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CHAPTER I

INTRODUCTION

Broad Problem Area

The past two decades have witnessed widespread attempts to reform tax structure in developing countries. As Low-income developing countries are often heavily dependent on different taxes especially income tax, sales and trade taxes, liberalization has clear fiscal consequences. Depending specifically on each country’s particular economic structure, trade regime, political economy, and the relative mix of protective and revenue motives in tax interventions and liberalization can have an important impact on government revenue. The relationship between tax reforms and tax revenue has been debated in the economic literature, especially in the last decade (Greenaway and Milner, 1993).

As the relatively small formal sector limits the base for taxes on income, the major reform is to replace trade taxes with sales taxes. To the extent that this has involved rationalisation of taxes, reducing the level and range of tax rates, and a shift away from taxes on international trade, the reforms are likely to have improved economic and collection efficiency(Norman Gemmell & Oliver Morrissey, 2001).

Pakistan's tax to GDP ratio is around 13 percent. Less than one percent of the population is effectively subject to

income tax. Low tax revenues reflect a narrow tax base and a weak tax administration system. Agriculture, the largest component of GDP, is virtually untaxed. Most taxpayers have insufficient knowledge of their tax obligations and tax collector has substantial discretion. Taxpayers often evade paying taxes in collusion with tax officials. Higher tax revenues are, however, crucial to generating the budgetary resources for capital and social investment. Tax reform has been a central policy condition for the many IMF loans to Pakistan, including the present one.

The board area problem here highlights efforts for increasing the direct tax base, survey for documentation of taxation system, issuance of national tax numbers, expansion of tax audit capacity etc. Thus Reforms of tax policy and administration are one of the most crucial economic reforms for any developing country.

Rationale of The Study

The intention here is to study different tax reforms introduced from FY1998 till FY2005 and to find their significance by highlighting their impact on the revenue generation. As revenues are very important for higher social and economic growth of any country, the aim here is to find how they are affected by changes in different tax structure. Tax revenues over the past years have consistently failed to reach the required target. The country’s tax GDP is one of the lowest in the world. Thus understanding various aspects of Tax sector and related reforms will ensure improvement in the process of tax collection and thus achieve the desired targets. The biggest challenge for the tax reforms is to create a tax

culture and to promote voluntary compliance of tax rules among the taxpayers.

Research Questions

1. How tax reforms can improve the tax system of Pakistan.
2. How far are the tax reforms Successful (1998-2005)
3. What is the impact of Tax reforms process on the revenue generation.
4. How more revenues could be earned by improving our tax system.

Scope of Study

As 70% of Pakistan revenues can be generated from taxes so it is important to know what taxes are and how much they contribute to our economy. This study not only highlights the problems faced by the government in generating adequate revenue from taxes because of poor tax structure but also because of the complicated system.

The study is descriptive in nature and more work could be done as each year reforms comes and have their clear impact on all the sectors of our economy. The general public perception about the taxation system and the collusion between taxpayers and tax collectors by switching from an official assessment system to a self-assessment, motivated the researcher to conduct such a study. Thus the aim of the study is how reforms can help to improve the entire tax system.

Problem Statement

Pakistan is one of the few developing countries that achieved an average growth in the past. Major contribution comes from tax side, as taxation serves as the catalyst for industrial expansion and economic growth. The aim here is to find the impact of tax reforms which are taken annually on the revenue generation in Pakistan. As the principles underlying tax reforms should not mean forcing unnecessary obligations on taxpayers but to help them boost economic activities that would automatically lead to generation of more revenue.

CHAPTER II

LITERATURE REVIEW

Almost all governments are funded, at least in part, by some form of taxation on their citizens. Most of these taxes are collected at the time of a sale or service, but others are collected at the end of a 12-month period called a fiscal year. General definition of Tax is “the Contribution for the support of a government required of persons, groups, or businesses within the domain of that government or a fee or dues levied on the members of an organization to meet its expenses” (Webb and sheriff, 1992).

The major function of government is to collect revenue by taxing people and the revenue collected is used for running

government provision of law and order, defense, infrastructure and social development. Governments also build roads, schools, hospitals, dams and provide a host of other services (Basak, 1997). Tax systems in real economies are typically non-optimal. Tax reforms can then be used in order to reduce the level of distortion of economic incentives introduced by the necessity of raising revenue and thus results in improving economic growth(Marco Stampini, 2001).

Government Economic Resources

A country has five major sources of capital available for running the government and for funding economic growth.

a) Money raised through surplus budgeting
b) Profits from public enterprises can be used
c) Government borrowing from the public
d) The government may resort to deficit financing
e) Economic assistance ,loan or aid from other countries

Economic planning allows us to mobilize these resources in an effective and efficient manner .For achieving programmed economic goals that is to see what mixture of these sources can be used to raise the required amount of finances at the least cost of the government, to the people and to the generation. such decisions hinge on a number of factors like interest rates ,inflation ,the size and elasticity of the internal capital market, the country's international ratings (political, credit ,governance ,human rights and education rating, to name a few).Domestic internal resources of a counter of a country comprise of saving ,plus foreign exchange earned by her citizens of nationals. External resources consist of foreign exchange made available by foreigners.

Both internal and external resources referred to the above are 'financial' resources which are used to pay for 'real' resources like manpower skills, technology, raw materials, capital equipment, managerial and supervisory personnel .of the five sources given above, only the first one surplus budgeting,is a preferred option .the rest are secondary choices as they contain degrees of economic, political and social distortion that are hard one to sallow .

Budgeting means the accounting of the income and expenditures and when used for the government it means the government incomes and expenditures. Resource mobilization in the fiscal sector takes place through two channels:

a) Revenue receipts
b) Capital receipts

A government earns income the same way that individuals have income; only the sources available to governments are different and broader than those of individuals. The subject that studies government (national) incomes and its expenditures is known as public finance.

There are essentially two main categories of government income sources which are revenue and non-revenue sources. These sources may be acquired through revenue collections (including tax as well as non-tax revenue) and also by increasing the size of public debt. The theory of public finance therefore, involves the study of the nature and principles underlying public revenue, public expenditure and public debt. For Pakistan we also follow the same basic categories of income source, namely:

i. Revenue Receipts (Tax & non tax revenues)
ii. Capital Receipts
iii. Public debt including external resources
iv. And surpluses from state corporation &autonomous bodies.

a) Revenue Receipts

These as the name suggests, comprise of tax revenue, non tax revenue and surcharges:

i. Tax Revenue

In taxes we have direct or income Tax. Previously this source also included Wealth Tax which has now been withdrawn since the last couple of years. In

addition to direct tax, there are Indirect Taxes such as Central Excise, Sales Tax and Customs Duties.

ii. Non-Tax Revenue

This source includes income from government property, enterprises and receipts from civil administration and other functions of government.

iii. Surcharges

Surcharges on natural gas and petroleum are under this category. Then there have been surcharges on electricity (later withdrawn) and also on import on special purpose, like defense or education.

b) **Capital receipts**

Capital receipts include external borrowing and internal non-bank borrowing consisting of unfounded debt, public debt, treasury and deposit receipts in addition to revenue account surplus and surpluses generated by public sector.

c) Surplus from state corporation and autonomous bodies

Surpluses left with state owned corporation and with autonomous bodies after they have met all their expenses, are available to the government for revenue and development expenditures.

