TheNetwork for Consumer Protection

TaxWatch Tax Justice Campaign

April 2014

- FBR raises WHT demand of over Rs32bn
- FBR's erratic ARC of problem for taxpayers
- Lawmakers, Non-payment taxes to be probed
- Parliamentarians' tax diary
- Finance Div asks FBR to furnish list of serious tax crimes
- Over 0.1m new taxpayers to be brought into tax net each year
- 16 'errant' sugar mills, FBR raises Rs400m tax demand
- Harmful SRO culture
- Rs70bn shortfall in revenue collection likely
- Tax exemptions raise new issues
- Campaign fails to broaden tax base
- LTU Karachi recovers Rs14bn from large taxpayers
- FBR launches Rs25bn recovery drive
- FBR launches investigation into money laundering cases
- FBR deploys officials at manufacturing units
- Govt likely to withdraw SROs
- FBR needs to plug leakages to enhance revenues
- FBR's taxpayer database is less useful than it looks
- FBR unveils directory showing tax details of all taxpayers
- Sugar mills cause loss of Rs30 billion to exchequer
- Discrimination among honest taxpayers discouraging

The Federal Board of Revenue (FBR) witnessed a shortfall of Rs29 billion in April 2014 as an amount of Rs167 billion was collected against a target of Rs196.4 billion. It was the highest-ever decline in a single month of the current fiscal year. The shortfall is the outcome of poor governance and compliance issues in the tax administration. As compared to previous year's collection of Rs152.480bn in April 2013, a meager growth of 8.69 per cent (Rs14.52bn) was witnessed this year, which is far less than the projected target.

Two important decisions were taken in the month of April 2014 for broadening of tax base.

The high power committee constituted for the elimination of SROs proposed to withdraw Rs103 billion worth tax exemptions in the budget 2014-15.

To enhance tax base, FBR Chairman Tariq Bajwa said at least 0.1 million new taxpayers would be brought under the tax net each year. There are 3.5 million people registered as National Tax Number (NTN) holders with FBR. The National Assembly constituted a 10-member committee to investigate the allegation of non-payment of taxes by a number of parliamentarian. The report will be submitted within 90 days.

The Directorate General of Intelligence and Investigation Inland Revenue (IR) Federal Board of Revenue has launched a campaign against prominent personalities, sectors believed to be involved in tax evasion. Notices issued to Pakistan Cricket Board (PCB) to charge actual tax on salaries of cricketers at the rate of 15-25 percent instead of current 6 percent tax.

Moreover, two top officials of the Hewlett-Packard (HP), a multinational company was arrested on charges of tax evasions; and launched investigation into money laundering cases.

Large Taxpayer Unit, Karachi deployed officials at sugar mills to check raw materials and sales of whitener as part of curbing tax evasion. The LTU, Karachi also recovered Rs12 billion through the audit exercise from 250 taxpayers, including multinational and local firms to improve compliance of big taxpayers.

FBR revised the rates of federal excise duty on beverages industry to recover maximum revenue from the sector.

Similarly, Directorate General of Withholding Taxes FBR has raised a demand of Rs32 billion against the withholding agents in April 2014.

In April 2014, FBR has issued tax directly of all taxpayers that has been published for the first time in the country's history. Like politicians, top bureaucrats have restricted themselves to paying tax on their salaried incomes. In April 2014, FBR has issued tax directly of all taxpayers that has been published for the first time in the country's history. Like politicians, top bureaucrats have also restricted themselves to paying tax on their salaried incomes.

Top bureaucrats payment of income tax

FBR Chairman Tariq Bajwa: Rs183,734

Finance Secretary Dr. Waqar Masood: Rs640, 246

Water and Power Secretary Nargis Sethi: Rs328, 179

FBR Member Shahid Husain Asad: Rs227, 015

Yasmin Saud FBR member Rs436, 721

Period	Party in Government	SROs Exemtion in Rs billions	Total Revenue Collection (Rs Billions)	As % Loss in Tax Collection
2001-2007	**PML-Q**			
2003-04		19.61	518.8	3.78
2004-05		24.87	588.4	4.23
2005-06		21.91	713.4	3.08
2006-07		183.69	847.2	21.69
2007-08		89.52	1008.1	09
2008-2009	**PPP**			
2008-09		119.646	1,161.1	10.31
2009-10		150.291	1,327.4	11.31
2010-11		175.211	1,558.2	11.25
2011-12		205.20	1,882.7	10.94
2012-13		239.535	1,946.4	12.31
2013-2014	**PML-N**			
2013-14		477.1	2275	20.98

Message by Executive
Coordinator

TheNetwork for consumer protection has taken another major step with the generous support of OXFAM to protect the human rights encompassing financial and economic rights of a consumer.

Tax is not only the most important, the most beneficial, and the most sustainable source of finance for development but it is also the nexus between state and citizen. Tax revenues are also the life blood of the social contract that helps making a government more accountable.

Tax justice is a principle, about how taxes are raised and how taxes are spent. Taxes should be raised progressively, based on ability to pay, and spent according to need. Tax is not only government money, it is redistributed wealth, so a just tax system is one where money is not only raised fairly, it is spent fairly.

Although Adam Smith had written in the book "The Wealth Of Nations" that "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities... "and "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay...".

To incorporate civil society voice in tax reforms TheNetwork for Consumer Protection aims at organizing policy dialogues on different themes i.e. tax justice, poverty reduction and inequality in society that will not only generate debate but will help sensitize society on different issues that may help in increasing the tax to GDP ratio in Pakistan. **Nadeem Iqbal**

FBR raises WHT demand of over Rs32bn

ISLAMABAD: The Federal Board of Revenue (FBR) has raised withholding tax demand of over Rs 32 billion during July-March 2013-14, which would result in substantial recovery of billions of rupees through effective monitoring and audit of withholding agents.

The Directorate General of Withholding Taxes had made huge tax demand of Rs 32 billion against the withholding agents during the period under review. This amount would further increase in the remaining period of 2013-14. Out of this tax demand, the Directorate is expected to recover withholding tax to the tune of rupees billions.

Directorate General of Withholding Taxes had recovered over Rs. 19 billion through audit of withholding agents including banks, Pakistan Post Office, government departments, private and public limited companies and other agents during January-June 2012. The directorate had passed orders against the withholding agents under section 161 (failure to pay tax) and section 205 (default surcharge) of the Income Tax Ordinance 2001 for recovery of due amount during the period under review.

The recovery of Rs. 19 billion indicates the huge potential of withholding taxes and audit of withholding agents can substantially increase revenue. The withholding tax is a sustainable tax as once this tax has been imposed, its collection become easier through enforcement and audit. The withholding tax is easy to collect for which education of the withholding agents as well as payee is needed at national level. Keeping in view the past recovery from withholding agents, the potential would be further explored and successful audit of such agents would also results in withholding tax audit of other withholding agents, sources maintained.

In most of the cases, the tax was deducted but not deposited by the withholding agents in the national exchequer. In other cases, the tax was not paid or not deducted by the withholding agents.

Recently, the Board has ordered withholding tax audit of the corporate sector employers to check whether withholding tax was accurately deducted from salaries paid by the employers to employees working in corporate entities and companies. In this regard, Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) are monitoring short-deduction in corporate sector under section 149 of the Income Tax Ordinance, 2001 through system audit. The purpose of the whole exercise is to recover the defaulted amount of withholding tax from the corporate sector in cases where employers failed to fully deduct the amount from salary under section 149 of the Income Tax Ordinance 2001.

The withholding audit under section 161 and section 205 of the Ordinance 2001 remained a priority of the FBR as this is one of the important sources that helped increase collections. It has been observed that in the last two years withholding taxes in respect of corporate salaries under section 149 remained a neglected area. There is a need of focused withholding audit of salaries of corporate sector which can yield significant revenue, they added. **(Business Recorder April 4, 2014)**

FBR's erratic ARC a cause of problem for taxpayers

KARACHI: Federal Board of Revenue's (FBR's) automated revenue collection (ARC) is 'pain in the neck', creating hurdles instead of facilitating the tax payers.

The existing system being implemented by the FBR in collaboration with Pakistan Revenue Automation Private Limited (PRAL) is not delivering the results as there are many discrepancies which the industrialists face every day. In the case of adjustment of sales tax that importers and businessmen pay during the import stage, they are showered with a lot of obstacles in its proceedings. The FBR had revised the automated revenue collection system (PRAL) without any proper planning.

Ismail Suttar, President Lasbela Chamber of Commerce and Industry (LCCI) has come out in a strong statement urging the FBR to immediately take up the matter with PRAL to update the automated revenue service in order to remove the difficulties of the manufacturing industries to get the adjustment of sales tax they paid at the import stage. Many importers and businesses have been facing unnecessary hurdles in getting the adjustment of sales tax since July 2013 when the abrupt revision of PRAL system was enforced, as FBR implements the automated system through PRAL.

He suggested the FBR not to make abrupt and arbitrary changes in PRAL system for manufacturing industries, without knowing its consequences in order to cover its own weaknesses in enhancing the revenue collection.
The LCCI President further clarified that many industries have to pay customs duty, income tax and sales tax on manual challans at the import stage due to the limitations of automated system. These payments are received by the Customs authorities after due vetting and clearance of goods at the import stage. However, the same are not being allowed to be adjusted in the system which is usually done in the monthly sales tax returns filed by the industries.

He said that a similar issue was faced by the industry regarding the federal excise duty (FED) adjustment on oil imports.

The industry had to run pillar to post to get that adjusted. After many months of efforts, the FBR allowed it for the industry. However, the system was not upgraded to allow all industries to claim the rightful adjustments and therefore many industries are suffering from the inefficiency and indecision of FBR authorities.
Ismail Suttar was very much concerned about this state of affairs as during these days of economic hardship and slow economic growth, the FBR is not able to facilitate the manufacturing industrial sector which is the engine of economic growth. The manufacturing industrial sector not only contributes positively towards economic growth but also provides employment to a large number of people. "It is not desirable that this sector suffers and makes appeals to the authorities for claiming the tax adjustments". This situation sends a negative message for the industrial development in the country.

