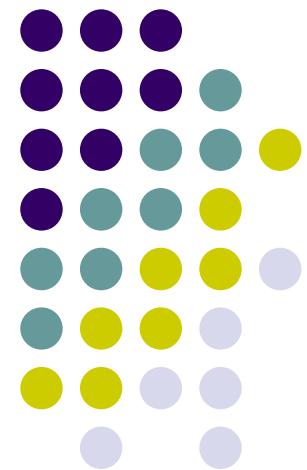


# PAKISTAN: REFORM PROCESS IN TAX ADMINISTRATION<sup>1</sup>

17<sup>th</sup> Tax Conference  
8-11 October 2007  
Tokyo, Japan

M. Abdullah Yusuf  
Chairman  
CENTRAL BOARD OF REVENUE



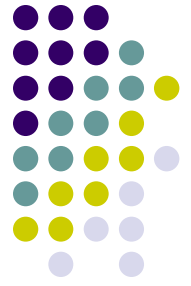
<sup>1</sup> The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB) or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source originality, accuracy, completeness, or reliability of any statement, information, data, finding, advice, opinion, or views presented.

# HISTORY OF Central Board of Revenue (CBR)



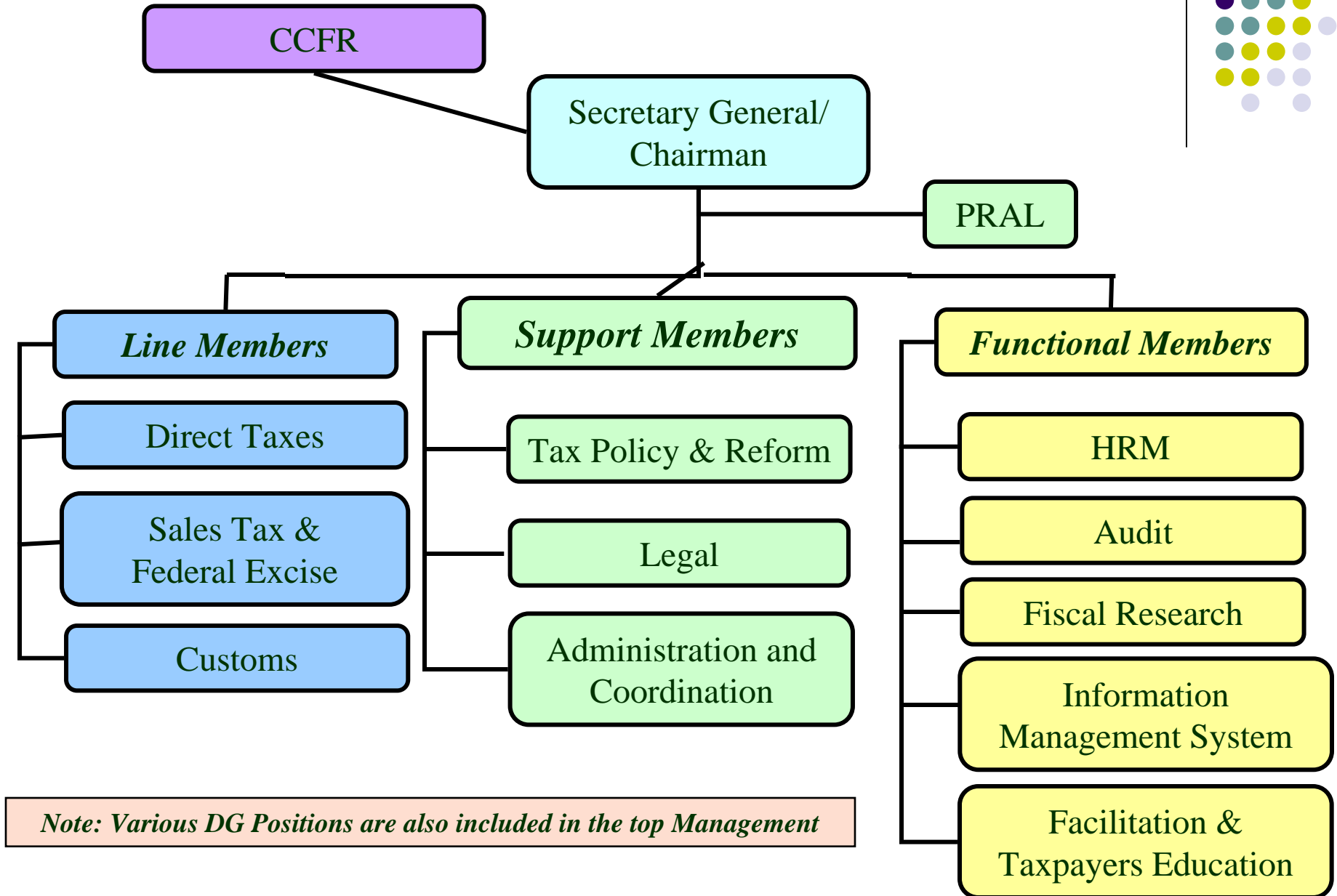
- Creation of CBR on April 1, 1924 through Central Board of Revenue Act, 1924.
- Creation of Revenue Division in 1944 - continued up to 31<sup>st</sup> August 1960.
- CBR was made attached department of M/O Finance.
- CBR status as Revenue Division restored in 1991 to remove impediments in the exercise of administrative powers of a Secretary to the Government and effective formulation and implementation of fiscal policy measures.
- Revenue Division abolished in 1995 but re-created in 1998 and continues as such.