The bulk of government spending and revenues is financed by taxes, compulsory payments associated with income,

consumption, or wealth, that individuals and corporations are required to make each year to government. Taxes have become one of the most important items in the budgets of most households in the United States. On average U.S. citizens allocate 25 percent of their annual incomes to help finance government goods and services.Nobody enjoys paying taxes. Unlike price, which are paid for the right to acquire or consume a good or service, taxes are compulsory payments that aren't a prerequisite for the right to consume a good. Naturally everybody would like to pay as little tax as possible while still receiving the benefits of government goods and services. Most of us have some idea of what we consider a fair distribution. Taxes are therefore usually evaluated according to fairness or equity. However, they also affect our incentives to work, save, invest and buy goods and services. The fairest taxes aren't always those that are the most efficient in terms of affecting incentives (William and Alan, 1938).

Introduction to Central Board of Revenue (CBR)

In Pakistan the body responsible for collecting and managing Tax system is CBR which works under the Central Board of Revenue Act 1924. In 1944, a fully fledged Revenue Division was created under the Ministry of Finance. After independence, this arrangement continued up to 31st August, 1960 when on the recommendations of the Administrative Re-organization Committee, CBR was made an attached department of the Ministry of Finance in 1960.The Central Board of Revenue(CBR)collects taxes on income other than agricultural income, taxes on capital value, customs, excise duties and sales taxes.

Theory of Tax Reforms

Taxes on production, consumption and income introduce a distortion of incentives as they break the equivalence between the price paid by the buyer and the price received by the producer of a good or service. Hence, each lira (currency of Italy) of revenue collected by the government costs society more than one lira. For every unit of revenue, distortionary taxation produces a loss of utility or welfare, which must be added to revenue in order to obtain the level of the marginal cost of public funds. If the marginal costs of the funds collected with different taxes are not equalized, then the tax system is suboptimal and there is space for obtaining an increase in welfare through are venue-neutral tax reforma1. By reducing the rate of the most distortionary tax and increasing the rate of the less distortionary one, welfare can be increased. In a few simple words, this is the theory of tax reforms. (Marco Stampini 2001).

Tax Enforcement on Various Industries

Pakistan has granted significant tax and duty incentives to three categories of industries. **"Priority industries"** include tourism, housing, engineering, chemicals and construction. **"Value added export industries"** include manufacturing categories such as garments, bed linens, surgical instruments, and sporting goods. **“High-Tech and Information Technology industries”** include chip manufacturing, software development and precision equipment

manufacturing. For all above-mentioned industries Pakistan has reduced the maximum custom duty from 10 percent to 5 percent on imported plant, machinery and equipment in contrast to 0-25 percent custom duty for all other industries. However, export industries are also entitled to zero-rated import of raw materials and sales tax exemption. The government managed to cut the budget deficit from 7.1 percent of GDP in 1995-1996 to 4.7percent in 1998-1999. Although the reduction in the budget deficit is encouraging, it has been achieved mostly through draconian cuts in development spending, rather than through increases in tax revenue. Two weaknesses characterize the fiscal side: low tax revenues and an unbalanced structure of budgetary expenditures. High budgetary outlays on defense and debt servicing expenditures, along with low tax revenues, have squeezed the capital and social expenditures required for higher growth and social development.

The financial wizards and tax managers in the ministry of finance and Central Board of Revenue (CBR) have been claiming that the tax base is narrow in Pakistan and that the majority of people do not pay taxes. The reality is quite the opposite. The citizens are heavily taxed. Out of the total population of those earning taxable income, 80 percent are paying tax at source or through voluntary filing of returns.In most cases, the tax deducted/collected at source is the full and final discharge of liabilities; hence the taxpayers do not file statements (required under section 115(4) of the Income Tax Ordinance 2001), which has created a wrong impression that our income tax base is narrow. On the other hand governments have miserable failed to cut their wasteful expenditure on personal perquisites

and benefits. Defense and debt service along are eating up a substantial chunk of tax revenue. (Huzaima Bukhari & Dr Ikramul Haq Dawn December 5, 2005).

Overview of Tax Reforms in Pakistan

The present government is pursuing extensive structural reforms designed to rebuild the confidence of domestic and foreign investors, reduce poverty and promote good governance. A key element of these reforms is measures on the fiscal front.

At best the general public does not perceive the tax administration as efficient, sympathetic or helpful. The political and financial leaders complain of static tax base, inelastic revenues, arbitrariness of policies & procedures, lack of measurable performance indicators, excessive administrative tiers and absence of connectivity of information. Tax Collectors on the other hand, complain of low salary, lack of resources and political will to enforce tax policy.

Pre-requisites for Successful Reforms

There are a number of pre-requisites for successful reforms which run into a long list. But the essentials are :Understanding of the need to reform , Essential will & commitment , Indigenous reform design, A top-down reform vision attached with a bottom-up implementation ,Advance oppose for opposition from pressure group ,Replacing the “desirable” with the “attainable” .(Report of the Task Force on Reform of Tax Administration, April 14, 2001 or commonly called the Shahid Hussain).

Reforms of tax policy and administration are very significant and recognizing its importance, the Government of Pakistan has adopted a two-pronged approach: first, to make the tax system more responsive to growth and easier to administer; and second, to increase effectiveness of collection. In supporting the reform of the Central Board of Revenue (CBR) into a more efficient and effective revenue administration, the project will make the tax policy more equitable. It will also bring more taxpayers into the net, reduce the number of taxes, and streamline the tax laws to make them taxpayer friendly, improve tax enforcement, and put in place a tax administration system which is efficient and responsive(Mudassir Khan, a Senior Financial Sector Specialist with the World Bank, 2005).

The project highlights the reforms from 1998 to 2005 the relevant reforms are given below in sequential order:

Tax Reforms 1999-2000

The tax strategy of the Government at that time on one hand was to address the problems of weak tax administration in a bold manner and on the other to plug in all the loopholes in tax collection and establish equity in the tax system. The areas that are covered under the reforms of 1990-2000 include: i) reduction in number of taxes, both at the federal and provincial levels; ii) reduction in tax rates and penalties; iii) simplification of assessment and collection procedures; iv) reforms in labour levies; v) efficiency in dispute resolution; vi) broadening the tax base; and vii) honesty and efficiency in tax administration.

- A number of taxes in force were phased out gradually. At the federal level, primary source of revenues were income tax, sales tax and customs duties. Similarly the provincial governments will be encouraged to minimize the number of taxes.
- A Tax Ombudsman were appointed to hear and decide complaints against tax authorities.
- In consultation were respective Chief Justice, the Revenue Benches will be established in the High Courts and Supreme Courts to deal with tax disputes.
- Tax refunds were allowed by the CBR within a specified period. In case of delay, the tax payer were entitled to a return on the refund. The 10% withholding tax on income from national savings schemes was withdrawn and the refund were made to those who had encashed their saving from September, 1999 onwards. Old age pension of the workers have been increased by 48% from Rs.425 per month to Rs. 630 per month. Death grant of the workers was increased from Rs. 50,000 to Rs. 75,000 to the family of deceased workers.A marriage grant of Rs. 20,000 has been provided to the surviving daughters of the deceased workers from Worker Welfare Fund.Low paid employees of the public and private sector had been provided Rs. 100/- per month as adhoc relief.To achieve the objective of documentation of economy under the "Survey of Documentation Ordinance 2000", a registration survey work had been started from 27th May, 2000 in 13 major cities of the country.