Ismail Suttar said that it is a matter of great concern that the affected persons have been communicating with the relevant RTOs, PRAL, and Customs authorities regarding the issue, who agree that this should be done but none of the agencies are taking necessary steps to update the system. Keeping in view the importance and urgency of the matter, the LCCI chief urged the inland revenue department of the FBR and the PRAL to work together in order to find a solution to resolve the problems in getting the sales tax adjustments by the manufacturing industrial sector, who are being penalised for no reason.**(Business Recorder April 4, 2014)**

Lawmakers, Non-payment of taxes to be probed

ISLAMABAD: National Assembly adopted a motion authorising the Speaker to constitute a 10-member special committee, with representation from all major political parties, to investigate the allegation of the non-payment of taxes by a number of parliamentarians and report the matter within 90 days.

Treasury benches supported the resolution and constitution of the ten-member committee to investigate the matter. The motion says that the committee should consist of not more than ten members, belonging to major political parties to investigate the issue.

PTI member Asad Umar moved the motion in the National Assembly on behalf of his party, saying the constitution of the special committee was important because people deemed the majority of the parliamentarians as tax evaders.

"It is in the national interest that the issue should be investigated properly and the report be made public," he said, adding that the investigation on the matter would help restore the confidence of people in the parliament.

Speaking on the motion, PTI chairman Imran Khan said that tax evasion and poor tax collection were one of the major stumbling hindrances to the way of the country's progress and prosperity. The total income of Pakistan stood at around Rs 2.4 trillion while the expenditure exceeded from Rs 4 trillion, he said, adding the country was paying Rs 1.3 trillion only in debt servicing.

"The PML-N has been in power for eleven months but so far no tax reforms have been introduced," he said, adding "poor tax collection can even compromise our independence."

Khan said that if the government failed to broaden the tax net, the country would not be able to provide education and food to the growing population. "Pakistan is amongst the ten countries where tax to GDP ratio is the lowest," he said.
Talking about his own tax returns and assets, Khan said the government should start audit of his taxes and assets. "If anything fishy surfaces during investigation of my tax details and assets, I should be sent behind bars," he said.
He offered the government to confiscate all his secret and undeclared assets in Pakistan and abroad, if any.

The government was passing inflationary pressures on the poor people because it was hesitant to broaden the tax net and levy direct taxes on the rich and well-off people, Khan lamented.

"If rich people were not brought into the tax net, it could help spread anarchy and chaos in the country," he said, adding that the French Revolution was due to poor taxation system of the country.**(Business Recorder April 9, 2014)**

Parliamentarians' tax diary

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Finance Div asks FBR to furnish list of serious tax crimes

ISLAMABAD: The Finance Division has asked the Federal Board of Revenue (FBR) to provide a list of serious tax crimes related to sales tax, income tax and FED to be declared as predicate offences under Anti-Money Laundering Act, 2010.

The Finance Division will convene the meeting of the working group to decide about the serious Inland Revenue and Customs related crimes under Anti-Money Laundering Act, 2010.

The Board has identified 26 serious tax crimes related to sales tax, income tax and federal excise duty to be declared as predicate offences under AML Act.

To implement Financial Action Task Force Recommendations (FATF), Financial Monitoring Unit (FMU), State Bank of Pakistan, has approached the FBR to specify the tax crimes under all three Inland Revenue Laws, ie, Sales Tax Act, 1990, Income Tax Ordinance, 2001 and Federal Excise Act, 2005, for inclusion as predicate offences under the Anti-money Laundering Act, 2010. It has been decided that the FBR (IRS and Customs) will furnish separate list of serious tax and custom related offences at the earliest for consideration by the working group. The working group will finalise the list of tax and customs crimes for designating them as predicate offences under Anti Money Laundering Act, 2010 and placing the list before general committee.

Accordingly, important tax crimes under all three Inland Revenue Laws have been gleaned and are finalized along with other necessary ancillary amendments, for considered input. In this regard, the FBR has finalized 26 serious tax crimes regarding sales tax, income tax and federal excise duty to be considered as predicate offences under Anti-Money Laundering Act, 2010. **(Business Recorder April 22, 2014)**

16 'errant' sugar mills, FBR raises Rs400m tax demand

The Federal Board of Revenue (FBR) has raised a tax demand of Rs400 million against 16 sugar mills, which are involved in stocking 770,538MT sugar worth Rs33.7 billion to suppress its sales.

According to sources, the FBR after detecting serious discrepancies in their financial ledgers posted its officers at sugar mills across Sindh to monitor sugar production under section 40-B of Sales Tax Act 1990 and directed the mills to submit a weekly monitoring report to ascertain the facts behind severe dip in revenue collection in sugar sector, which is up to 80 percent.

The weekly monitoring report submitted by the field formation revealed that some 16 sugar mills reportedly stocked 770,538MT sugar worth Rs33.7 billion to suppress sales, following low sugar ex-mill price since last November. This practice is aimed at evading FED besides concealing annual income of sugar mills. After examining the financial ledgers of the sugar mills, the Large Taxpayers Unit (LTU), Karachi issued tax recovery notices to 16 sugar mills across Sindh and raised tax demands to the tune of Rs400 million, sources said.

Sources said tax refunds of these sugar mills in Tax Year 2013 was also 150 percent higher than tax payments, showing an alarming performance wherein tax refund claims were over Rs550 million against tax payables of over Rs350 million. Replying to a question, sources said sugar price had declined in Tax Year 2013 but most of the sugar mills had consistently been declaring huge losses since Tax Year 2010, casting doubts on sugar mills' tax returns.

They said that sustainability of these sugar mills declaring huge losses even during sugar price boom during 2011 raised questions about the declared version of these sugar mills and there were suppression of sales by sugar mills. They said current domestic price of sugar stood at approximately Rs 50 per kg ($510/ton), which is linked with international market prices, at around $537/ton.**(Business Recorder April 24, 2014)**

FBR approaches PCB to check tax evasion

The Directorate General of Intelligence and Investigation Inland Revenue (IR) Federal Board of Revenue has approached the Pakistan Cricket Board (PCB) to check evasion of taxes by prominent cricketers, who are paying less income tax, placing themselves in the category of service providers (6 percent tax) instead of actual tax on salary (tax rates 15-25 percent).

The national cricket team is getting salary from the PCB, however, they are paying taxes as service providers at the rate of 6 percent. They are liable to pay tax on the basis of salary slabs of 15-25 percent. The evasion of income tax comes to around 19 percent.

In this case, lesser rate of deduction at source is made in case of cricketers. The services under section 153(1) (b) attract tax deduction of 6 percent, whereas the amount of salaries u/s 149 drawn by national cricketers warrant tax deduction between 15-25 percent.

According to the directorate of intelligence IR, generally payments made by PCB to the players is categorised under the heads of salary under central contract, match fee, performance bonuses and sponsorship share.

While the last three are linked with certain external factors, the payment under the head of salary remains the same for a certain period of time. Occasionally, PCB enhances the salaries as has been done quite recently.

The word 'salary' is invariably used for the said regular amount paid by the PCB to players for a certain period of time. Moreover, once players enter into agreement with PCB for a certain period of time they cannot play for any other organisation or club or department or league or county or country without prior permission of PCB. Similarly, within the contract period they cannot even accept local or foreign sponsorship. The said restriction clearly creates an employer-employee relationship between the PCB and contract players. However, tax withholding statements show that while making deductions against the aforesaid amounts provisions of section 149 are not invoked rather section 153 (1) (b), ie, tax on services is applied. This misapplication results in lesser rates of deduction at source, (Services u/s 153(1) (b) attract tax deduction of 6 percent, whereas the amount of salaries u/s 149 drawn by national cricketers warrant tax deduction between 15-25 percent.)

The players claim expenses against the income from services rendered, whereas no such allowance is admissible against the salary income. (Actually all expenses are borne by PCB). The Directorate has asked the Directorate I&I-IR Lahore to ensure that the issue of taxes (relatable to Tax Year 2013) deductible but not deducted by PCB is raised with PCB and concerned RTO so as to recover the lost revenue.

For the taxes deductible u/s 156, but not deducted by authorities other than PCB may be approached for recovery because PCB holds control over the payment of salaries, match fees, bonuses and share from sponsorships to the members of national cricket team, selectors and other concerned officials.

PCB may be educated about the relevant legal provisions, the Directorate added. The issue of services vs. Salaries may be probed and taken up with PCB so as to ensure the corrective measures. Removal of this anomaly would result in substantial tax withholding, directorate of intelligence IR added. **(Business Recorder April 2, 2014)**

Bridging the tax gap

THE Federal Board of Revenue is under pressure to achieve the revenue target of Rs2.4 trillion for this fiscal year. It is said that the best way to raise taxes is through accelerated economic growth.

However, the lackluster growth due to a myriad of social, economic and political problems provides little space for raising additional tax revenue.
The apex tax authority, therefore, needs to focus on exploiting the existing tax gap for extra tax collection. The tax gap emanates from faulty tax policies and imperfect enforcement. And the tax policy gap arises from exemptions and tax amnesty schemes.

There is an enormous revenue loss due to exemptions, allowances and deductions from income tax, sales tax and customs duty, which was Rs887.5 billion or equal to 3.9pc of GDP in fiscal year 2012-13.

Generally, the tax incentives (exemptions) are provided to the investors to boost economic growth and create jobs. Nevertheless, slow GDP expansion over the last five years or so has demonstrated the ineffectiveness of tax incentives in accelerating the pace of growth. Likewise, the tax amnesty schemes introduced from time to time frustrate the FBR`s efforts to curb tax evasion. The tax amnesty schemes adversely affect documentation, distort uniform collection of taxes and ensure horizontal and vertical equity, violating the two golden principles of good taxation.

Such schemes widen tax policy gap as they raise expectation of taxpayers for more such packages in the future. Furthermore, as the amnesties provide immunity from tax audit, this further hinders the process of tax compliance.

