

(Brief)

FBR's Transformation Plan

Background and Rationale: Why Transformation Was Needed?

The Federal Board of Revenue (FBR) is central to Pakistan's fiscal system, responsible for tax collection, trade facilitation, safeguarding national revenue and enforcement of tax laws. In the past, its effectiveness was constrained by outdated IT systems, heavy reliance on manual processes, limited data integration, and weak analytical capacity for risk-based compliance.

These structural weaknesses were further exposed by growth of the digital economy, increasingly complex value chains, cross-border trade, and rising expectations for digital public services. Governance gaps, limited interoperability with other government databases, outdated HR systems, and insufficient field capacity reinforced the case for a comprehensive institutional transformation. Accordingly, FBR conceived the current transformation plan which aims to replace manual and discretionary contact-based customs and tax processes with technology and data-driven systems aligned with international best practices and grounded in domestic operational realities.

Planning of the Transformation: How and When Was It Planned?

The current transformation plan was conceived as a multi-year institutional reform, with planning undertaken in early 2024 and implementation accelerating from October 2024 onward. Unlike previous initiatives that focused primarily on isolated automation or policy changes, this transformation was designed as a comprehensive overhaul encompassing people, processes, and technology.

Components of the Transformation

The FBR transformation comprises several interlinked components, each addressing a critical dimension of institutional performance in both Inland Revenue and Pakistan Customs.

IRS Initiatives Under Transformation Plan

Digital Tax Administration, Data Integration and Advance Analytics Interventions

A core pillar of the transformation is the redesign and integration of tax administration systems across inland revenue. End-to-end digital workflows are being implemented for registration, return filing, payments, refunds, audits, and enforcement. The objective is to replace fragmented applications with integrated platforms that provide a single source of truth and real-time operational visibility.

Initiatives Taken:-

- AI based tool for audit selection – CRM
- Digital production monitoring
- Simplified tax-payer journey

- Digital invoicing (DI)
- Point of Sale (POS)
- Enforcement across select value chains
- Link economic activities to tax returns

Value Chain Digitalization and Enforcement

A suite of initiatives targets value-chain visibility, including digital invoicing, POS integration and production monitoring via Track & Trace and Video Analytics (Digital eye) in key sectors including Sugar, Cement, Tobacco & Fertilizer. These interventions aim to close gaps in sales tax and income tax identified as the largest contributors to the tax gap.

Digital Initiatives and Taxpayer Facilitation

Digital portals, simplified workflows, and automated refund mechanisms have been rolled out to reduce compliance costs, minimize human interaction, and improve taxpayer experience while strengthening transparency.

Human Resource and Institutional Systems

Recognizing that technology alone cannot deliver transformation, FBR has launched a comprehensive HR reform agenda. These initiatives include:

- Deployment of third-party auditors
- Introduction of audit mentors and sectoral experts
- Structured upskilling through a Post-Graduate Diploma (PGD) in Tax Administration and Customs in collaboration with LUMS
- A fully digitized performance management regime covering over 1,500 officers, based on peer review and quality of work evaluation
- Market-competitive incentives, mobility support
- Certification for in-service officers to institutionalize continuous professional development

Pakistan Customs Initiatives Under Transformation Plan

Pakistan Customs too, under the FBR Transformation Plan, has embarked on one of the most ambitious governance reforms in the country's public sector.

Key Initiatives: -

Faceless Customs Assessment

A central pillar of this transformation is the introduction of Faceless Customs Assessment, which removes direct contact between importers and assessing officers. By shifting to centralised digital processing supported by AI-enabled risk engines, every Goods Declaration is now assigned randomly and processed under strict digital oversight. This reform has broken long-standing patterns of collusion, reduced human influence over valuations, and significantly improved transparency in goods examination and clearance.

RMS 2.0

Complementing this change is the deployment of RMS 2.0, Pakistan's first fully automated, artificial-intelligence powered risk management system. RMS 2.0 analyses global prices, historical declarations, trade patterns and behavioural anomalies to identify high-risk consignments. By eliminating officer-level discretion in risk selection, it ensures fair, predictable, and evidence-based clearance decisions. Early results show that while inspections have decreased, detection of misdeclaration and fraud has risen, demonstrating the effectiveness of a data-driven approach to customs control.