Tax Reforms 2000-2001

Realizing that Pakistan's fiscal problem was structural in nature and that the objective of fiscal consolidation cannot be achieved without undertaking wide-ranging fiscal reforms, the government being to implement various reforms on fiscal side over the last 20 months.

- Tax reforms has been initiated with a view to broadening the tax bases, improving compliance, minimizing the level of corruption, streamlining the tax laws, and strengthening the tax administration.
- Elimination of whitener schemes, a one-time tax amnesty, a two-tier agricultural income tax and broadening and streamlining of the General Sales Tax (GST) will go long way in broadening the tax base. However, the launching of a tax survey and documentation of the economy drive has been the most important elements of the tax base but will help in developing tax culture in the economy.
- Tax Survey was launched in May 2000 and it is still in progress. Information so far collected suggests that 187,000 new National Tax Numbers (NTN) were issued and out of which 134,000are new taxpayers who never registered themselves before.
- Furthermore, up to April 30, 2001, around 104,602 registrations were made under Sales Tax registration as against 75,538 in the comparable period of last year. In other words, 29,064 new registrations were made during the current fiscal year. This information will help in mobilizing more resources in the coming fiscal year.

- Apart from broadening the tax base, a number of taxes were abolished as part of the tax reform. For example, wealth tax was abolished at the federal level and several taxes were abolished at the provincial levels.
- To provide assistance to taxpayers the government has established the office of the Tax Ombudsman.
- Two key reports have been prepared-one dealing with strengthening of tax administration and the other dealing with new simplified Income Tax Laws.
- Implementation of there reform will been from the forthcoming Federal Budget (2001-02). These reforms will go a long way in enhancing revenue, reducing budget deficit, reducing public debt burden, and developing tax culture in the country.

Tax Reforms 2001-2002

- Tax administration plays a vital role in the success or failure of any attempt to reform taxation. It is in this view that a serious attempt has now been made to redesign tax administration on modern lines.

- Experts from the private sector have been inducted in the Central Board of Revenue (CBR) at the top management level. A time-bound reform agenda of the CBR is likely to be announced in August 2002.
- A new income tax Ordinance has placed income tax on a universal self-assessment basis with system selected audits, minimal exemptions, and more equitable rates and established uniform tax rates for all companies.
- The self-assessment scheme will be effective from July 1, 2002. Large taxpayers units are being established

in major cities of Pakistan to facilities payments of taxes for the large taxpayer.

- Fiscal Monitoring Committees (FMCs)have been established at federal and provincial levels to monitor fiscal reporting and improve the reconciliation of accounts and quality of fiscal data.
- The separation of audit and account, the transfer of the Controller General of Accounts (CGA) office to the executive branch of government, re-establishment of Public Accounts Committees (PCAs), publication of quarterly fiscal reports on the website of the Ministry of Finance and publication of report on contingent liabilities and tax expenditures for the first time in Economic Survey are some of the measures that have brought tangible improvements in the quality and timeliness of fiscal data and greater public access to Pakistan’s fiscal developments.

Tax Reforms 2002-03

- All tax whitener schemes eliminated.
- Tax survey and documentation exercise undertaken.
- This exercise added 234,189 new income tax payers and 34000 sales tax payers to the tax base.
- Wealth tax abolished.
- To give an end to multiplicity of taxes, number of taxes at the federal and provincial level has reduced.
- Grass roots reforms in tax administration started.
- A two-tier agricultural income tax introduced.

- GST broadened and streamlined.
- In order to ensure expeditious Sales Tax reforms payments, while ensuring no inadmissible payments, the Sales Tax Automated Refund Repository (STARR) has been set up. This will help in development of paper less (Electronic) receipt, processing and sanction of refunds claims.
- To create taxpayer friendly environment a new **income tax ordinance** on universal self-assessment basis with system selected audits, minimal exemptions and more equitable rates have been introduced.
- For effective dispute resolution mechanism, tax ombudsman's office established.
- Developing an automated assessment and valuation system
- Large taxpayer unit has been established in Karachi
- Medium taxpayer unit established in Lahore
- A model taxpayer unit has started working in Lahore to test the re-engineered income tax system.

Tax Administration Reforms

Tax administration plays a vital role in the success or failure of any attempt to reform taxation. Corruption and tax evasion are widespread, especially in developing countries. Tax collection system designed to eradicate corruption and evasion has mostly failed, indicating that these problems are structural in nature. The main reason for this failure is that most tax administrations system has been influenced by the structure of tax systems in developing countries. In fact, tax structure and tax

administration are interdependent and should be considered as such.

Successful tax administration reforms must have these three main ingredients, that is, **simplification, strategy and commitment.**

Tax Reforms 2003-2004

Realizing the weaknesses of Pakistan's tax structure a concerned reform effort was launched some four and a half year ago. The government began wide-ranging tax and tariff reforms and worked on fiscal transparency, aimed at reducing tax rates, broadening the tax base to hitherto untaxed or under taxed sectors.

- Tax survey and documentation exercise undertaken.
- This exercise added 234,189 new income taxpayers and 34000 sales tax payers to the tax base.
- Wealth tax abolished.
- To put an end to the multiplicity of taxes, the number of taxes at the federal and provincial levels has been reduced.
- Grass roots reforms in tax administration started.
- To create the taxpayer friendly environment a new income tax ordinance on a universal self-assessment basis with system-selected audits, minimal exemption and more equitable rates have been introduced.
- For an effective dispute resolution mechanism, tax ombudsman's office has been established.
- Developing an automated assessment and valuation system.

- The large taxpayer unit has been established in Karachi.
- A model medium taxpayer unit has started working in Lahore to test the re-engineering income tax system.
- A universal self-assessment system has been introduced from 1st July 2002. Under USAS all taxpayers automatically qualify for self-assessment.
- The positive results experienced in MTU Lahore and LTU Karachi have given the CBR the confidence to setup one more LTU in Lahore and 6 MTUs in Karachi, Quetta, Rawalpindi, Faisalabad and Peshawer.

Tax Administration Reforms

Tax administration reforms articulated a strategy that included a comprehensive plan that assigns clear priorities to the task that must be performed and tailored to the available resource. The reform also focused on some key functional areas and supporting measures including; taxpayer compliance, the enumeration of taxpayers, the estimation of taxable income, the collection of taxes, the enforcement of tax regulation, and the organization of the tax authority.

The countries tax GDP ratio is one of the lowest in the World.Unfortunately the country staked in 1990s and slipped in growth, exports, revenues, development spending etc. and got entrapped in external and domestic debt. This was due to fundamental structural and institutional problems as well as the poor governance and political instability in the past.

The present government launched a comprehensive program of reforms in the area of macro economic stability, structure reforms, tax reforms, tariff reforms, financial sector reforms, good economic government etc.

Tax reforms 2005-06

- The Tax Base (Tax Net) may be broadened more by persuasion and education.
- There may be reasonable reduction in tax rates.
- A conducive investment environment may be established by increased level of interaction.
- There may be curtailment of undesirable discretionary powers of tax authorities.
- Tax rules and regulations may be simplified as much as possible.
- The cost disadvantages to all sectors of the economy, in term of taxation rates, utility rates, other tariffs, etc. may be rationalized to remain competitive.
- Necessary measures need to be adapted to control under or over invoicing and tax evasion.
- The existing law for taxpayers may be rationalized and the objectives of tax policy clearly defined to encourage corporatisation and investment in the country. “Corporation would lead to better reporting mechanism, lesser tax evasion as well as documentation of the economy”.
- CBR and SECP may collaborate to share their collective knowledge and experience and work together to resolve the issues faced by the corporate sector.