# FUNCTIONS OF CBR



- Be part of the Formulation and Administration of Fiscal Policy
- Levy and collection of Federal Taxes
- Quasi Judicial Functions of hearing of Appeals
- Avoidance of Double Taxation and Customs related Agreements with other Countries
- Interaction with the President, Prime Minister, all Economic Ministries as well as Trade and Industries

# Organizational Structure of CBR



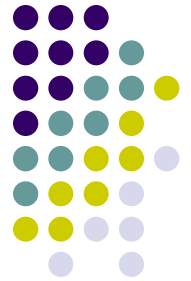
# Federal Government Sources of Revenue



- **Direct Taxes**
  - Income and Corporation Taxes
  - Other Direct Taxes (CVT, CAT, WWF)
- **Indirect Taxes**
  - Sales Tax in VAT Mode
    - On Domestic Production & Sales
    - On Imports
  - Federal Excise Duties
  - Customs Duties

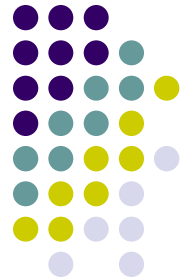
# STRENGTH OF CBR:

## A Critical State Institution



- CBR collects nearly 90% of tax revenue in the country;
- Also collects Surcharges which are not included in the CBR Target;
- Contribution towards federal and provincial total revenue (tax and non-tax) is around 65%;
- Total revenues are sufficient to meet 75 to 80% of Government expenditure needs;
- Resources generated by CBR are important for smooth economic management of federal as well as provincial and local governments; and
- Plays a critical role in keeping economy vibrant.

# Resource Mobilization by CBR: Historical Evidence



Time-Series	Collection (Millions of Rupees)	Average Annual Growth Rate during the Decade (%)
<b>1948-49</b>	310.6	1940s: 44.6
<b>1958-59</b>	1,281	1950s: 12.9
<b>1968-69</b>	3,902	1960s: 14.9
<b>1978-79</b>	22,399	1970s: 21.0
<b>1988-89</b>	91,020	1980s: 13.4
<b>1998-99</b>	308,509	1990s: 13.0
<b>2004-05</b>	591,085	Since 2000: 11.6
<b>Overall</b>	<b>Growth (%)</b>	<b>1948-2005: 15.0</b>

# CBR Revenue, Expenditure, and Cost of Collection

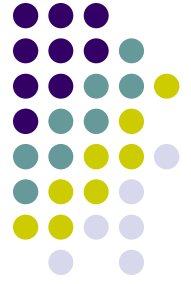
(Rs. Billion & %)



1997-98	294	2.1	0.69%
1998-99	308	2.7	0.88%
1999-00	347	2.3	0.66%
2000-01	392	2.6	0.64%
2001-02	404	2.5	0.62%
2002-03	461	3.1	0.67%
2003-04	521	3.1	0.61%
2004-05	591	3.8	0.64%
2005-06	690	4.8	0.70%

# Need For Reform

**(Broad Policy Concerns about Efficiency, Equity and Transparency)**



- Overall Fiscal Effort low – nearly stagnant Tax/GDP Ratio for quite some time;
- Heavy Reliance on Indirect Taxes implying Regressivity in the Taxation System;
- Protectionism through high tariffs leading to inefficiencies and anti-export bias;
- Taxation on Production & Trade Activities rather than consumption and income;
- Wide-ranging exemptions and concessions;

(continued)