There are more than one form of tax evasion such as none or under reporting of tax liability. Inadequate staff, scarcity of physical and financial resources and/or poor working capacity of the tax officials may result in weak enforcement. And taxpayers might exploit weaknesses in the enforcement mechanism to evade taxes. In order to improve revenue performance, it is necessary to bridge the tax policy gap as well as tax gap arising from weak enforcement. Minimal use of exemptions is needed to refine the existing taxes and to provide level playing field for all sectors of economy. At the same time, it is crucial to strengthen the current enforcement mechanism by enhancing administrative efficiency and capability as well as improving taxpayer compliance through taxpayer services and education.

In addition, regular and effective examination of records could be a deterrent against tax evasion and under reporting. At the same time, appropriate training of the relevant staff could improve recovery out of demand created from examination of records.

The effective use of relevant information could help bridge the tax gap besides encouraging documentation. Listening to public opinions and suggestions could improve mutual understanding and trust between taxpayers and tax officials, and this has to be addressed at each level of tax management.

Last but not the least, it is imperative to impose stipulated penalties on taxpayers who violate provisions of law. At the same time, strengthening the tax investigation system is fundamental in creating deterrence against tax evasion and bridging the tax gap. **(Dawn April 7, 2014)**

Rs70bn shortfall in revenue collection likely

Pakistan`s top tax machinery is set to face another shortfall of over Rs70 billion in the fourth quarter (April-June) of the current fiscal year owing to poor compliance and governance issues.

It may be a major setback to the government. It is estimated that revenue collection will evolve around Rs700 billion in April-June 2014, a growth of over 17 per cent from the previous collection of Rs594bn during the same period last year. The target set for the fourth quarter was Rs775bn to reach the downward revised target of Rs2,345bn by the end of June 2014.

As a result of the shortfall, overall revenue collection target is expected to hover around Rs2,270bn by the end of June 2014 as against the downward revised target. Tax experts estimate a shortfall of Rs70bn to Rs80bn in the fourth quarter.

In July-March 2014, revenue collection stood at Rs1,575bn as against Rs1,354bn collected during the same period last year, showing a growth of 16pc.

For May 2014, the growth in revenue collection was projected at 26.7pc as revenue target was fixed at Rs219.5bn this year as against Rs173.3bn collected over the corresponding month of last year.

The Fund believed miracles in June 2014 as it projected a growth of 34.2pc for the month`s collection at Rs359.1bn this year as against Rs267.6bn over the corresponding month of last year.
The government also projected the growth target at the lower side for the first three quarters to show better results and avoid criticism. The fourth quarter target was set at higher level purposefully.

Tax experts say three quarters taxcollection performance shows that growth in the fourth quarter would remain between 17pc and 20pc if no new revenue measures were taken by the government. **(Dawn April 3, 2014)**

Over 0.1m new taxpayers to be brought into tax net each year

Federal Board of Revenue's (FBR) Chairman Tariq Bajwa said that government has decided, in principle, to expand the tax net, saying that at least 0.1 million new tax payers would be brought into the tax net, each year.

Speaking at the 2nd All-Pakistan Chambers Presidents Pre-Budget Conference held at Faisalabad Chamber of Commerce & Industry, he appreciated the efforts of the FCCI for convening such a crucial conference 10 weeks before the announcement of the Federal Budget 2014-15.

He said: "Most of the business community is patriotic and ready to pay their due taxes, but while making demands we should keep in mind the present fiscal environment in which we are living."

He said: "We only generate revenue to meet our 70 percent requirements and we have to borrow remaining 30 percent to manage our day-to-day affairs. This situation is neither acceptable nor sustainable and we all should concentrate on how we could come out of this situation and put our country on road to progress and prosperity.

He said that the taxation should be growth-oriented and all sectors must pay their due share. He lauded the efforts of the FCCI president in getting assembled all presidents of Chambers of Commerce and Industry from all over the country on one platform with the single objective of resource mobilization.

The FBR chief said that Prime Minister's Investment Package was a unique opportunity and non-filers could avail this facility till April 30, 2014.

About rationalization, he said that the SRO culture would be eliminated, while the process for sales tax registration has been initiated with green channel to ensure complete transparency.

Regarding refunds, he said that refund claims up to Rs 1 million are being paid. We have, so far, cleared 20,000 cases, he said and added that in this year we have doubled the amount of refund as last year we had paid Rs1800 million and this year Rs4100m are being paid. He said that improvement in automation is also at the anvil and the PRAL system will bring more clarity and transparency in the tax collection.

He said that our objective has never been to harass the genuine tax payers, but we wanted that every person, having taxable income should come into the tax net. We have issued 80,000 notices in the first instance and are expected to bring 0.1 million new tax payers in the tax net, this year.**(Business Recorder April 21, 2014)**

Dar takes tax officials to task over target

Finance Minister Ishaq Dar asked tax officials to gear up efforts for showing close to 30 per cent growth in revenue collection in the last quarter of this fiscal year to reach the downward revised revenue collection target.`Show me growth in revenue collection otherwise I will open my office in Federal Board of Revenue (FBR),`the finance minister warned the tax officials; giving them a clear message that he will monitor their performance. He showed his displeasure over the shortfalls in revenue collection witnessed in March 2014. I was told in London that the FBR has failed to achieve its target for the month of March, finance minister told the tax officials and asked them to collect the remaining Rs770bn (Rs256.7bn per month) in the April-June period of 2013-14.

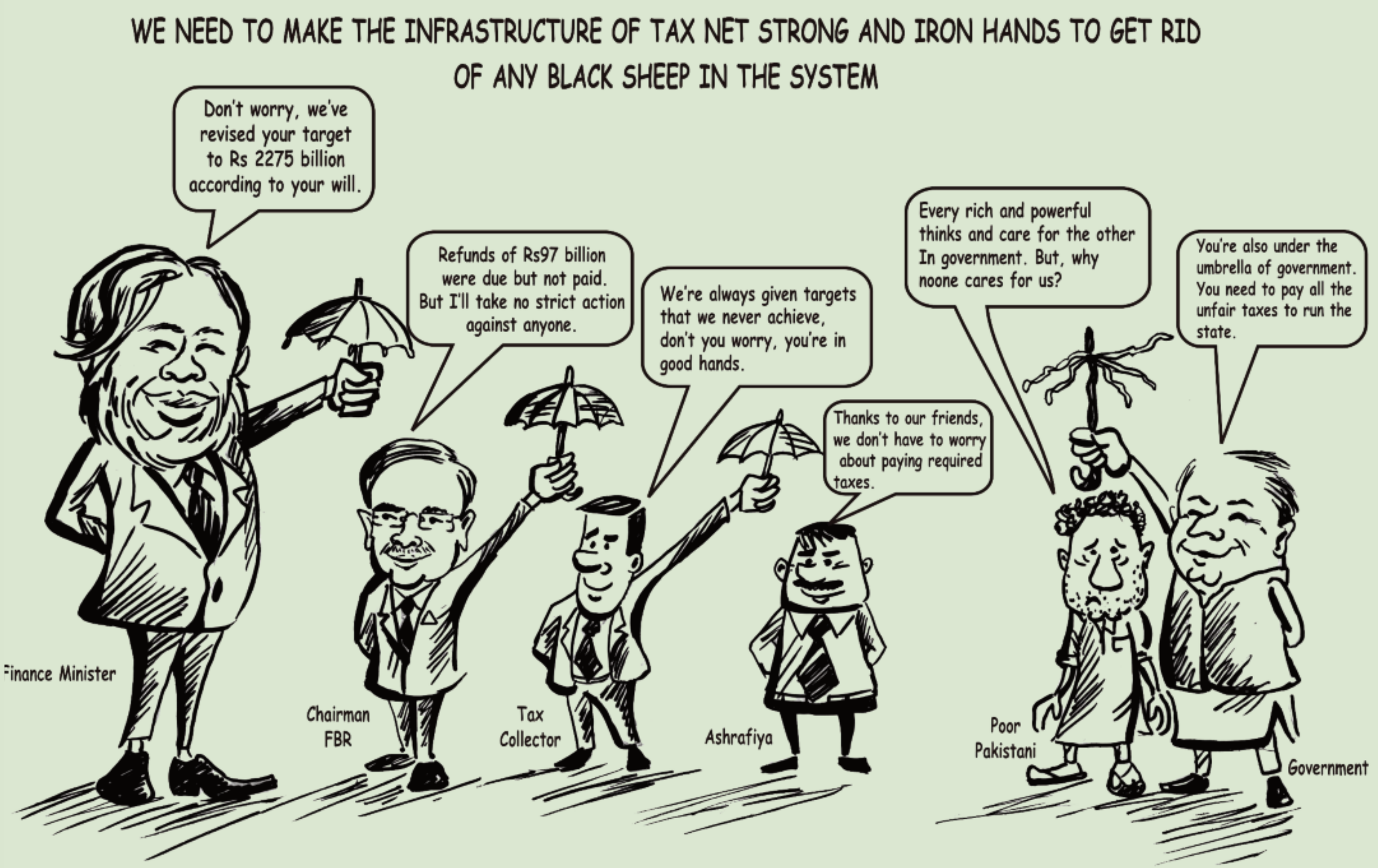
All the chief commissioners were called in to work out ways and means for showing growth in revenue collection to reach the target. The third IMF review is scheduled by the end of the current month, which will set the tone of revenue collection in the last quarter. Privately, tax officials estimate that revenue collection will evolve around Rs700bn in the April-June period of 2014, a growth of over 17pc from the previous collection of Rs594bn during the same period last year.

The target set for the fourth quarter (April-June 2014) was Rs770bn to reach the downward revised target of Rs2,345bn by the end of June 2014.As per targets, revenue collection should be Rs196.4bn this month as against Rs193.2bn collected during the same month last year, a projected growth of 28pc.

For May 2014, the growth in revenue collection was projected at 26.7pc as revenue target was fixed at Rs219.5bn this year as against Rs173.3bn collected over the corresponding month of last year. For June 2014, it was projected a growth of 34.2pc for the month`s collection at Rs359.1bn this year as against Rs267.6bn over the corresponding month of last year. But contrary to these projected growths, the actual growth in revenue collection in the first quarter (July-Sept) was 15.5pc, 16pc in second quarter (Oct-Dec) and around 16.4pc in the third quarter (Jan-Mar).