- The sales tax refund system may be improved.
- The Central Excise Duty may be abolished.
- Tax rates for various taxpayer categories may be suitably reduced and tax base widened, which would ultimately reduce corruption.
- All machinery and equipment may be allowed to import at zero duty .
- Capital gain tax may be imposed on all the assets holders unless the holding period is a full year or more.

Main Components of Pakistan Tax Administration Reforms Program (TARP)

1. Management and Institutional Development

It addresses institutional, Organizational and Legal constraints of Tax and Customs Administration. It also aims at reorganizing CBR to facilitate an efficient planning, execution and supervision of core administrative functions.

2. Improving Revenue Operations

This component lays down extensive and significant strategies and initiative the administration of CBR's

three revenue streams: Direct Tax, Sales Tax & Central Excise, and Customs. It aims to accomplish the task of transformation through extensive re-engineering of the core business procedure and operating procedures.

3. Strengthening Revenue Service

This component projects at strengthening revenue services through self-assessment and voluntary compliance, which will introduce the principal of good tax administration like transparency, fairness, automation, simplification and cost effectiveness. The efficiency of the functions of audit, collection and enforcement dispute resolution and risk management shall be improved.

4. Tax Compliance Culture

It promotes the tax compliance culture and aims at modern and effective tax administration through taxpayer education and facilitation. It will also help to achieve the CBR intentions to have an accurate taxpayer information and simplification of tax administration for stake holders.

5. Adopting Responsive I.T Systems

Reform of the CBR Tax Administration, widening of tax-base and increase in revenue are the goals which can be achieved more efficiently through successful procedural reforms through use of technology and efficient management of information. All function of CBR shall be revolutionized by adopting responsive information technology systems.

6. Infrastructure up-gradation and development

It helps to identify deficiencies in the present infrastructure of CBR and provides strategies to pursue infrastructure and accommodation improvements to rationalize it in line with the CBR's organizational re-structuring process and consolidation of offices.

7. Program Management and Implementation

This component delineates the implementation of the project Tax Administration Reform Program (TARP) to achieve comprehensive reform goals, which has multiple components with major initiative already in progress. It also aims at setting up of a Project Management Unit for overall project coordination, monitoring and reporting.

Organizational structure of CBR before Reconstruction

CBR comprised of a Chairman and a member each for direct taxes, customs, central excise and Tax Policy. Chairman CBR provides overall leadership of the CBR and undertakes all high level co-ordination. The five members collectively oversee the strategic direction of the CBR, corporate governance and higher management. Each of them was responsible for the policy and operation of respective tax. In their work, teams of senior commissioners/collectors and additional commissioners/collectors designated as chiefs and secretaries respectively assist the line members. Information management and automation are looked after by Pakistan Revenue Automation (Private) Limited which reports

to Chairman CBR. There was no organization at the higher level specifically dealing with human resources, administration and finance, tax audit, legal and adjudication, and taxpayer assistance and education. Respective line members handle these matters.

Anomalies In The Present Structure

The organization of CBR was cylindrical rather than functional. Both policy and operational matters are handled by line members. Generally, the broad issues of tax administration are decided in Board-in-council. However, in the absence of adequate policy analysis emanating from the office of the Member Tax Policy, revenue consideration tends to dominate as the underlying rationale for decisions in the Board-in-council. There was limited decentralization for operational issues. This results in line members over engagement in resolving some basic issues coming from the field and taxpayers Excessive centralization with little functional management inhibits CBR from dealing with diverse issues of tax policy, and administration, human resources, audit standards tax payers education and business processes.

As in the rest of the Government the value of CBR employees' salaries have been eroded by spiraling inflation, effecting morale, productivity and the quality of new recruits. Moreover, where CBR has to recruit qualified persons with specialized skills such as auditors, it can not compete with the private sector.

Broad Reforms For Redesigning Organization Of CBR

- Adequate budgetary resources and budgetary flexibility for the maintenance of high quality staff and infrastructure.
- Authority to make changes in staffing processes and organization as needed
- Capacity for sustained analysis and guidance in key policy on functional issues.
- Operating decentralization.
- Recruitment and maintenance of high quality professionals.
- A well functioning information system to assist management and operations.
- A new relationship with taxpayers, focusing on assistance to taxpayers, their education on taxes and consultation with them on processes and policies.

Structure Of Tax Administration After Reconstruction

Presently, CBR's organizational structure is still cylindrical but drawn on traditional lines of vertical responsibility where policy and operational functions are handled together, Field departments under various taxes have different structures. In sales tax, this structure is on a functional basis, while in income tax; it is circle-based where all functions of registration, assessment, enforcement and collection are performed by a circle headed by one income tax officer.

Modern tax administration advocates a functional structured organization, where an individual looks after a function

and develops expertise therein rather than having numerous functions culminating in the same individual.

Vision

To be a modern, progressive, effective, autonomous and credible organization for optimizing revenue by providing quality service and promoting compliance with tax and related laws.

Mission

Enhance the capability of the tax system to collect due taxes through application of modern techniques, providing taxpayer assistance and by creating a motivated, satisfied, dedicated and professional workforce.

Analysis Of Departmental Changes After Reconstruction

In November 2001, Government approved broad outline of the reform strategy of CBR. The reform strategy aims at increasing effectiveness of CBR reduce corruption opportunities and raise the buoyancy of the tax system through organizational re-structuring, self-assessment, reduction of personal contact between taxpayers and tax collectors, simplified processes, revised terms and conditions for employment of CBR officials and improved IT management. The reform process of BCR is being overseen by Cabinet Committee for Federal Revenue (CCFR).

Large Taxpayers Unit, Karachi

Many countries in the world have established large taxpayer units (LTUs) to secure revenue, improve management of arrears, enforce audit and introduce new systems and procedures. In many countries the largest 2% of taxpayers contribute around 70% of revenue. Large Taxpayer Units with the following objectives:

a) To facilitate large taxpayers

b) To reduce compliance cost of large taxpayers

c) To secure revenue

d) To improve audit capacity

e) To monitor arrears

f) To integrate taxes

Revenue Performance In LTU

The performance of individual taxes being handled by LTU Karachi has remained very impressive. Collection of all the three domestic taxes showed an increase of 25.43% during 2003-2004 as against the national increase of 12.6%.

Sales Tax

In LUU during the fiscal year 2002-2003, the GST collection has increased by 44.6% as against 21.1% in domestic Sales Tax collected by LTU Karachi registered a growth of 9.65% as against the national increase of 2.8%.

Central Excise

Collection during the fiscal year 2002-2003 increased by 17.5% as against national decline of 4.6%. All previously 'supervised' units transferred to LTU now work under self-clearance procedures. During the fiscal year 2003-2004 collection increased by 8.35% as against the national decline of 0.5%.

Income Tax

Income Tax for the fiscal year 2002-2003 increased by 10.5% as against national increase of 6.5%. During 2003-2004, income tax collected by LTU increased by 22.33% as against the national growth of 8.8%.

Taxpayers Facilitation

All applications of exemptions form various provisions of withholding taxes were responded within 24-48 hours as against 72 hours prescribed and 7++ days national average. The officials of LTU attended tribunal and appellate hearings in almost all cases in order that dispute resolution process in speeded up.