## Need For Reform (continued)

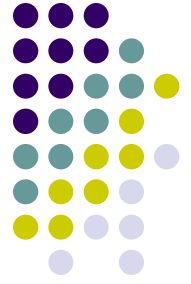
- Primitive and antiquated tax administration (Cylindrical instead of Functional);
- Complexity of tax laws and arbitrariness in their application;
- Persistence with manual record keeping and limited IT support;
- Lack of transparency; and
- Inadequate HR Skills and Capabilities

Thus there was a Need for major changes in the taxation system through tax policy and administrative reforms

# Tax Policy & Administrative Changes - I

## *Tax Policy Initiatives*

(First Generation of Reforms)



- **Tax Rate Changes to promote Economic Activity**
  - Income & Corporate Taxes to have gradual reduction in tax rates and uniform rate structure for corporations
  - Sales Tax (Introduction of GST in VAT Mode)
  - Reduced Reliance on Excise Taxes
  - Customs Duties (Tariff Rationalization & Reduction)
- **Changes Related to Tax Base**
  - Widening Tax Bases through adjustments in threshold and withdrawal of exemptions

# Tax Policy & Administrative Changes - II

## *Administrative Changes: TARP Focus*

### **Second Generation of Reforms:**

- Re-organization of CBR and Field Offices on Functional Lines
- Simplification of Tax Laws & Procedures
  - Income Tax law 2001, Rules 2002
  - Federal Excise Act and Rules 2005
- Introducing Universal Self-Assessment in all Taxes, especially Personal Income Tax & Corporate Taxes
- Reorganization of Tax Offices – separate offices for internal and international taxes
- Establishment of Large Taxpayer Units (LTUs)



# Tax Policy & Administrative Changes - II

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- Reorganization of Tax Offices – separate offices for internal and international taxes
- Establishment of Large Taxpayer Units (LTUs)
- For Customs: Initiation of CARE (PaCCS) and One-Customs Projects
- For Refunds: STARR/ STREAMS/ CREST projects
- Alternate Dispute Resolution Mechanism
  - Creation of Dispute Resolution Committees



# Tax Policy & Administrative Changes - III



## *Administrative Changes: TARP Focus*

### **Second Generation of Reforms:**

- **Promoting New Tax Culture**
  - Taxpayer Friendly Environment
    - Emphasis on Taxpayers' Education & Facilitation
    - Media Campaign
  - Minimizing Harassment
- **Transition from Manual to Automated Operations**
  - TMS, SMS, ITMS
  - e-filing
- **Emphasis on HRM**
  - Induction, Training, Promotion, Remuneration Strategies
  - Staff Rationalization Strategy
- **Improved Dissemination**
  - CBR Quarterly Review
  - CBR Year Book
  - News Letter Revenews

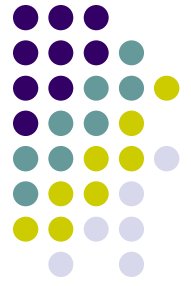
# Specific Tax Policy Measures



Related to

- Income & Corporate Taxes
- Sales Tax
- Customs Duties

# CHANGES IN INCOME TAX REGIME



- Tax-free Basic Threshold increased from
  - Rs. 40,000 – Rs. 50,000 in 1996-97
  - Rs. 50,000 – Rs. 60,000 in 2001-02
  - Rs. 60,000 – Rs. 80,000 in 2002-03
  - Rs. 80,000 – Rs. 100,000 in 2003-04
  - For salaried persons, it was further raised to Rs. 150,000 in 2006-07.
- Introduction of small company concept with low rate of 20% in FY 2005-06
- Special tax rates for salary and non salary taxpayers since 2006-07.

# DOWNWARD REVISION IN CORPORATE RATE STRUCTURE (BANKING, PUBLIC AND PRIVATE COMPANIES)



Assessment Year	Banking Company (%)	Public Company (%)	Private Company (%)
1992-93	66	44	55
2002-03	50	35	45
2003-04	47	35	43
2004-05	44	35	41
2005-06	41	35	39
2006-07	38	35	37
2007-08	35	35	35

# Experimentation With Sales Tax (GST) Standard Rate Structure



<b>Year</b>	<b>Rates</b>
1990-91 –1994-95	12.5%
1995-96	18%
1996-97	18% and 12.5%
1997-98	18%
1998-99	12.5% and 15%
1999-2001	15%
2001-2003	15% and 20% on some items Plus 3% further tax
2004-05 onwards	<b>15% Uniform Rate Structure Re-introduced;</b> also the concept of zero-rating introduced starting with ginned cotton and extending to five export related industries