Tax experts believe a shortfall of Rs70bn to Rs80bn in the fourth quarter. An official said the negative growth in customs collection despite the fact that payment of rebate/refund also witnessed a decline of around 13pc was one of the reasons for shortfall in revenue collection this fiscal year.

Dar said that he wanted to achieve the revenue collection target to keep the budget deficit within the projected limit of 6.3pc for 2013-14. But in case of shortfall, the government will have to make a cut in development expenditures. **(Dawn April 17, 2014)**



Tax exemptions raise new issues

ISLAMABAD: The government has failed to control tax exemptions given to powerful businessmen.

The previous PPP government lost about Rs1 trillion in customs duties, sales tax and income tax exemptions during its five-year tenure while the PML-N government gave away Rs104 billion within first six months of its rule.

Till February, the PML-N government allowed customs duty exemptions of Rs92bn, Rs7.3bn worth of sales tax and Rs2.4bn income tax.The exemptions have been granted under the Statutory Regulatory Orders, which were in place for quite some time. By just issuing an SRO, the government can award tax exemption of any nature to a business of its choice.

Soon after coming to power, the present government promised in its agreement with the International Monetary Fund to review the policy about SROs within three years.

Finance Minister Ishaq Dar had to create a consensus on the issue among stakeholders industrialists and the government organisations by March this year.

But instead of reducing the number of SROs, Mr Dar added new ones to the list.

`Powerful business lobbies benefiting from the SROs are the major hurdle,` the official said.

The Federal Board of Revenue has conducted a study to minimise tax exemptions, showed the documents according to which general and sectoral concessions remained in place for quite some time. The concessions could be categorised under: free trade and preferential trade agreements; imports of essential inputs for various industries; machinery and equipment not manufacture d locally; and inputs for export oriented goods. The number of SROs about sales tax and income tax exemptions are either likely to be rationalised or deleted.

According to the documents, `certain principles have been formulated on the basis of which a number of categories of SROs issued from time to time are planned to be deleted and rationalised over a period of three years`.

A former chairman of the FBR told Dawn that the purpose of SROs was to resolve unforeseen anomalies which came to the fore after the passage of tax-related legislation by parliament. But `SROs are mostly issued at the direct intervention from the top to benefit certain industry, businessman, etc., which the chairman cannot stop`, he said. **(Dawn April 14, 2014)**

Campaign fails to broaden tax base

ISLAMABAD: The PML-N government's talk of bringing the rich into the tax net has failed to produce any noticeable results in the nine months of current fiscal as only a few hundred people have filed their returns on a voluntary basis.

In its first budget, the government announced that it was launching a project to broaden the tax base.

Later under a two-pronged strategy, 100,000 potential taxpayers were included in the list of taxpayers this year and an incentive package was announced for those who are on tax rolls but have not filed returns for the last five years.

The outcome of both the schemes is negligible and unnoticeable. This week's compliance reflects poorly on the tax enhancement drive.

But one should not blame people as nowhere in the world they happily pay taxes. It is an effective tax department which makes it happen. Apparently, the Federal Board of Revenue (FBR)'s tax drive is like old wine in a new bottle.

Campaign for broadening tax base: Around 75,000 notices were issued by the FBR to tax defaulters from July last year to March this year, but only 6,500 people have so far filed tax returns on voluntarily basis.

Data compiled up to Feb 28 shows the dismal performance of the tax enhancement drive. The revenue generated through the drive is in a few millions.

The National Database and Registration Authority has identified more than three million potential taxpayers, who have luxury houses in posh areas and multiple banks accounts and frequently visit foreign countries, but do not pay taxes.

The data was shared with the FBR and verified by officials working for the project. Finance Minister Ishaq Dar has chosen the easiest target of 100,000 people to bring them on the tax roll by the end of June.

A target achieved by the FBR is issuance of notices to around 75,000 people until March. But more than half of the notices could not be delivered to the recipients.

Reasons given for the failure in notice delivery include incomplete or incorrect addresses and people's migration and refusal to receive the notices.

Actually, the FBR is hiding the facts and quoting higher figures of delivered notices. A member of the FBR, Riffat Shaheen Qazi, who was removed from the post of spokesperson for the bureau a few months ago, said that she was punished for providing information about the performance of the bureau to reporters.

The delivered notices also indicate low level of compliance.

FBR spokesperson Shahid Husain Asad told Dawn that the bureau had issued 81,000 notices to people. However, he did not tell that how many of them were delivered and how many recipients had paid taxes.

Mr Asad agreed that no effective outcome of the project was possible until there was a fear of enforcement and audit among people. Currently, both are missing in the tax machinery of the country.

But contrary to the outcome of the drive, the FBR had received 26, 740 new returns and Rs356 million tax under a similar campaign in 2010-11.

Under the scheme, the government focused on affluent people who neither had national tax numbers (NTN) nor filed income tax returns by Nov 2013.

Under the scheme, only 2,600 people filed their returns on voluntarily basis until Feb 28, 2014, when the scheme came to an end. The revenue that came with the returns is less than Rs200m.

As a result of this poor compliance, the FBR extended the scheme until April 30. Issuing tax numbers will not help the FBR in broadening the tax base because there are more than three million people who have already been issued NTNs but only 840,000 of them have filed their returns this year.

Incentive Package

The government launched the incentive scheme to bring affluent people on the tax roll from Jan 1, 2014. It will continue until June 30.
The FBR has no record about the scheme aimed at whitening of black money by investing in industry.
The spokesperson said data about the investment scheme would be compiled by the end of December, when people would file their returns.

He said at least one and a half year was required for an industrial undertaking but the returns to be field by of this year would mention details about the investments made under the scheme.

The government has offered exemption from penalties, surcharges, audit and questions about the source of income under the schemes.

Tax expert Dr Ikramul Haq attributed the poor compliance to the FBR's inefficiency and said it had failed to make those having taxable income to pay tax.

He said the schemes were not well planned and had not been effectively monitored.

He said that FBR officials had become advisers of the effluent people in evading taxes. "Pakistan is case of tax revolt." What is more troubling is the fact that the ranks of taxpaying people seem to be shrinking every year. Statistics show that 1.44m people filed their returns in 2011. But in 2013 there were only about 840,000 taxpayers whom the FBR could trace at their homes or workplaces.

In 2010 1.7m tax returns were filed in the country. Does this mean that the missing numbers are imaginary taxpayers?

A comparison shows that only 0.4 per cent of the population pays taxes in Pakistan, against 4.7 per cent in India, 58 per cent in France and 80 per cent in Canada.
In the last nine months of current fiscal, FBR has witnessed a tax shortfall of over Rs130bn. Instead of making efforts to increase revenue, successive governments have taken loans from the IMF and other lending agencies to pay interest on previous loans. During last year's election campaign, Nawaz Sharif criticised the PPP government for taking loans from the IMF and pledged to take no loan from it after coming to power.

But now his finance minister is building up the country's reserves on loans from donors and 'gifts' friendly countries instead of increasing the country's exports and revenue. **(Dawn April 6, 2014)**

Hawlett-Packard shares information with FBR

Arrest of officials

By Mehtab Haider ISLAMABAD:
The regional office of the Hewlett-Packard (HP) in Singapore finally shared the information required by the Federal Board of Revenue (FBR).

"After the arrest of two HP officials from Karachi, the HP's regional office contacted the FBR and shared the required information, which was earlier not provided despite that the FBR sought the information through four letters," the officials said.

The FBR had asked the company to share information regarding the alleged tax evasion scam.

The FBR's Intelligence and Investigation team of Inland Revenue had nabbed two HP's officials on information from the third party sources that the multi-national company was involved in an alleged tax scam.

"We have unearthed a complete chain of an alleged tax fraud from retailer to distributor and then to manufacturer spanning from Islamabad to Karachi and to US," commented an official at the FBR. He said that the tax authority had been working on this case for the last one year. He further said that the tax officials had made an arrest of Asad Haider of Horizontal Business from the Blue Area, Islamabad last year.

This led to a due against a major information technology company Advance Business System (ABS), which is a distributor of Hp, he added.

"We recovered millions of rupees from the Horizontal Business and also proceeded against an FBR official who allegedly tried to pocketing money through corrupt practices," said the official.

The intelligence and investigation wing received credible information that ABS was allegedly involved in the tax evasion and frauds as defined under the Section 2 (37) of the Sales Tax Act, 1990.

The ABS approached the Sindh High Court and obtained a stay order.

The investigation, said the tax official, found that ABS was issuing non general sales tax invoices to understate its tax liabilities, maintaining benami bank accounts to deceive the tax authorities, depositing in them money earned through this illegal and unlawful transaction and selling computer hardware and peripheral devices imported through carriers to evade taxes.

A search, he added, was also conducted at the Islamabad office of ABS to obtain material evidence after obtaining an approval from the magistrate and in accordance with the Section 40 of the Sales Tax Act, 1990 and relevant provisions of the Code of Criminal Procedures, 1908.

According to the FIR, the data available in a laptop of a company showed that the sales tax was evaded on HP products amounting Rs29.062 million between 4 December 2012 and 1 November, 2013.

The ABS is a distributor of several other companies, including Dell, Acer, Touchme, etc.

The FBR also established that the ABS office in Islamabad was maintaining benami accounts on the name of its employees: one on the name of GM Traders (account number 02011841920, Soneri Bank, Blue Area, Islamabad) and Parwaiz (acct no-1323-20309-714-116897, Summit Bank Limited).

These undeclared benami accounts were allegedly maintained to evade taxes and for illegal transactions out of books, according to the FBR's officials.

Moreover, the tax machinery found ABS involved in the sale of products imported illegally and which were not appeared in domestic purchases.

The FBR obtained data from Dell regarding purchases of ABS and imports declared by it.

The data showed significant difference between the total imports declared and actual imports from Dell for 2012-13, said the officials.

"This difference is equal to Rs1.2 billion on which sales tax was allegedly evaded."

