INTEGRATION OF SALES TAX, INCOME TAX AND FEDERAL EXCISE UNDER INLAND REVENUE – ISSUES AND PROSPECTS TOWARDS OPTIMUM REVENUE

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Problem Statement:

"Integration of Income Tax, Sales Tax, Federal Excise Duty: the impacts and prospects in optimizing revenue collection in Pakistan."

Outline of Study

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"Integration of Income Tax, Sales Tax, Federal Excise Duty: the impacts and prospects in optimizing revenue collection."

Literature Review:

Significance of Study:

Methodology:

- Qualitative Study
- Quantitative Study
- News analysis

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Introduction:

- The concept of Taxation
- Erstwhile system of taxation in Pakistan
- Explaining the idea of Income Tax – constitutional provisions
- Explaining the idea of Sales Tax – constitutional provisions
- Explaining the idea of Federal Excise Duty – constitutional provisions
- Establishment of IRS
- The necessity of Integration

Main Body:

- Evolution Process of present reforms.
- News Reports
- Perspective of Integration of Income Tax, Sales Tax and Federal Excise Duty
- Tax Administration Reforms Project.
- Why Reforms were needed?
- Scope of Tax Reforms
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- Creating Tax Culture
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Recommendations:

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"Integration of Income Tax, Sales Tax, Federal Excise Duty: the impacts and prospects in optimizing revenue collection."

Literature Review:

Ceaser Augustus is said to be pioneer of levying taxes when he was quoted as saying almost 2000 years ago that the entire world should be taxed. [1]

The practice of taxation can also be witnessed in early European states as well thereby the monarch being the receiver of taxes. Taxes were levied on both moveable and immoveable property across the world from the early 15th century.

The learned author K.B.Sarkar studied the system of taxation in India in great detail. According to him, "Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect Taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composite population". [2]

However, it is Kautilya's Arthasastra, which deals with the system of taxation in a real elaborate and planned manner. This well known treatise on state crafts written sometime in 300 B.C., when the Mauryan Empire was as its glorious upwards move, is truly amazing, for its deep study of the civilization of that time and the suggestions given which should guide a king in running the State in a most efficient and fruitful manner. A major portion of Arthasastra is devoted by Kautilya to financial matters including financial administration. According to Kautilya, the power of the government depended upon the strength of its treasury. He states – "From the treasury, comes the power of the government, and the Earth whose ornament is the treasury, is acquired by means of the Treasury and Army". [3]

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In his paper "New Hope for the Future Delivering on Pakistan's Economic Reform" Mr. Thomas W. Simons, Jr. Former U.S. Ambassador to Pakistan's points out towards the natural "dislike" of people for the payment of taxes. [4]

Georgi Boss (1999) Minister for Taxes & Duties of the Russian Federation remarked that "There is not any country where people are happy to pay taxes but they do pay taxes because of their tax culture". However Economic strategy Minister German Graf (2000) is very apt when he states that he fully understands that "a tax culture can't be inculcated in one year". [5]

Dr. Ignacio Ruiz Jarabo, in his paper presented at the 33rd General Assembly of Inter – American Centre of Tax Administration (CIAT), explicitly stated that there are factors that render difficult the social acceptance of the tax system, beginning with the fact that the relationships between the tax administration and the citizen are marked with a certain level of tension and conflict. According to him, this marked tension and conflict are due to the fact that taxes are economic burdens of an obligatory nature from which the taxpayer does not drive a direct, personal and immediate benefit. [6]

Mr. Alain Zenner, Government Commissioner of Belgium is very frank and direct in saying that, "… the tax administrations too often give me the impression as if they would only have one important task and that is: taxation ! … Taxation is often seen as a divine mission, an ideal that would justify all means. (However) … this can last no longer! The mission of the tax administration is not to tax at all costs, but to recover the fair tax. From there the need to redefine the values that should be complied with by the tax administration in the exercise of its duties." [7]