# TARIFF REFORMS

## MAXIMUM STATUTORY RATES AND EFFECTIVE RATES OF CUSTOMS DUTIES



<b>FY</b>	<b>Maximum Statutory Rates</b>	<b>Effective Rate wrt Dutiable Imports</b>	<b>Effective Rate wrt Total Imports</b>
1993-94	80	38	25
1994-95	70	36	24
1995-96	65	33	22
1996-97	65	24	19
1997-98	45	22	17
1998-99	45	18	14
1999-00	35	18	12
2000-01	35	17	10
2001-02	30	12	8
2002-03	25	16	10
2003-04	25	14	10
2004-05	25	13	9
2005-06	25	13	8
2006-07	25	12	7

# Gradual Drifting Down of Tariff Rates to Lower Slabs

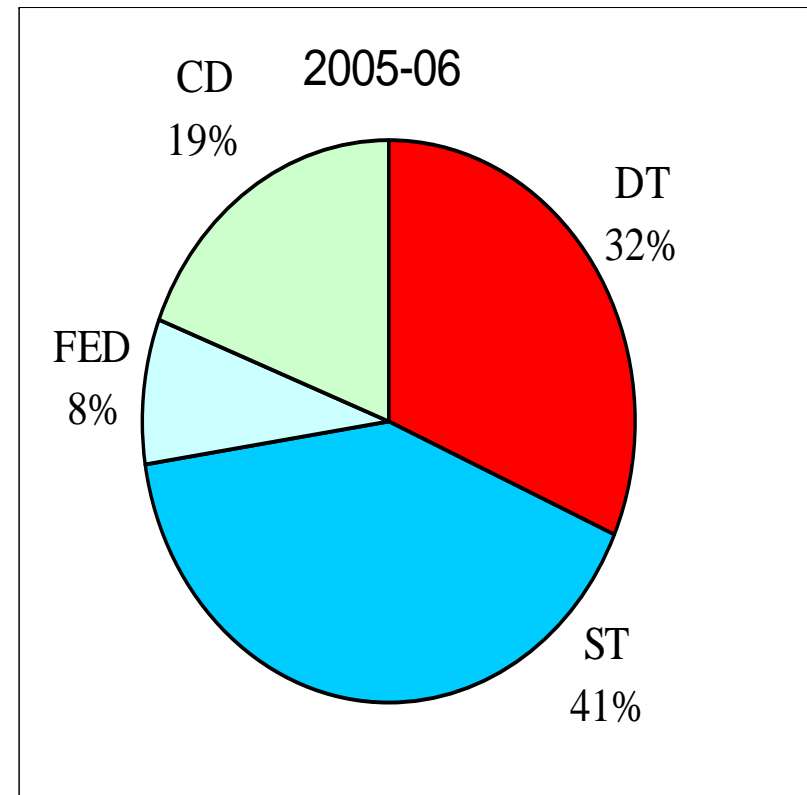
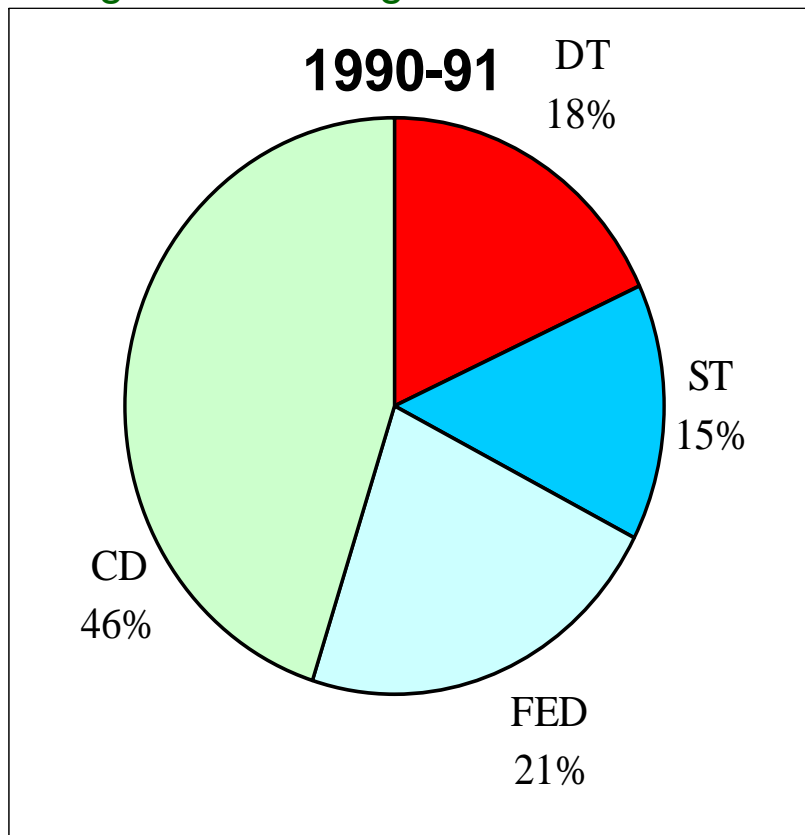