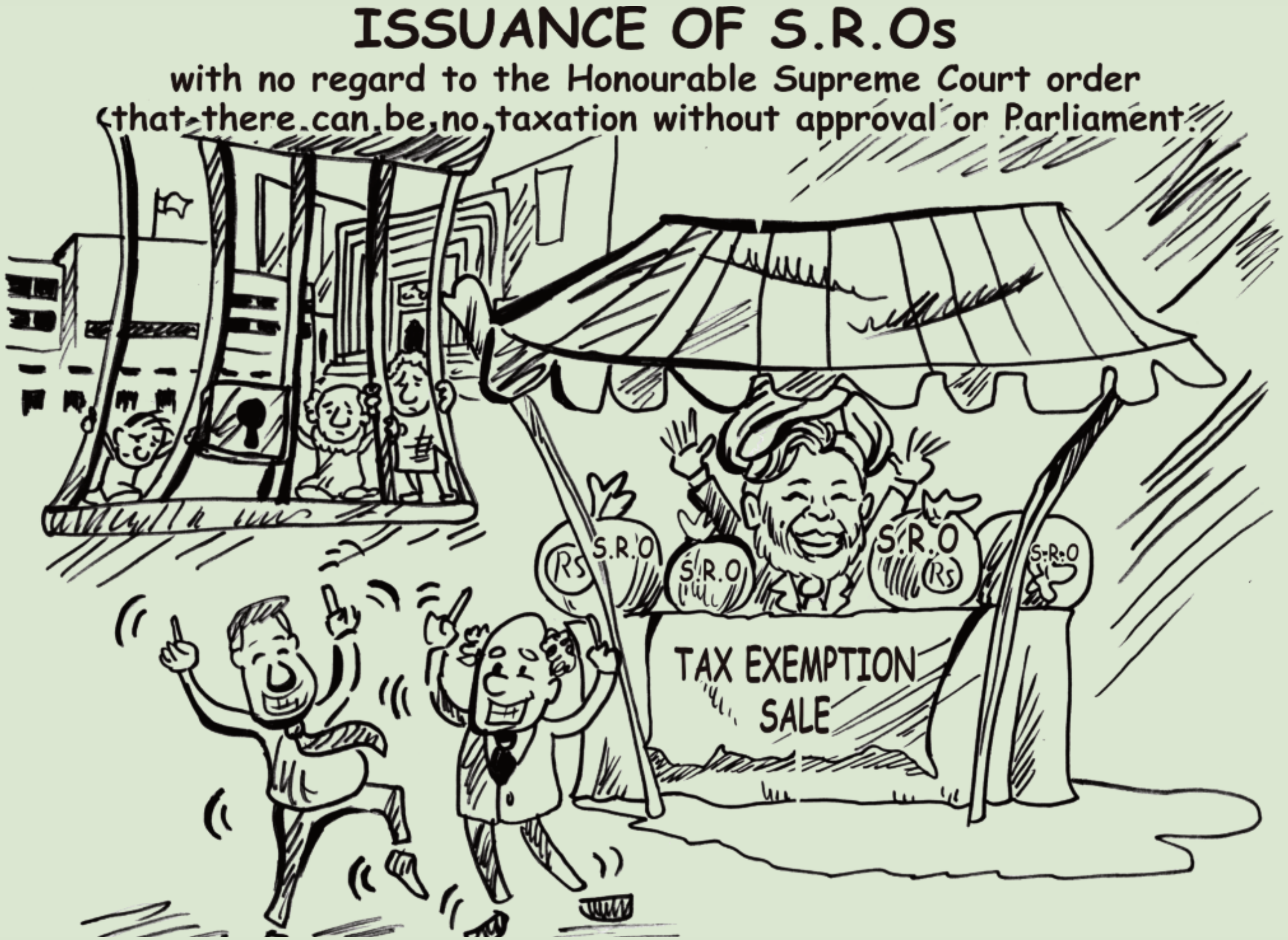
The stock and sales statement of the Islamabad office of ABS shows that a large number of products are sold, which are imported illegally to allegedly evade tax. The ABS version on the story is not available. **(The News April 8, 2014)**

Harmful SRO culture

THE culture of the Statutory Regulatory Order has over time deeply entrenched itself in the country`s tax administration because of the excessive misuse of legislative powers delegated by parliament through laws to the tax authorities. By definition, the use of SROs should be restricted to framing rules and procedures for implementing a tax law or laws. Or it can be used to remove `hardships` and ambiguities without involving new levies, exemptions, concessions, waivers, etc that taxpayers may encounter during the enforcement of a tax law or laws passed by the legislature. In Pakistan`s context, however, the FBR has also been given statutory powers to give unlimited tax concessions, waivers and exemptions without parliamentary approval. That is why experts find the excessive misuse of delegated legislative powers favouring powerful interest groups at the cost of honest taxpayers to be at the root of our tax woes. The practice of handing out massive financial favours in the name of tax exemptions, concessions and waivers is not restricted to one particular government or the other. If, for example, the previous government gave away Rs1tr to different powerful lobbies in five years through SROs, the incumbent rulers have already doled out Rs104bn in the first half of the present fiscal, according to a report.

It was with a view to putting an end to the misuse of SROs that the IMF had made the government agree to withdraw tax exemptions to the tune of Rs350bn in three years in exchange for a bailout. It, nevertheless, is surprising that the government is still continuing to offer tax favours, notwithstanding its plans to revoke some tax exemptions in its next budget. FBR officials say notifications issued by the board to give exemptions and concessions are ordered by the political authorities. While it is largely true, the board has overstepped its delegated legislative powers in many cases at its own discretion.

The practice of helping favourites through SROs cannot be ended without drastically limiting the taxman`s authority to make rules and remove the `hardships` of taxpayers through notifications. The powers of giving tax exemptions, concessions and waivers should rest entirely with parliament as ruled by the Supreme Court a few times in the past. **(Dawn April 15, 2014)**



LTU Karachi recovers Rs14bn from large taxpayers

KARACHI: The Federal Board of Revenue (FBR) has recovered Rs14 billion from large taxpayers under the heads of avoidance and wrong calculation.

The officials said that the Large Taxpayers Unit (LTU) Karachi had sent a report to the revenue body, mentioning that around Rs12 billion has been recovered through the audit exercise for the tax year 2013 and the remaining Rs2 billion for other years.

The LTU Karachi, a major revenue collecting arm of the FBR, has the jurisdiction over corporate entities, including local and multinationals with large turnover and having head offices in Karachi.

The officials said that the unit conducted desk audit of 404 entities, which filed income tax returns for the tax year 2013 and another 335 cases for the previous years.

The unit recovered around 87 percent of the demand of Rs14 billion raised against 70 large taxpayers for the tax year 2013, where discrepancies have been detected.

For the previous years, the unit demand created Rs4.9 billion and recovered Rs2 billion, the officials said, adding that the unit made these recoveries during February–March.

The LTU officials said that the successful recovery was made possible by utilising taxpayer audit monitoring system (TAMS) where all related information of taxpayers is available.

The FBR initiated TAMS for the availability of all online information of a taxpayer for the purpose of desk and composite audits. Sources in the LTU Karachi said that the chief commissioner had instructed the officials to ensure feeding of data into TAMS, otherwise disciplinary action should be initiated against them.

The LTU Karachi selected the cases belonging to sectors, including textile, sugar, pharmaceutical, banking, insurance, etc.

The audit was initiated under Section 122 (5) (A) of the Income Tax Ordinance, 2001 and Section 25 (4) of the Sales Tax Act, 1990.

The unit also created recovery demand of Rs3.8 billion in those cases that were selected by the department prior to the selection of cases by the FBR, which were reamended later and recovered Rs3.7 billion, the officials said.

The overall recovery of the LTU Karachi will help the FBR reach near the ambitious collection target of Rs2,475 billion set for the fiscal year 2013-14, the officials added. **(The News April 11, 2014)**

FBR launches investigation into money laundering cases

Amnesty on remittances
By Shahnawaz Akhter

KARACHI: The Intelligence Wing of the Federal Board of Revenue (FBR) has launched a probe in money laundering cases of suspected persons.

The Directorate General of Intelligence and Investigation (DG I&I) Inland Revenue, FBR, Karachi, said that the directorate had detected cases where income had been concealed by showing foreign remittances.

An official at the directorate, on the condition of anonymity, said that the authorities were investigating Section 111 of the Income it Ordinance, 2001 regarding concealed and unexplained income by identified persons.

The official said that the details of bank accounts of the persons had been obtained to determine the transactions, where accused persons declared those incomes received under foreign remittances.

Under the prevailing income tax law, persons receiving foreign remittances are exempted from declaring the source of income. Sources in the FBR said that the concession was grossly misused and opened the door for money laundering through different channels.

Under Section 111 of the Income Tax Ordinance, 2001, concealing income is a punishable offence and attract heavy penalty.

However, subsection 4 of the main section granted amnesty from declaring the source to persons receiving foreign exchange remitted from outside Pakistan through normal banking channels that encashed into rupees by a scheduled bank and a certificate from such a bank is produced to the authorities concerned.

The DG I&I, Karachi is finalising such a case where a person has over Rs450 million in bank account and during investigation the amount was declared as foreign remittance received by the person.

However, the FBR intelligence claimed that such an amount was received through hundi / hawala and was taking advantage of the concessionary regime allowed to foreign remittances. The sources said that the FBR officials obtained details of bank account of the person and also requested the State Bank of Pakistan (SBP) to share information about the remittances received by the person.For the last several years, different quarters have raised their voices to restrict the facility to only blood relatives.Recently, the Pakistan Business Council in its budget proposals for the fiscal year 2014-15 had suggested amendments to the law of unexplained income or assets. The council suggested that the facility regarding foreign remittances should only apply to remittances received by a person for investment in an industrial undertaking and for all other purposes up to and the amount not exceeding $25,000 or equivalent during a tax year.