Medium Taxpayers Unit(MTU)

A model medium Taxpayers Unit was started in Lahore w.e.f. October 01, 2002. Reengineered income tax system based on functional organizational structure was tested in the MTU at Lahore. It started with a total taxpayer population of 10,000. After a year of operations the scope of the MTU has been expanded to around 90,000 taxpayers. This is done by bringing all city-based taxpayers of the C-zone, Lahore into the MTU. (Lahore had 3 income Tax Zones i.e. A, B and

C for non-corporate taxpayers). The staffing component has also changed in the MTU, which is now just under 100 personnel. This is an improvement over existing organization as zone C Lahore had around 400 personnel in 2003. The balance staff of Zone C that has not gone into the MTU has been assigned the task of survey for expansion of taxpayer base.

Withholding Tax Management System

Software has been developed for Withholding Tax Management.

1. The software can be used.

    a) By every ‘Person”. Individual, AOP and Company.

    b) By a single taxpayer if he is using the software for himself. Or for multiple taxpayers, if a Chartered Accountant ITP/Advocate is using the software for his clients or if an employer is using the software for his employees.

2. The software consists of two Modules:

    a) Withholding Statements Module

    b) Returns Module

Customs Administration Reform (Care)

The existing cumbersome manual customs clearance system is highly personalized, involving 34 verifications and 62 steps. There is a face to face contact between taxpayer and tax collector and the taxpayer has to bear extra cost on

account of inefficiency of the system. CBR has developed a Custom Administration Reform Plan (CARE) to modernize customs clearance and has decided to start a pilot project to test the new approach for imports and exports. The Karachi International Container Terminal (KICT) which clears 25% of imports through Karachi sea port has been selected as the pilot site.

Measures To Ensure Continuation of Reforms

CBR has taken necessary steps to institutionalize the reform process. The basic outline of the Reform Strategy Document was developed in consultation with all stakeholders. This has helped to create ownership of the reform process within the organization. The reformed CBR will remain a Division of the Government of Pakistan but it will need enhanced legal power, capabilities and autonomy in order to:

- Formulate its own expenditure budget and administrative polices (government to meet budget needs).
- Spend (within its budget) as it deems appropriate;
- Decide its own structure for monetary rewards and allowances
- Formulate and enforce its own operational rules.
- Adopt its own human resource recruitment and development strategy.
- Protect itself against undue intrusion from outside influence.

Organizational Changes Of CBR/Revenue Division

In the existing setup, the Chairman, CBR being the executive head of the Board as well as Secretary of the Revenue Division has the responsibility for (i) formulation and administration of fiscal policies, (ii) levy and collection of federal taxes and (iii) quasi-judicial function of hearing of appeals. His responsibilities also involve interaction with the offices of the President, the Prime Minister, all economic Ministries as well as trade and industry.

The names of Secretaries/Ex-officio Chairmen, full time Chairman, Secretary, Revenue Division/Chairmen and Vice Chairman, who headed the CBR Revenue Division from August 14, 1947 onwards, are given at the end of this chapter.Chairman, CBR/Secretary, Revenue Division, is assisted by the following Members, four line Members (who are also ex-officio Additional Secretaries of the Federal Government), three support Members, and five hundred functional Members from the private sector, as part of the restructuring of the CBR.

Line Members

1) Member (Direct Taxes)

2) Member (Sales Tax & CE)

3) Member (Customs)

4) Member (Exports)

Support Members

5) Member (Tax Policy & Reforms)
6) Member (Legal)
7) Member (Administration/Coordination)

Functional Members

8) Member (Fiscal Research & Statistics)

9) Member (Human Resource Management)

10) Member (Audit)

11) Member (Information Management System)

12) Member (Facilitation & Taxpayer Education).

Chapter III

METHOD

This chapter covers the research design, the methodology adopted, highlighting the types of data, population and sample. It describes the nature and type of study.

The methodology adopted is simple as the study is based on quantitative as well as quantitative data like interviews were used. The questionnaires were not required.

Types of study

After the review of previous studies conducted. The research is found to be descriptive in nature. The study is important for all the reader as taxes are a significant part of any one's life. Everyone has to pay tax in some form thus the layperson should have the equal knowledge about tax system as a literate person.

Population and Sample

Since the study is based on secondary data source the researcher has not targeted a particular population and hence no sample is specified. Also the study is macro in nature i.e. it studies the impact of tax reforms on the revenue of the country, no specified population and sample is selected. It is a general and vast study.

Types of Data

Data used was both qualitative and quantitative. For secondary data report/publication of CBR, Ministry of Finance, and Pakistan economic update were used. For the collection of tax reforms, information was gathered from ICMAPS Suggestion and proposals for Federal Budgets, Annual reports of Central Board of Revenue and State Bank of Pakistan. To find the percentage of tax contribution on the revenue of Pakistan, the researcher visited the Central Board of Revenue (CBR) and collected data. The impact of tax reforms on the revenue of Pakistan.

Procedure

As the research is descriptive in nature, the researcher first studied the percentage contribution of different

types of taxes on Pakistan's revenue from 1998 to 2005. All the tax reforms were gathered from ICMAP's suggestion and proposal for Federal Budget and also from annual report of CBR.The library was also consulted to study the tax system and changes needed to improve it. Internet was another source to study the previous studies and it provided a backbone for the further research.

Objectives of the study

The Central Board of Revenue under the Federal Government collects two categories of Taxes.

- Direct Taxes: Including Income tax, corporate tax, Capital Value tax, property tax, wealth tax (row abolished)
- Indirect Taxes: Include sales tax, Excise duty, Import duty, Export duty, Gas Petroleum Surcharges, Foreign Travel tax.

The present study has been undertaken for the following:

- The revenues generated from the Direct Taxes and indirect taxes.

- To examine the reforms relating to these types of Taxes
- To study the reforms in detail and determine there result on the objective of the reforms.

CHAPTER IV

RESULT AND DISCUSSION

The CBR entrusted with the primary responsibility of resource mobilization and collection of federal tax revenues. Keeping this fact in mind the researcher, for the collection of related information met the commissioner income tax and chief operation tax .As the study is based on quantitative and qualitative data ,interviews were held with them that yielded enormous significant knowledge. It was found that as far as administrational reforms are concerned ,new departments were introduced, improvement in functional areas were also ensured .Hierarchical reforms were mostly structural(organizational chart after reconstruction ,see appendix),where an individual looks after a function and develops expertise there in rather than having numerous functions culminating in the same individual ,so instead of a four layered income tax orginazation ,there is now a two tier organization .Thus

the result is sales tax as on a functional base and lines of income tax be focused on a regional organizational structure.

Federal Tax Receipts

CBR collects 89.3% collection of total federal taxes for the F.Y. 2003-04, the remaining 10.7% are Surcharges on Gas and Petroleum products. These Surcharges are also collected by the CBR through the Customs and the Central Excise departments are an agents of the Government.

Financial year 2003-04 has been a year of reforms and achievements. The Tax Policy and Administrative Reforms have greatly improved the resource mobilization of CBR. It is the second year that the original revenue target has been achieved. The growth in revenue was 13.1% over the last year. The increase in net collection by Rs. 60.2 billion during the year 2003-04 was all time greater than the previous year. Similarly, the tax-GDP ratio has increased from 9.15% in the year 1999-00 to 9.54% in the F.Y 2003-04.

