelines in consultation with all the stakeholders.