The council giving rationale said that it will ensure that the funds remitted under the prevailing laws should not distort the formal economy. **(The News April 8, 2014)**

FBR launches Rs25bn recovery drive

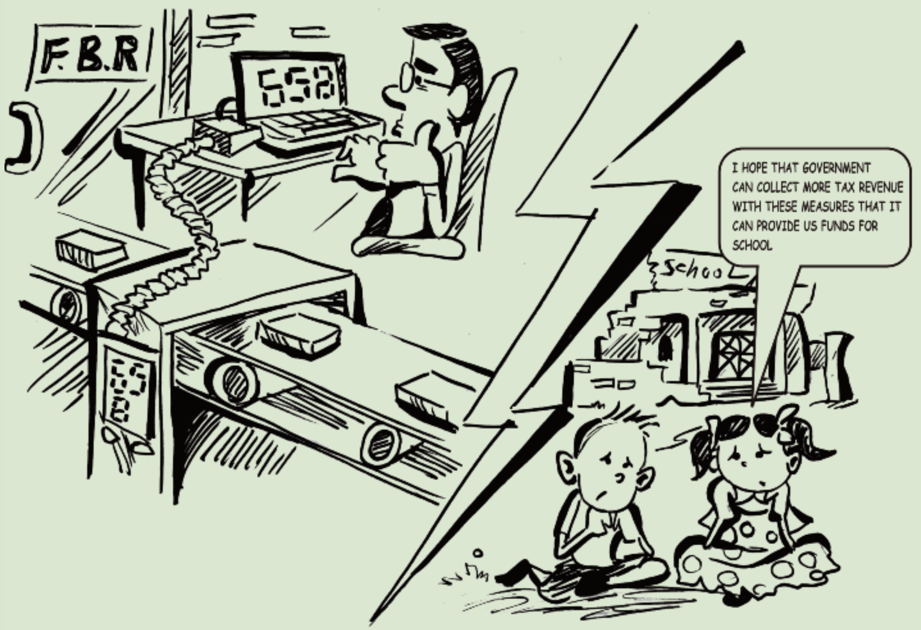
Arrests, freezing bank accounts on the cards

By Shahnawaz Akhter

KARACHI: The Federal Board of Revenue (FBR) has launched a recovery campaign against large taxpayers and finalised strategy to exercise all available options, including freezing of accounts and arrest of company officials.

The officials said that the Large Taxpayers Unit (LTU) Karachi, one of the major revenue collection arms of the Federal Board of Revenue (FBR), has finalised strategy to recover an estimated Rs25 billion during the remaining months of the current fiscal year

FBR LAUNCHES ELECTRONIC MONITORING OF INDUSTRIAL OUTPUT FOR TAX COLLECTION



2013-14. Cases have been identified for recovery where the demand was created and now cleared from commissioner appeals, tribunal and higher courts, he said.

The unit estimates around Rs20 billion to Rs25 billion recovery during the next 21/2 months," an official said on the condition of anonymity.

"In case of non-recovery, the department may resort to available options, including attachment of bank accounts, arrest of company officials and auction of properties," the official said.

The latest recovery drive has been initiated as part of achieving the revenue collection target at the national level.

The chief commissioners' conference, Finance Minister Ishaq Dar had said that there are challenges to achieve even reduced downward target of Rs2,345 billion. The government in the last budget had assigned the FBR collection target of Rs2,475 billion during 2013-14.

Sources in the LTU said that the recovery has to be made from 250 taxpayers, including multinational and local firms where the demand was created in audit and Section 122 (5A) of the Income Tax Ordinance, 2001 and single and multiple audits under the Sales Tax Act, 1990.

The LTU Karachi has also invoked 40B of the Sales Tax Act, 1990 in several cases and recovered substantial amount. The LTU officials said that more recoveries are in the pipeline.

The unit recently invoked the section on sugar sector where collection of the federal excise duty increased significantly.

As per the available data, sugar companies paid Rs 1. billion during the nine months of the current fiscal year against Rs1.75 billion during the last fis-cal year.

The unit hoped to recover another Rs.1 billion from the sugar companies in the remaining three months.

The officials said that 40B also invoked other multinational companies to determine their stock position and sales invoices.

Around 900 companies are registered with the LTU Karachi that have either Rs400 million annual turnover or annual Rs25 million payment of liabilities, including sales tax, income tax and federal excise duty.

The companies where recovery will be made belonged to the sectors including insurance, banking, textile, pharmaceutical, oil marketing companies, refineries, beverages, engineering, edible oil, cement, multinationals, airlines, etc, the officials said.

Sources in the revenue body said that similar exercise had also been initiated at other LTUs and Regional Tax Offices. **(The News April 17, 2014)**

FBR deploys officials at manufacturing units

Sales tax evasion
By Shahnawaz Akhter

KARACHI: The Federal Board of Revenue (FBR) has expanded the scope of investigation to determine the stock position of corporate entities by deploying tax officials at the production facilities.

The officials said that the measures have been taken after collection of sales tax by a few sectors of the economy declined during the current fiscal year. They said the preliminary reports indentified sales tax evasion.

The FBR deployed officials of Inland Revenue at factories or production facilities of selected corporate entities under Section 40 B of the Sales It Act, 1990. Under the section, the revenue body can post an officer of Inland Revenue to the premises of registered persons or class of such persons to monitor production, sale of taxable goods and the stock position.

The section also empowers a commissioner of Inland Revenue to exercise the same on the basis of material evidence against the registered person who is involved in the sales tax evasion or tax fraud.

Recently, the Large Taxpayers Unit (LTU) Karachi with the approval of the FBR had deployed the officials at sugar mills to inspect their raw material and sales during a month, which resulted in massive growth in the sales tax collection.

The unit collected Rs1.89 billion as sales tax during July—March 2013-14, which was Rs1.75 billion during the previous fiscal year. The unit expects another Rs1 billion in sales tax collection in the remaining three months of the current fiscal year.

An official at a local tax office said that Section 40B normally exercised for a month to check the sales and use of raw material for the current month, which enables the authorities to compare with the previous month. Recently, the FBR had approved invoking the section on more companies belonging to different sectors for inspection.

The companies in textile, cement, fertilisers, etc, were under observation.

The FBR had received information regarding misuse of several statutory regulatory orders (SROs) where have been concessions allowed for the export sector.

Some industries were found involved in misusing the facility of zerorate of indirect taxes to the ex-port sector and they declared their supplies as exports, which were actually supplied to the local market, where tax rates were higher. **(The News April 19, 2014)**

FBR's taxpayer database is less useful than it looks

ANALYSIS
There is a difference between paying taxes and filing tax returns
FAROOQ TIRMIZI
SOUTH BEND, INDIANA

774,706. That is the number of taxpaying entities that the Federal Board of Revenues says existed in Pakistan in 2013. Except that the number is simply not true.

The list published by the FBR includes hundreds of thousands of names of people who have evaded their taxes and excludes the names of hundreds of thousands of hardworking Pakistanis who pay their taxes. Indeed, the list is more useful in what it does not reveal than what it does. It says more about the FBR's limited capabilities than it does about who pays taxes in Pakistan and who does not

Disclosure: I worked as a consultant for the FBR in December 2012. For a month, I lived and breathed a dataset quite similar to the one made public, as well as a far larger set of data that remains confidential. While I was not in favour of publishing this dataset, it is useful to have a conversation about just why there are so few tax-payers in Pakistan in the first place. The problem lies in our culture of tax evasion, yes, but also because the FBR needs to do a better job.

Let's start at the very beginning: this database covers only federal income taxes for entities that filed an income tax return in 2013, or for whom their withholding agent filed income tax information. What it does not include are people whose income taxes were withheld by their employer, or other sources, and who did not file their tax returns.

The FBR database is effectively an admission that the govt. is only collecting taxes from about 17% of the potential taxpayer population. **(Express Tribune April 21, 2014)**

Govt likely to withdraw SROs

By Shahnawaz Akhter

KARACHI: The government is likely to withdraw Statutory Regulatory Orders (SROs) and allow reduced duty/tax rate across the board for selected sectors or commodities. The decision may be taken in the federal budget 2014/15. A committee formed by the finance ministry to phase out the SRO culture in the country has recommended the withdrawal of the notifications where about 80 percent of imports of specific sector or commodity are cleared taking advantage of the SROs and if necessary the reduced duty/tax rate across the board would be allowed.

The remaining 20 percent will also take the same advantage of reduced rate, the SRO committee also recommended to withdraw those SROs where impact is Rs30 million. This withdrawal the number of SROS will come down significantly.

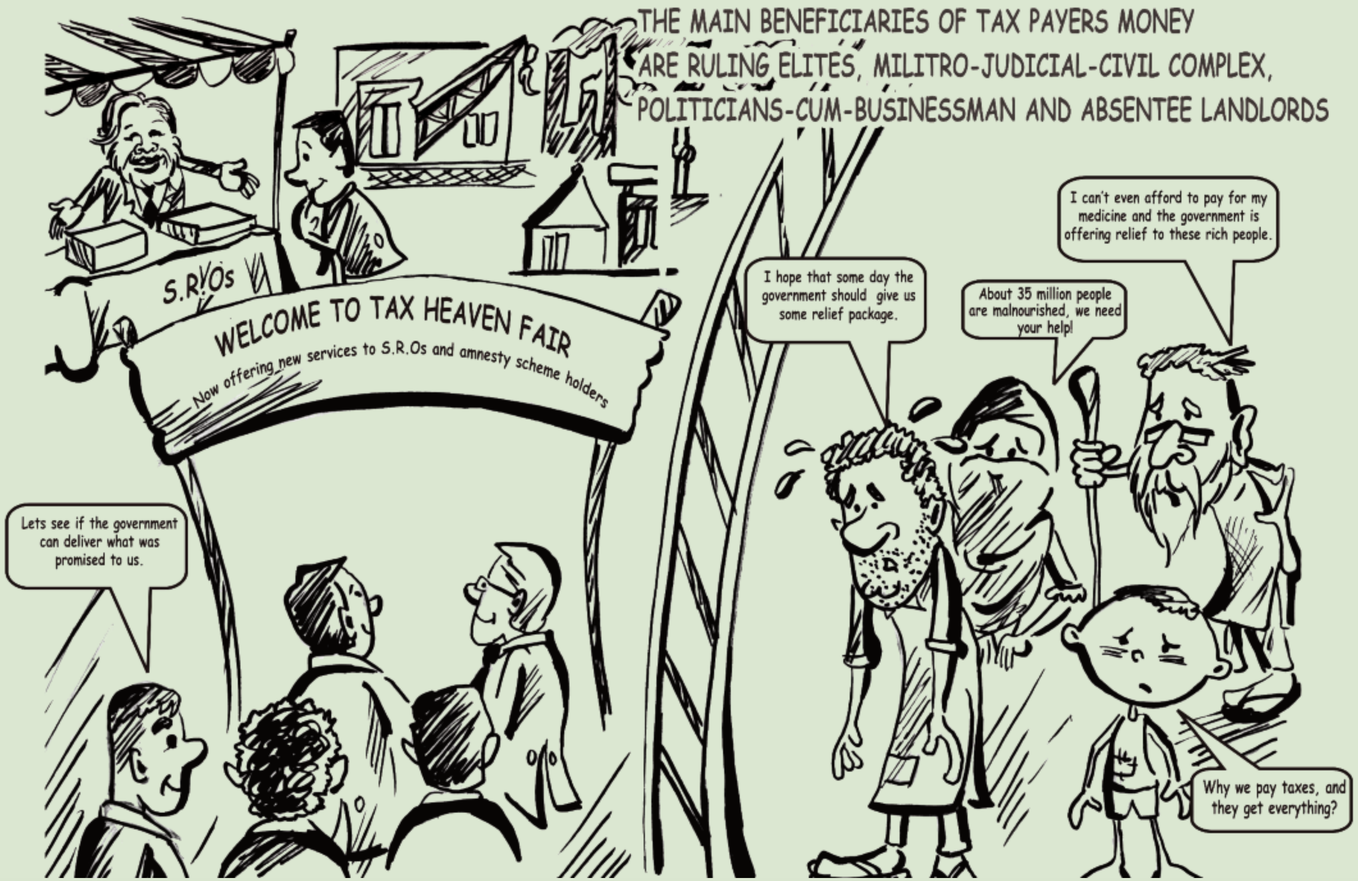
The committee met seven times, which were attended by the finance minister, commerce minister chairman of the Federal Board of Revenue and concerned secretaries of different ministries.