Trend Of Collections

With the exception of 2001-02 due to 9/11 effect, the average growth of federal taxes during last five years has been 13.1%. The five year trend is shown in Table:-

TABLE 4.1 TRENDS OF FEDERAL TAX RECEIPTS

Year	Collection	% Change

1	2	3
1998-99	325,209	10.4%
1999-00	347,104	12.5%
2000-01	392,277	13.0%
2001-02	404,070	3.0%
2002-03	460,627	14.0%
2003-04	520,843	13.1%

Direct and Indirect Taxes

The Central Board of Revenue collects the following Direct and Indirect taxes.

Direct Taxes

1) Income Tax
2) Wealth Tax (abolished since 1st July, 2001)
3) Capital Value Tax
4) Corporate Assets Tax
5) Worker's Welfare Fund

Indirect Taxes

1) Custom Duties
2) Sales Tax
   a) Import Stage
   b) Domestic Sales
3) Central Excise Duties

Direct and Indirect Taxes are different in nature, tax base and method of collection.

TABLE 4.2 FEDERAL TAX RECEIPTS

(Rs in million)

Year	O.B.E*	R.B.E**	% Of Downward Revision	Collection	% Achieve Of R.B.E
1	2	3	4	5	6
1998-99	357,300	346,500	2.3%	334,050	97.3%
1999-00	362,500	351,700	3.0%	347,104	98.7%
2000-01	430,000	406,500	5.5%	392,277	96.5%
2001-02	443,700	414,200	6.6%	404,070	97.5%
2002-03	458,900	458,900	-	460,627	100.4%
2003-04	510,000	510,000	-	520,843	102.1%

* O.B.C: Original Budget Estimates.

** R.B.E: Revised Budget Estimation.

Collection And Achievements Of Targets By Direct Taxes

TABLE 4.3 COLLECTION FROM DIRECT TAXES

(Rs in million)

Year	Target (R.B.E)	Collection	% Achievement Of R.B.E	% Change

1	2	3	4	5
1998-99	112,000	110,207	98.4%	6.8%
1999-00	109,900	112,950	102.8%	2.5%
2000-01	133,900	124,585	93.0%	10.3%
2001-02	146,500	142,505	97.3%	14.4%
2002-03	148,400	151,898	102.4%	6.6%
2003-04	161,500	165,079	102.2%	8.7%

* O.B.C: Original Budget Estimates.

** R.B.E: Revised Budget Estimation.

This table shows that Direct Taxes have grown at the satisfactory rate of 8.7% in the F.Y. 2003-04 as compared to the year 2002-03 when 6.6% growth was recorded. These taxes increased from Rs. 112,950 million in 1999-00 to Rs. 165,079 million in 2003-04, showing an increase of 46.2%. budget estimates (targets) were exceeded in three years i.e. 1999-00, 2002-03 and 2003-04 whereas these were missed in 2000-01 and 2001-02 by 7.0% respectively.

Income Tax

Income Tax is payable by Individuals, Companies, Association of Person, etc. it is charged on total income of the income of the year as per the provisions of the Income Tax Ordinance, 2001. Apart from revenue generation, it tends to reduce economic disparity through

redistribution of resources. It is, therefore, recognized as a more equitable from of taxation.

TABLE 4.4 COLLECTIONS FROM INCOME TAX

(Rs in million)

Year	Target (R.B.E)	Collection	% Achievement Of R.B.E	% Change
1	2	3	4	5
1998-99	104,996	103,189	98.3%	6.2%
1999-00	102,500	105,337	102.8%	2.1%
2000-01	125,751	117,462	93.4%	11.5%
2001-02	142,000	136,542	96.2%	16.2%
2002-03	142,200	145,366	102.2%	6.5%
2003-04	154,638	157,448	101.8%	8.3%

In 2003-04, Income tax contributed 95.4% in Direct tax, while the remaining 4.6% is from other direct taxes, while the remaining 4.6% is from other direct taxes. Income tax receipts of Rs. 157,448 million in 2003-04 registered an increase of 8.3% over the receipts of Rs. 145,366 million in 2002-03. Over the five years period, there is an increase of 49.5%.

Wealth Tax

Wealth Tax Act has been abolished since 1st July, 2001. However previously Wealth Tax was payable on the next

wealth of the individuals, firms, companies and association of persons computed on the basis of the valuation of assets held on the valuation date i.e. 30th June. It was leviable on the next wealth in excess of Rs. 2.5 million. Registered firms and limited companies pay wealth tax on the value of immoveable properties constructed for sale or for letting out. The arrears of Wealth Tax (installment) was to the extent of Rs. 132 million in 2003-04.

TABLE 4.5 COLLECTION FROM WEALTH TAX

(Rs in million)

Year	Target (R.B.E)	Collection	% Achievement Of R.B.E	% Change

1	2	3	4	5
1998-99	3,954	3,502	88.6%	-1.0%
1999-00	4,300	3,927	91.3%	12.1%
2000-01	1,812	1,496	82.5%	-61.9%
2001-02	400	474	118.5%	-68.3%
2002-03	-	228	-	-51.9%
2003-04	-	132	-	-42.1%

Capital Value Tax (CVT)

Capital Value Tax is payable on purchase of motor vehicles not previously used in Pakistan (i.e. imported) and air tickets for foreign travel. Collection from CVT is Rs. 757 million in 2003-04 as against Rs. 608 million in 2002-03 showing an increase of 25.5%. It has contributed 0.1% in the federal tax collection and 0.5% in Direct Taxes collection respectively.

Worker's Welfare Fund (WWF)

Worker's Welfare Fund is levied @ 2% on the manufacturers having income of Rs. 1000,000 and above. Collection from Worker's Welfare Fund increased from Rs. 2,964 million in 1999-00 to Rs. 6,742 million in 2003-04 i.e. by 127.5%. Compared with the collection of Rs. 5,693 million in 2002-03, the increase in 2003-04 is 18.4%.

Corporate Assets Tax (CAT)

Corporate Assets Tax is levied under section 12 of the Finance Act, 1991 in 1991-92. this is a one time levy payable by a Company (as defined in the Companies Ordinance, 1984) on the value of fixed assets held by it during the period 01.07.1991 and 30.06.1992 for which the Balance Sheet was prepared and if the value of Net assets exceeded Rs. 50 million. Tax receipts from this source continue to trickle. In 2003-04, this was nil.

Indirect Taxes

The incidence of Indirect Taxes passes on to the ultimate consumer. Pakistan has over-relied on customs duties in the past. Due to globalization and competition, the government has to slash down custom duty rates. Main focus was shifted from Custom duty to Sales tax after worldwide success of the GST in term of revenue generation.

TABLE 4.6 Collections From Indirect Taxes

(Rs in million)

Year	Target (R.B.E)	Collection	COLL. As % Of (R.B.E)	

				% Change
1	2	3	4	5
1998-99	235,500	215,824	94.9%	17.5%
1999-00	241,800	234,154	96.8%	18.1%
2000-01	272,600	267,692	98.2%	14.3%
2001-02	267,700	261,565	97.7%	-2.3%
2002-03	310,500	308,729	99.4%	18.0%
2003-04	348,500	355,764	102.1%	15.2%

Share Of Indirect Taxes In Total Federal Tax Receipts

A Mixed Trend in Contribution Of indirect taxes in the total tax receipts of the country. The share in 1999-00 was 67.5%, which rose to 68.2% in 2000-01. it has come down to 64.7% in 2001-02, started increasing in 2002-03 from 67% in 2002-03 and reached 68.3% in 2003-04. Upward growth in the last two years in the share of Income tax is in line with the government policy of focusing Income tax in the reforms.