CD Rates	1995-96	2000-01	2001-02	2003-04	2004-05	2005-06	2006-07
5	-	-	10.0	18.1	24.4	38.6	38.9
10	3.3	26.0	31.8	27.0	23.1	13.7	12.8
15	6.8	7.7	-	-	-	3.0	5.9
20	2.5	-	16.9	14.1	14.5	12.9	13.4
25	10.7	40.9	-	12.9	34.0	24.3	20.8
30	0.3	0.0	38.7	24.3	-	-	-
Sub Total	23.5	74.6	97.4	90.0	95.9	92.5	91.7
Others	76.5	25.4	2.6	10.0	4.1	7.5	8.3
Total	100	100	100	100	100	100	100



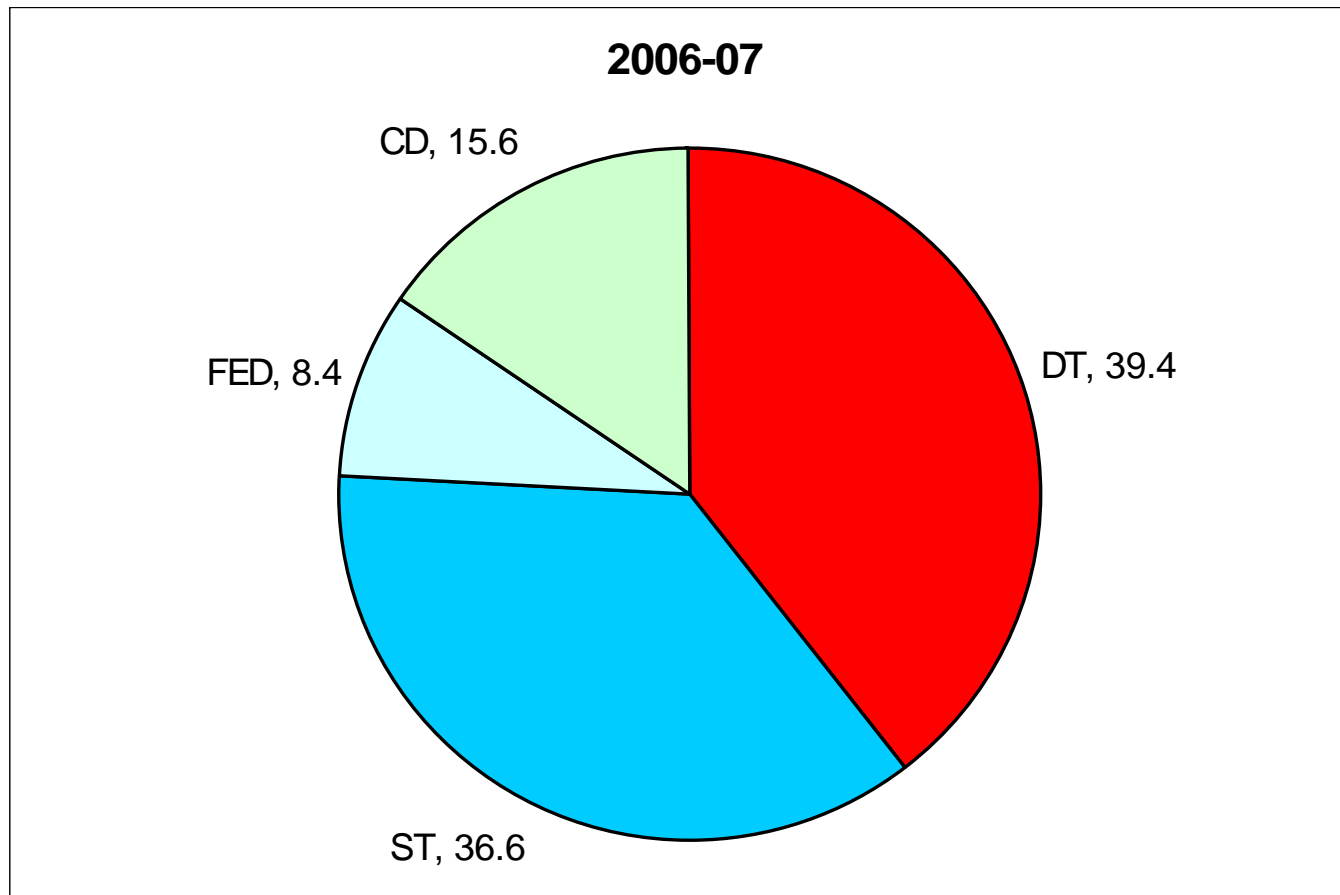
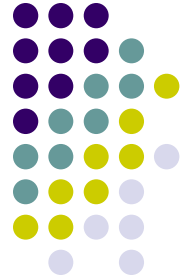
# Tax Structure of Pakistan:

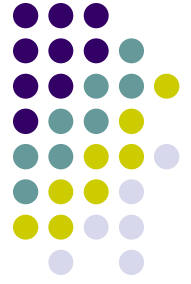
Significant change in the Tax Mix during 1990-91 & 2005-06; not only between direct and indirect taxes



# Tax Mix: 2006-07

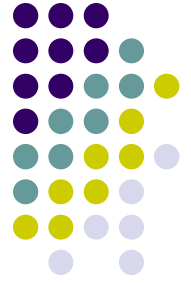
A Refreshing Development:  
Income and Corporate Taxes taking the lead.





# CHALLENGES AND CONSTRAINTS

# Challenges and Constraints

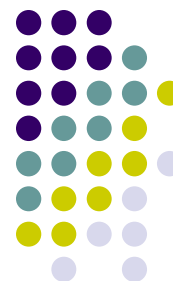


- The major constraint is the inadequacy of resources generated by the taxation system. Within this perspective, major areas of concern are:
  1. Low tax/GDP ratio in relation to competing (comparable) economies;
  2. Tax compliance remains low;
  3. VAT and income tax base very small;
  4. Automation process still not complete;
  5. Many exemptions and concessions still prevail; and
  6. Stakeholders' perception though improving, remains adverse.



## Low and Stagnant Tax/GDP Ratios

FY	Total Revenue	Tax Revenue	Federal Taxes	CBR Revenue	Sur-charges	Provincial Taxes
1999-00	13.4	10.6	10.1	9.1	1.0	0.5
2000-01	13.2	10.6	10.1	9.3	0.7	0.5
2001-02	14.0	10.8	10.3	9.1	1.2	0.4
2002-03	14.8	11.4	10.9	9.4	1.4	0.4
2003-04	14.1	10.8	10.4	9.2	1.1	0.5
2004-05	13.9	10.2	9.5	9.1	0.4	0.6
2005-06	14.3	10.7	10.1	9.4	0.7	0.6
2006-07	13.6	10.8	10.1	9.7	0.3	0.7 <sub>25</sub>



## Tax–GDP Ratios: A Comparison

Countries	2005	Countries	2005
Bangladesh	8.7	Thailand	16.4
India	14.1	Malaysia	16.1
Pakistan	10.5	Philippines	12.6
Sri Lanka	16.5	U.K.	36.0
Mexico	19.0	Turkey	31.3
Egypt	14.1	Australia	31.2
Korea, Republic of	24.6	Sweden	50.4

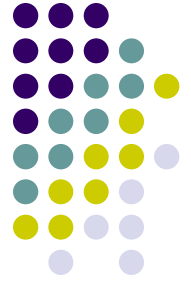


# Future Strategy

- Strive to raise Tax/GDP ratio by 5% points within next ten years to be among comparable economies;
- Continue to create an enabling environment for various stakeholders. The idea is to
  - Promote Economic Activity
  - Encourage Investment
  - Spread out Commercial Activities
  - Expand Exports
- Create incentive driven taxation structure with adequate safe-guards to deal with delinquent taxpayers
- Promote efficiency, equity and transparency

(Continued)

# Future Strategy



- Further Simplification of Rules and Procedures;
- Continuous Reduction and Rationalization of Tax and Tariff Structure;
- Strengthening the HRM and Audit functions;
- Co-location and Integration of Taxes to be completed
- End-to-end Automation of work processes to minimize taxpayer – tax collector interface; and
- Emphasis on taxpayers' Education and Facilitation and wider dissemination of CBR efforts

Thank You