The phasing out of the SROs would be completed in the next three years.The government has initiated the exercise to eliminate the SRO culture in the taxation system to ensure equality and transparency, besides broadening the tax base. The exemption and concessions granted under the different SROs irked the donor agencies because of drainage of revenue, which would be helpful for reducing fiscal deficit.

In the latest loan agreement with the International Monetary Fund (IMF), the authorities agreed to eliminate numerous statutory regulator orders.

In the country report issued by the IMF in March 2014, the government informed the Fund that the FBR had completed analysis of the fiscal cost of all SROs and started developing plans to either eliminate or incorporate them into legislation. The identified SROs for elimination are estimated to help the tax authorities to recover additional revenue equaling to 0.35 percent of gross domestic product. The authorities also assured to finalise the plan to eliminate the SROs by the end of next month.

The IMF appreciated the authorities' SRO plan, but stressed the need for more ambitious approach to improving tax administration and eliminating tax loopholes to sustain fiscal consolidation in future years. **(The News April 25, 2014)**



FBR needs to plug leakages to enhance revenues

By Mansoor Ahmad

LAHORE: The Federal Board of Revenue (FBR) efforts to nab tax evaders through available data might increase revenues in the short run but for longer run it has to plug the gaps that encourage people to evade taxes, analysts said on Thursday.

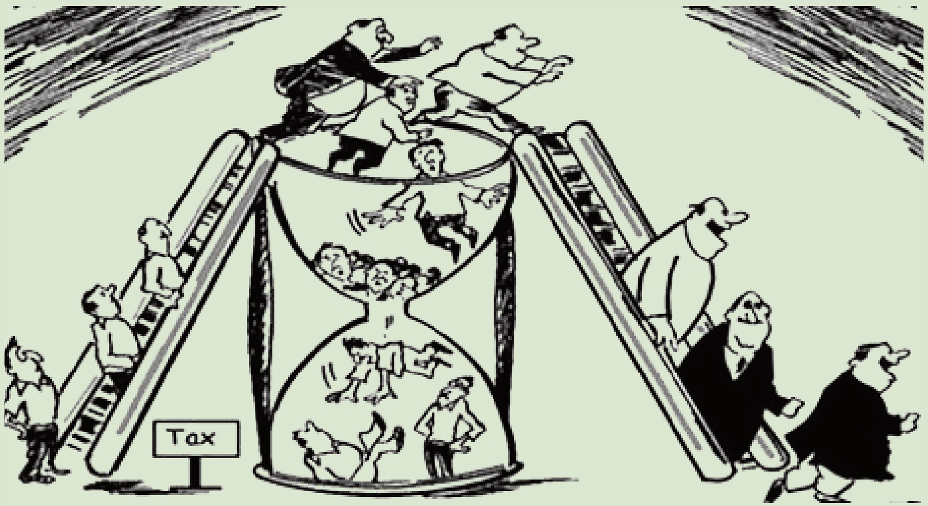
The FBR has embarked on a plan to bring organisations and individuate in the tax net. This will be achieved through the confirmed data available with the revenue body that gives some insight about the wealth of the tax evaders or under-fillers, the analysts said.

The data relates to the monthly electricity bills, telephone expenses, purchases and expenses made where computerised national identity card.

"This is prudent way to confront the tax evaders,"Faisal Qamar, an economist, said. He said that this is not the first time that such a strategy has been announced, adding that the revenue collectors had compiled a data of millions of households and business enterprises through a tax survey conducted with the assistance of army in 2000. The survey revealed startling information about the people living in posh localities or doing business in most flourishing markets and overwhelming majority of them were not paying taxes or were paying nominal tax much below the apparent income level and their lifestyle, he said.

Qamar said the then CBR (now FBR) announced to identify new taxpayers through this data "The programme; however; could not take off due to stiff resistance shown by the trade and industry and influential segments of the society," he said.

The CBR, he said, twice announced to launch this drive of broadening the tax base but failed, as hurdles created by



powerful tax evaders lobby forced them to retreat. The present drive announced by the FBR is similar to the previous aborted drives, he said, adding that the trade and industry had already condemned it, calling it a tool to harass taxpayers.

He regretted that the businessmen are even averse to tax audit of their accounts, as they want the government to accept the tax filled by them under the Universal Self Assessment Scheme. So much so, he said the trade and industry does not like the audit of their sales tax returns, which is the tax they collect from the consumers and deposit kin the exchequer.

Senior economist Naveed A Khan said that the huge wealth accumulated in the country without payment of due taxes is a testimony to the fact that the revenue body has not been able to collect these taxes when the wealth was created.

This process still continues, he said, adding that the planners are confused, as besides issuing 70,000 new tax notices, the government has again announced a tax amnesty scheme. He said the availability of huge quantity of smuggled goods means that smugglers first avoided all the import duties and then the subsequent income they generated from the trade of smuggled goods.

"Had smugglers been nabbed and forced to pay the duty by the FBR, the ratio of tax avoidance would have reduced," he added.

Similarly, he said, goods are allowed inside the country at low rates or some very high duty goods are imported, while they declared in the invoice as zero rates or low duty products. Smuggling, under-invoicing and wrong declaration of goods lead to undue and profiteering that is not documented leading to illegal wealth accumulation, he added. Leading businessmen Mian Anjum Nisar said that all these factors also wipe out the local documented manufacturing sector from the competition.

Moreover, he said, the FBR loses revenue due to lower productivity, adding that another drawback is that many local industries react to smuggling and under-invoicing by concealing actual production to avoid sales and other taxes with the connivance of the tax collectors.

"This creates a vicious circle of tax avoidance, which will continue to grow and the FBR would continue to face resistance in nabbing the concealed incomes," he warned. He said that the FBR should be reformed to ensure elimination of these avenues of illegal wealth creation in the future by bringing 100 percent transparency in its affairs. The civil society and media should support the FBR move to increase its tax base, while at the same time, putting pressure on the revenue board to put its house in order, he added. **(The News April 4, 2014)**

Discrimination among honest taxpayers discouraging

Current incentives offered are nothing but a formality

KHALIL AHMED KARACHI

The recent figures disclosed by the Federal Board of Revenue (FBR) reveal that there are almost 3.5 million registered National Tax Number (NTN) holders. Out of these, so far only about one million have filed their tax returns during the current tax year. However, the government still anticipates that the tax collection target for this current fiscal year of Rs.2.475 trillion would be achieved. Under the present tax collection performance, it seems that the FBR may be facing a really difficult challenge ahead.

To improve tax collection, the government announced several incentives to encourage additional tax payments. These included incentive to dormant NTN holders, immunity from audit for existing taxpayers, incentive to new taxpayers, and a taxpayers' "Privilege and Honour Card Scheme". This Scheme was notified and its details were put on the FBR's website.

The "Privilege and Honour Cards" would be issued to the 100 top taxpayers in four different categories that include CEOs of companies, salaried individuals, non-salaried individuals, and members of Association of Persons. It was also notified that excellence awards will also be given to the top 10 taxpayers in each of the above categories. Benefits of the privilege cards shall include use of VIP lounges at various airports around the country, fast-track clearance at immigration counters and issuance of gratis passports. In addition to this, the cardholders would also be invited to an annual dinner with the prime minister at the Excellence Award Ceremonies along with various national celebrations and other state banquets.