TABLE 4.7 % SHARE OF INDIRECT TAXES IN TOTAL TAX RECEIPTS

Year	%Share
1998-99	64.3%
1999-00	67.5%
2000-01	68.2%
2001-02	64.7%
2002-03	67.0%
2003-04	68.3%

Custom Duties

Custom Duties are levied at import stage and charged on dutiable imports. The collection of Custom duties depends on the level of dutiable imports.Table gives the picture of Custom duties collected in the past five years. Although revenue from custom duties declined from Rs. 61,659 million in 1999-00 to Rs. 47.818 million in 2001-02 due to gradual reduction in Customs Tariff. However, the last two years, the Import have increased and collection of Customs duties also increased. Besides increased dutiable Import, correction in rebates has also resulted in increased net collection of Customs duties.

TABLE 4.8 COLLECTION FROM CUSTOM DUTIES

(Rs in million)

Year	Target (R.B.E)	COLL	%Charge	%Achieved Of R.B.E	%Sharein Indirect Taxes	%Sharein Total Taxes
1	2	3	4	5	6	7
1998-99	61,300	65,292	-12.4%	106.5%	32.9%	21.2%
1999-00	64,800	61,659	-5.6%	95.3%	26.3%	17.8%
2000-01	64,600	65,047	5.5%	100.7%	24.3%	16.6%
2001-02	50,500	47,818	-26.5%	94.7%	18.3%	11.8%
2002-03	59,000	68,836	44.0%	116.7%	22.3%	14.9%
2003-04	86,600	91,045	32.3%	105.1%	25.6%	17.5%

Central Excise

Central Excise Duties are levied on manufacturing of domestic production of selected commodities like cigarettes, Cement, POL, Natural Gas, etc.This Table gives the picture of collection of Central Excise duties from 1999-00 to 2003-04. During this period, revenue from this source decreased from Rs. 55,784million in 1999-00 to Rs. 45,552 million in 2003-04 i.e. by 18.3%. This declining trend is arising as a result of government policy to expand the base of Sales Tax. A number of items including Services have been shifted from Central Excise Duties to Sales Tax. Now Central Excise Duties is a fading tax. Despite shrinking base, it has shows a growth of 1.8% over the preceding year 2002-03 due to healthy growth in

manufacturing sector during 2003-04. In 2003-04, 104.7% of the target has been achieved.

TABLE 4.9 COLLECTION FROM CENTRAL EXCISE DUTIES

(Rs in million)

Year	Target (R.B.E)	COLL	%Charge	%Achieved Of R.B.E	%Sharein Indirect Taxes	%Sharein Total Taxes
1	2	3	4	5	6	7
1998-99	58,500	54,562	-7.6%	96.7%	24.9%	17.5%
1999-00	57,000	55,784	-8.4%	97.9%	23.8%	16.1%
2000-01	52,200	49,080	-12.0%	94.0%	18.3%	12.5%
2001-02	47,100	47,186	-3.9%	100.2%	18.0%	11.7%
2002-03	47,500	44,754	-5.2%	94.2%	14.5%	9.7%
2003-04	43,500	45,552	1.8%	104.7%	12.8%	8.7%

Sales Tax

Sales Tax is collected at two stages:- It is charged on goods imported into Pakistan (import stage) and on the goods manufactured in the country (domestic) except those specifically exempted by the government.

TABLE4.10 COLLECTION FROM SALES TAX

(Rs in million)

Year	Target (R.B.E)	COLL	%Charge	%Achieved Of R.B.E	%Sharein Indirect Taxes	%Sharein Total Taxes
1	2	3	4	5	6	7
1998-99	72,650	72,105	33.7%	99.2%	36.4%	23.4%
1999-00	120,000	116,711	61.9%	97.3%	49.8%	33.6%
2000-01	155,800	153,565	31.6%	98.6%	57.4%	39.1%
2001-02	170,100	166,561	8.5%	97.9%	63.7%	41.2%
2002-03	204,000	195,139	17.2%	95.7%	63.2%	42.4%
2003-04	218,400	219,167	12.3%	100.4%	61.6%	42.1%

Table gives the picture of collection of Sales Tax during the period 1999-00 to 2003-04. Collection during this period increased from Rs. 116,711 million in 1999-00 to Rs. 219,167 million in 2003-04 i.e. higher by 87.8%. Although share of Sales Tax increased from 33.6% in 1999-00 to 42.1% in 2003-04, the annual targets assigned were not achieved during these five years except in 2003-04 where target was achieved by 100.4%. The main reason of missing target during 1999-00 to 2002-03 was that targets were extremely high. It is evident from the fact that a considerable growth in the collection recorded but still targets were not achieved. During 2003-04, 57.4% of Gross Sales Tax is collected at the import stage and the rest i.e. 42.6% on domestic goods. As the tax base of the Sales Tax on imports and domestic is different in certain respects, therefore, these are analyzed separately.

Sales Tax On Import

Sales Tax at the import stage is collected by the nine customs, Collectorates. Collection from Sales Tax on imports, increased from Rs. 67,261 million in 1999-00 to Rs. 125,875 million in 2003-04 i.e. higher by 87.1%. the assigned target has been achieved in 2003-04 by 101.9%. Collection from this source reflects a notable change because its share in the total collection of Indirect Taxes increased from 28.7%in 1999-00 to 35.4% in 2003-04. Similarly, its share in total collection of federal taxes increased from 19.4% in 1999-00 to 24.2% in 2003-04. The increased revenue generation due to this source is due to increased import partly due to reduction rates of Customs duties and greater demand for imports due to expansion of economy.

TABLE 4.11 COLLECTION ON SALES TAX ON IMPORTS

(Rs in million)

Year	Target (R.B.E)	COLL	%Charge	%Achieved Of R.B.E	%Sharein Indirect Taxes	% Share InTotal Taxes
1	2	3	4	5	6	7
1998-99	43,088	43,010	44.8%	99.8%	21.7%	13.9%
1999-00	69,360	67,261	56.4%	97.0%	28.7%	19.4%
2000-01	89,843	88,554	31.7%	98.6%	33.1%	22.6%
2001-02	94,922	92,779	4.8%	97.7%	35.5%	23.0%
2002-03	110,365	105,605	13.8%	95.7%	34.2%	22.9%
2003-04	123,500	125,875	19.2%	101.9%	35.4%	24.2%

Sales Tax (Domestic)

The Sales Tax on domestic goods is collected by one Sales Tax Collectorate, one enforcement, three composite and five ST&CE Collectorates in the country. Collection from Sales Tax (domestic), which was Rs. 49,450 million in 1999-00, increased to Rs. 93,292 million in 2003-04showing a growth of 88.7% over the five years period. The share of Sales Tax (domestic) in total Indirect Taxes, increased from 21.1% in 1999-00 to 26.2% in 2003-04. Its share in total tax receipts (Direct and Indirect) increased from 14.2% in 1999-00 to 17.9% in 2003-04.