Digital Enforcement Stations (DES)

On the enforcement front, Customs has introduced a completely new architecture through the creation of Digital Enforcement Stations (DES) at strategic chokepoints along the Indus and Hub crossings. These technologically equipped stations, built around scanners, RFID and ANPR cameras, real-time surveillance networks and GPS-tracked patrol units, allow Customs to monitor and interdict smuggled goods with unprecedented precision. This shift from porous border policing to controlled chokepoint monitoring has already begun reducing illicit flows into Pakistan's major economic centres.

Cargo Tracking System (CTS)

To strengthen supply chain visibility, FBR has rolled out a nationwide Cargo Tracking System (CTS), enabling trucks and containers to be monitored throughout their journey using GPS devices, RFID seals and digital transport documentation. This system has substantially curtailed pilferage and smuggling in transit, ensuring that only tax-paid goods circulate in domestic markets.

National Targeting Center (NTC)

The newly established **National Targeting Center (NTC)** serves as the intelligence nerve centre for Customs, integrating data from multiple government and international sources to generate real-time alerts on high-risk goods, passengers and trade corridors. This unified data hub has ended fragmented targeting and fostered a proactive enforcement culture.

Pakistan's trading community is now experiencing faster, cleaner, and more predictable clearance processes through upgraded platforms such as WeBOC and the Pakistan Single Window, both of which reduce paperwork, minimise human interaction and allow full traceability of every transaction. This transition has also enhanced Pakistan's credibility with international partners and strengthened the country's ranking in trade facilitation indicators.

Measurable Outcomes

Result of above stated reforms have been quantified below which demonstrates improved compliance, reduced smuggling, and higher revenue outcomes.

a. Sharp Improvement in Anti-Smuggling Results

- Seizure value increased from **Rs. 66.396 billion** to **Rs. 91.186 billion** (+37%).

- Case count remained stable (16,990 → 17,183), meaning **average value per case rose by 36%**, indicating better selectivity and intelligence-led targeting.

b. Improved Trade Fraud Detection

- **174 cases** detected with misdeclaration/under-valuation worth **Rs. 30.46 billion**, safeguarding **Rs. 1.37 billion** in duty/taxes.

c. Significant Increase in Auction Revenue

- Auction proceeds increased from **Rs. 7.523 billion** to **Rs. 9.568 billion** (+27.18%).
- Monthly realization increased by **Rs. 170 million per month**.

d. Action Against Smuggling of Petroleum Products

FBR has significantly intensified action against the smuggling of petroleum, oil and lubricants (POL), resulting in a sharp increase in documented fuel volumes and a substantial improvement in government revenue collections. As a result:

- During **July 2025 to November 2025**, total Petroleum Development Levy (PDL) collection reached **Rs 706 billion**, compared to **Rs 422 billion** in the corresponding period last year—an increase of **Rs 284 billion**. Of this increase, **Rs 146 billion (52%)** is attributable to higher fuel volumes entering the formal supply chain, while **Rs 138 billion (48%)** resulted from rate adjustments, underscoring the decisive role of enforcement-led compliance rather than price effects alone.
- As part of the nationwide crackdown, **Pakistan Customs**, working jointly with provincial administrations and regulators, has identified **1,576 illegal petrol pumps**, of which **1,442 have been sealed** across Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan.

e. Reduction in Smuggling: These figures in the below mentioned chart show significant increases in documented imports of historically smuggled items, reflecting the displacement of illicit trade and strengthened border controls.

Comparative Imports Data of Smuggling Prone Items

Description	Jul–Nov 2024	Jul–Nov 2025	% Increase
TYRE	2,793,708	4,383,189	56.90%
FABRICS	95,215,064	159,387,018	67.40%
TOILETRIES & COSMETICS	16,372,248	29,156,277	78.08%
BETEL NUTS	6,880,570	10,071,890	46.38%
ELECTRONICS	6,852,540	14,185,449	107.01%
EDIBLES	155,915,389	156,579,015	0.43%
VEHICLES	16,175	24,054	48.71%