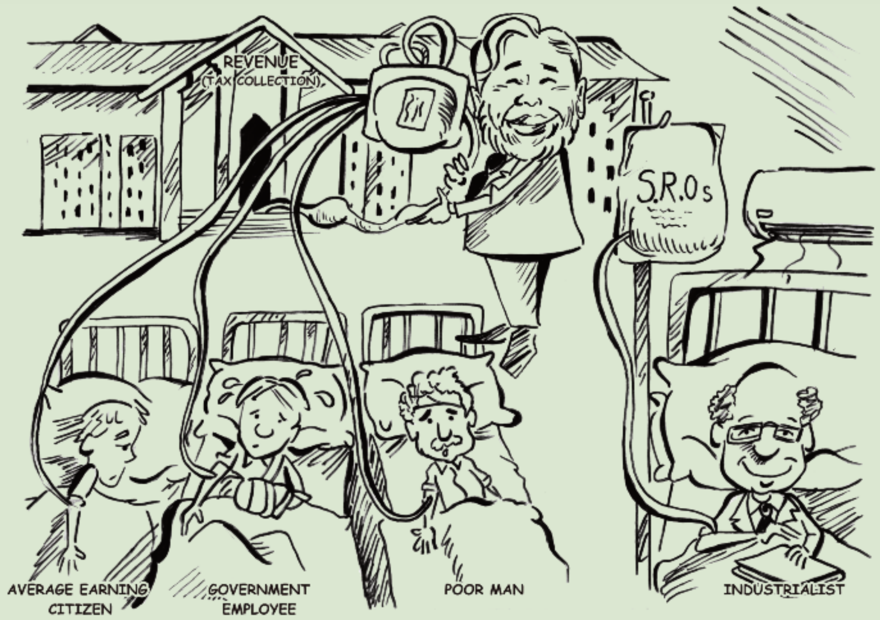
A first list of Salaried Individuals has been made available to the public. This notified list is composed of all those persons who are already earning huge salaries, have remunerations and other privileges. By virtue of their positions and wealth, they already have access to the privileges that have been mentioned in the scheme. Whenever these individuals travel, a special escort is already available to them arranged by their employers. They are eligible to avail these services by virtue of their travelling in business or first-class or through credit cards that entitle them to this facility. Their immigration clearance is just a formality and they already avail the services of special facilitators for customs formalities. Any privileges awarded to them are nothing more than a formality and should not make any material difference to enhance tax collection. Tax collection can only be increased through encouragement and recognition of all taxpayers, who may be paying smaller amounts in tax but are numerous in number.

This is an important element that is missing in the scheme. If a person is paying higher tax, it is simply because his taxable income is higher. If taxes are being paid honestly and on a timely basis, all taxpayers should be recognised on an equal and similar manner and there should be no discrimination among them.

If higher payment of tax is the only basis for being included in the award list, then it means that a small taxpayer has no prospects of being included in the list as he was not blessed to earn more and there-fore paying higher taxes. There already exists a strong perception that tax collection has gradually decreased because of our VIP culture and this scheme is only adding weight to this notion.

It would have been interesting to see that these 'privilege cards' would have been announced on other equitable and acceptable criteria. Factors such as number of years of uninterrupted tax payments, concealments and discrepancies, or lack thereof, in filing the taxes, could have been considered.

It is understandable that not all taxpayers can be included in this scheme but at least ' recognition cards' could be issued to those who have consistently paid their due tax liability during their lifetime. Is it not proof enough of being an honest taxpayer? These cards, as a recognition symbol, could, among other things, be used as a facilitator for obtaining and renewal of passports, driving licences, and school and college admissions for the children of the cardholders. The cards could also be used to get utility



connections on fast-track basis. Such a card scheme would not only create a sense of pride in a common taxpayer, but also encourage no filers to participate.

The key to increasing tax collection is to treat all taxpayers equally, to not discriminate among taxpayers, and to give them equal and due recognition.

The Writers is LLM (Corporate Law). LLB HONS. from Northumbria University UK and a Fellow Members of Institute of Chartered Management Accountants UK

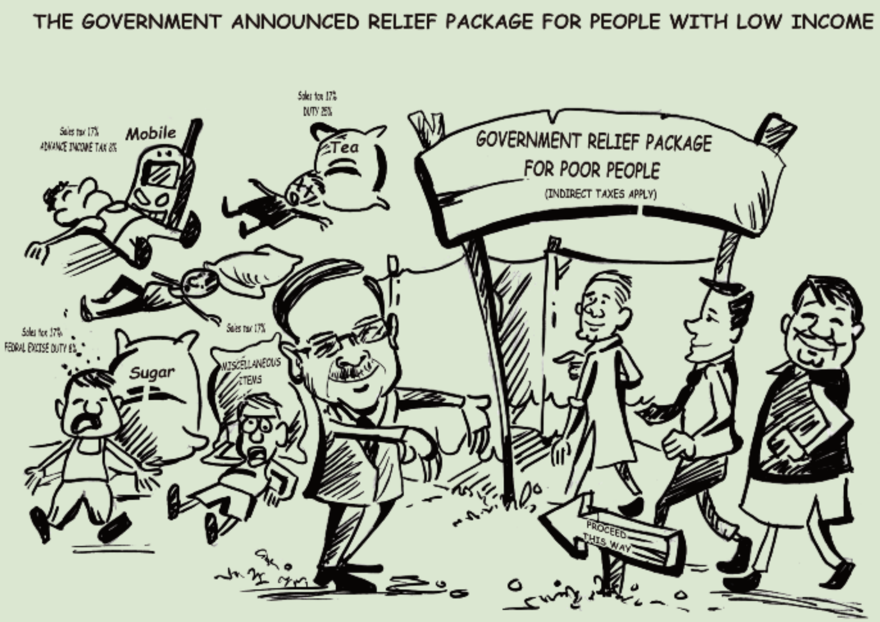
(Express Tribune April 7, 2014)

Sugar mills cause loss of Rs30 billion to exchequer

By Jawwad Rizvi

LAHORE: The steel melting units installed by sugar mills in Punjab have caused an over Rs3 billion loss to the national exchequer through tax evasion since their inception.

As per sources in the steel melting and sugar industries, around 10 sugar mills in Punjab had installed steel furnaces in their premises, with the melting capacity of 5 to 30 tons.



The trend started with a sugar mill in Faisalabad that installed a steel melting furnace with a 30 tonne capacity about four years ago. Following its success due to tax evasion, during the last three years, some other sugar mills also started the business.

The steel melting capacity of these mills varies from 5 million tons to 15 million tons.

According to steel melting industry officials, 800 electricity units are consumed for the production of one ton of steel. A 15-tonne capacity steel melting furnace produces 150 million metric tons steel if it operates 24 hours a day.

A legal steel melting unit of the steel melting industry that operates on electricity supplied by Wapda pays Rs3,200 tax against production of one ton of steel.

On the other hand, the oldest steel melting unit owned by the sugar mill with an installed capacity of 30 tons produces 300 tons of steel daily. Oneday tax evasion of this unit alone is Rs960,000; Rs28.80 million per month and Rs345.6 million a year.

Since the steel melting units are operating in this sugar mill for the last four years, thus the tax evasion reaches Rs1.3824 billion. After including 17 percent sales tax in this amount, the tax evasion approximately reaches Rs2 billion for this unit alone. The other units that were installed later also indulge in the same activity.

Steel melting units installed by the sugar mills are operating on electricity generated through bagasse (sugarcane waste), said the sources. Thus, there is no account of the number of units produced by the sugar mills or the amount consumed for melting in their steel furnaces.

Similarly, billets/ingots manufactured by sugar mills are also manufactured on a 24-hour basic as these units are not affected by load shedding compared to those run by the steel melting industry. This results in further tax evasion on part of sugar mills, as the sales tax is calculated on the basis of electricity consumed by steel melting units in the melting industry.

Other than evading sales tax, the sugar mills are also evading income tax on the income earned from their steel melting units. In fact, their income from the steel melting units might be undeclared, sources implied.

An official of the steel melting industry said that panel capacity and transformer capacity tax should be levied from the date of production on these steel melting units of sugar mills, while sales tax should also be imposed on them from the date of commencement of production in order to provide equal prospects for all, and recovering the loss incurred by the national exchequer. **(The News April 11, 2014)**

FBR unveils directory showing tax details of all taxpayers

Selected tax paid by most bureaucrats

ISLAMABAD: Like their political bosses, most of the top bureaucrats of the country have also restricted themselves to paying tax only on their salaried incomes, shows the tax directory of all taxpayers that has been published for the first time in the country's history.

Tariq Bajwa, Chairman of the Federal Board of Revenue (FBR),the national tax collecting agency that often complains about those who do not pay their due taxes, paid Rs:183,734 in income tax in the last fiscal year ended June 3o, 2013.

Under the law, all citizens of the country are bound to file income tax returns, carrying details of incomes and expenditures, after the close of the fiscal year.

The tax directory of all taxpayers was published by the FBR, which has already unveiled the tax directory of parliamentarians that shows meagre contribution by the legislators.

This an important milestone in providing access to information to the general public and should help in creating public awareness, motivation and transparency," said Finance Minister lshaq Dar while commenting on publishing of the first tax directory.

The directory carries details of about 890,000 taxpayers and is the first attempt to sensitise the citizen about their duties. Pakistan has one of the lowest tax to GDP ratios in the world. as the country's tax system is plagued by exemptions.

According to the tax directory, finance Secretary Dr Waqar Masood Khan having national tax number (NTN) 0660462-5 paid Rs64o,z46 in income tax last year. The secretary is also ex-officio member on numerous boards of state-owned enterprises and is paid for attending each board meeting. He is also on the board of the State Bank of Pakistan.

Many state-owned companies generously pay their board members, irrespective of the financial condition of the entities. For instance, National Bank of Pakistan pays a fee of Rs:95,000 for attending a board meeting to each of its members, according to the bank officials.

Similarly, Economic Affairs Division Secretary Nargis Sethi having NTN 0349588-4 paid R5328, 179 in income tax. She too represents the government in international financial institutions and is paid in dollars for attending their meetings.

The tax directory of parliamentarians has revealed that most of the politicians paid income tax only on their salaries which they received as member of National Assembly or Senate. Minister of Planning Development and Reforms Ahsan Iqbal paid a meager amount of Rs:11000 in the income tax last year.

Adviser to Ministry of Finance Rana Asad Amin paid Rs:493,560 in income tax.

FBR's Inland Revenue Policy member member Shahid Hussain Asad, who directly deals with income tax issues, paid Rs:227,015 in income tax. Yasmin Saud, the FBR member, paid Rs:436,721 in income tax. Riffat Shaheen Qazi, another FBR member paid Rs;477,612 in tax and Shahid Hassan Jatoi FBR member paid Rs: 236,383in income tax.

Cabinet Division Secretary Ahmad Tarar paid Rs:204,717 in income tax. The amount declared by the FBR was higher than the income tax deducted from his salary.

He said the advance tax deducted like cash withdrawal from his two bank accounts was also not included in the tax declared by the FBR in the directory. **(Express Tribune April 16, 2014)**