TABLE 4.12 COLLECTION FROM SALES TAX (DOMESTIC)

(Rs in million)

Year	Target (R.B.E)	COLL	%Charge	%Achieved Of R.B.E	%Sharein Indirect Taxes	%Share InTotal Taxes
1	2	3	4	5	6	7
1998-99	29,572	29,095	20.0%	98.4%	14.7%	9.4%
1999-00	50,400	49,450	70.0%	97.7%	21.1%	14.2%
2000-01	65,957	65,011	31.5%	98.6%	24.3%	16.6%
2001-02	75,178	73,782	13.5%	98.1%	28.2%	18.3%
2002-03	93,635	89,534	21.3%	95.6%	29.0%	19.4%
2003-04	94,900	93,292	4.2%	98.3%	26.2%	17.9%

Tax /GDP Ratio

Tax/GDP ratio is one of the most important economic indicators to judge the performance of the tax collection with respect to resource mobilization in the country. The collection performance is dependent on the in-build flexibility of the tax system i.e. whether it is elastic or not. Whereas it is important to generate sufficient resource to meet the increase current and development expenditure, the tax/GDP ratio in Pakistan has remained stagnant around 9 percent. It is hoped that reforms in tax system will improve the tax/GDP ratio in the coming year.

Total Taxes to GDP ratio of Pakistan during the last five years. The ratio increased from 9.15% in 1999-00 to 9.54%

in 2003-04. If surcharges are added to the total taxes, then the Tax/GDP is 10.68% in 2003-04. The stagnant level, in fact the decline in Tax/GDP ratio calls for a great deal of effort to widen the tax base so as to mobilize additional domestic resources to bring this ratio at par with other countries which are more or less at the same levels of economic development.

TABLE 4.13 TAX / GDP RATIO IN PAKISTAN

Year	Tax / GDP Ratio (%)		
	Total Direct Taxes	Total Indirect Taxes	Total Taxes
1	2	3	4
1998-99	2.82%	6.14%	9.00%
1999-00	2.98%	6.17%	9.15%
2000-01	2.99%	6.43%	9.42%
2001-02	3.24%	5.94%	9.18%
2002-03	3.15%	6.40%	9.55%
2003-04	3.02%	6.52%	9.54%

Tax/GDP Ratio (Direct Taxes)

The ratio of Total Direct Taxes to GDP remained in the range of 2.98% to 3.02% during the last five years period from 1999-00 to 2003-04.

Tax/GDP Ratio (Income Tax)

Tax/GDP ratio for Income Tax has slightly increased from 2.78% in 1999-00 to 2.88% in 2003-04. on the other hand, the Tax-GDP ratio of other Direct Taxes has decreased from 0.20% in 1999-00to 0.14 in 2003-04.

TABLE 4.13 TAX / GDP RATIO DIRECT TAXES

Year	Tax / GDP Ratio (%)		
	Income Tax	Other Direct Taxes	Total Direct Taxes
1	2	3	4
1998-99	2.70%	0.19%	2.89%
1999-00	2.78%	0.20%	2.98%
2000-01	2.82%	0.17%	2.99%
2001-02	3.10%	0.14%	3.24%
2002-03	3.02%	0.14%	3.15%
2003-04	2.88%	0.14%	3.02%

Tax/GDP Ratio (Indirect Taxes)

Indirect Taxes to GDP ratio increased from 6.17% in 1999-00 to 6.52% in 2003-04. The main reasons of this phenomena was tariff rationalization in Customs duties and narrow base of Indirect Taxes.

Tax/GDP Ratio In Customs Duties

The Tax/GDP ratio of Customs duties shows a decline trend during the last four years when it fell from 1.63% in 1999-00 to 1.43% in 2002-03 but increase to 1.67% in 2003-04.

Tax/GDP Ratio Of Central Excise Duties

Central Excise Duty to GDP ratio dropped from 1.47% in 1999-00 to 0.83% in 2003-04. This was due to shifting of a number of items from Central Excise to Sales tax.

Tax/GDP Ratio Of Sales Tax

Sales Tax to GDP ratio increased from 3.08% in 1999-00 to 4.02% in 2003-04 due to shifting of items from Central Excise to Sales tax and increase imports. Moreover, reforms in Sales tax has also been widely undertaken.

TABLE 4.14 TAX / GDP RATIO INDIRECT TAXES

Year	Tax / GDP Ratio (%)			
	Customs	Central Excise	Sales Tax	Total Indirect Taxes
1	2	3	4	5
1998-99	1.58%	1.40%	3.00%	6.00%
1999-00	1.63%	1.47%	3.08%	6.17%
2000-01	1.56%	1.18%	3.69%	6.43%
2001-02	1.09%	1.07%	3.78%	5.94%
2002-03	1.43%	0.93%	4.05%	6.40%
2003-04	1.67%	0.83%	4.02%	6.52%

This improvement, and the related rise in the *tax-to-GDP* ratio primarily reflects the success of the government's efforts to widen the tax base and improve tax administration, due to which tax growth has outstripped the growth in the economy. Major tax reforms in the recent years have improved the tax structure but these were not translated in higher tax-to-GDP ratio.It may further be pointed out that the desired effects of tax and tariff reforms may not immediately be visible in term of large resource mobilization. However, over the medium term, the enhanced buoyancy of the more broad-based tax system, will definitely improve the revenues.

CONCLUSION

Fiscal reforms lies at the heart of structure reform program launched some four years ago. Although the immediate aim of such reforms was to reduce fiscal imbalances to achieve macroeconomic stability, the medium-to-long term goal is to secure more durable improvements in fiscal performance.It is important for revenue mobilization to make a more efficient, requires reforming the tax and tariff systems and their administration .

As the research paper highlights all the reforms from 1998 to 2005 , so we conclude that the wide ranging tax reforms as well as reforms in tax administration have started paying dividends. Tax collection by the central board of revenue (CBR) has picked by and revenue deficit has been declined .This improvement in revenue deficit would increase national savings which in turn, would reduce the country’s dependence on foreign savings to finance domestic investment .Also the pace of charges in tax structure particularly in indirect taxes, gained considerable momentum over the last five years.

The over all performance of tax collection during the first ten months of last fiscal 2004-5 has been quite encouraging. Now it seems that proper implementation of tax reforms are showing results as the composition of tax revenue has changed in the right direction.

RECOMMENDATIONS

- Before implementing the reforms it is essential to test them. As CBR is trying to adopt Turkish and Koreon tax models they should not be implemented without first testing them in pilot projects.
- Regular curriculum of educational institutions in Pakistan should include some basic tax information related to taxes types, rights of taxes and other.
- There should be centers that take the responsibility for tax payer education and assistance also for promoting the message of customer service to the tax department.
- Tax payer must be facilitated in the payment of taxes through credit cards and banker’s Cheques etc.
- CBR has been claiming that the tax base is narrow and that majority of the people donot pay taxes but the reality is that people are over taxed and they get nothing in return so citizens should not be blamed as citizens have been making a substantial contribution under the income tax regime.
- CBR should allot national tax numbers (NTNs) to all those who paid taxes.
- There should be a single counter where the returns on income and sales tax and excise duty should be received.
- Call centers should be established to facilitate taxpayer contact through e-mail,letters ,faxes and

telephone calls. The establishment of call centers will offer numerous advantages to CBR such as flexibility in locating employees away from the employment centers and expensive locations not needing employees who are tax experts and better utilization of staff.

- Reforms should be properly and prudently implemented as over 70%of income tax is still being collected by the way of withholding and presumptive taxes which have regressive and inflationary impact .Te biggest burden of Pakistan’s taxation falls on the poor sections of the population.
- The taxation structure still need a lot of improvement as flaws exists and general public thinks that taxes are taken from the poor and passes on to the rich and hence the growing rich poor disparity.
- In order to improve the tax collection efficiency CBR should have a survey and research wing.
- Transparency of tax administration should be increased with streamlining and improving effiencies in tax administration.