The famous report by Mr. Shahid Hussain the Chairman of the Task Force on Tax Administration (2000) is one solid document that directly relates to the ground realities of our tax system in Pakistan. He pointed out various features of our tax system which render it non-reconcilable with the tax payers. For instance he regards very frequent legal and administrative changes in system and unawareness of the taxpayers of such changes as one big hurdle in the way of efficient revenue collection. He also pointed out the zero correlation between the tax policy changes with the administrative framework. Also he mentioned that tax administration is not at par with the pace of any organization, business process, systems, facilities

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and budget. As well as the under-utilization of human resource and its exploitation in many cases. [8]

Significance of study:

This study aims at introducing the concept and implications of taxation and the system that is put in place to achieve its targets. It focuses on the previous set up and the change that has been introduced in the set up. It focuses on the reforms and the underlying wisdom and the change that will aim at brining about cohesion, unification and efficiency in the system. It also studies in detail the concepts of direct and indirect taxes and will helps in understanding the concepts of integration of taxes. This study will also helps in analyzing the need of integration and how it effects the revenue collection. Finally it will also generate debate over the prevalent practices for stimulating revenue collection.

Methodology:

Research design:

The study will use mix method approach. Both the quantitative and qualitative techniques will be used to conduct the research. An attempt has also been made here to find all the updates, debates, discussions and analysis which the establishment of IRS has generated in the news circulars.

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Introduction:

The system of taxation is indeed not a new one. It has been in place in various formats around the globe at different points in time. In today's world a solid framework of taxation has been set up with the aim of generating money for the government for performing all state activities. There are a number of examples of taxes from far, to medieval and recent history. For example a crude form of tax called the 'salt tax' was in place in France up till 18th century. Octroi was in place etc. It is also important to understand that if the system of taxation is not sound, rational and placed on just grounds it has resulted in great revolutions, governments had to say goodbye to their mandate if they fail to deliver on this count. As a matter of fact, world has witnessed many revolutions because of the implications and affects of taxation. The system of taxation in France has been regarded as a major cause of the French Revolution of 1789 A due to unjust practices. The famous Corn Laws of England can also be regarded as a way of taxation. There has existed such a huge variety of taxes that it will become very difficult to mention all of them in a limited research scope. However few important kinds of taxes can be enumerated here for fostering general understanding of the scheme. These include, poll taxes, customs duties on specific items for example wool, leather, tea and hides.

There is such gigantic history of taxation to meet the needs of government, Military and civil expenditure. These levies and taxes in various forms and on various commodities and professions were imposed to meet the needs of the Governments to meet their military and civil expenditure and not only to ensure safety to the subjects but also to meet the common needs of the citizens like maintenance of roads, administration of justice and such other functions of the State. That is the very reason that stress is laid down on implementing such a tax policy which could fulfill its task of revenue collection by targeting the right areas. The history of taxation in Pakistan has undergone many such initiatives and tests to consolidate its revenue collection system to come at par with the international standards while measuring up to the domestic requirements.

Very recently a vital change has been introduced in the taxation administration system of Pakistan and the erstwhile Income Tax group has been culminated into the Inland Revenue Service of Pakistan. The establishment of IRS by the unification of the Income Tax, Sales Tax and the Federal Excise duty is a way towards the Integration of all the revenues which are collected within the country to ensure better collection, efficiency and transparency in the set up.

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Also this integration aims at the formulation of Income Tax Group into such a department which is in consonance with the international standards and also successfully implemented by many nations of the world with a sound economic system at force which is fulfilling the demands and catering to the economic needs of its citizens by providing them the best facilities by state. It is indeed the target of the government of Pakistan to fashion its economic sector in such a way that it could fulfill its responsibilities of providing social needs of its citizens as envisage to come at par with the international practices and to improve the prevailing system. It also aims to fulfill the demands of IMF and to channelize the economy in light of the goal set in collaboration of international pacts and commitments. Here is presented the details of the concepts of various forms of taxes and how it will emerge into IRS.

Income tax:

A very basic introduction to the concept of income tax can generally said to be a tax on the income of a person. The constitution of Pakistan provides the justification of its levy. Income Tax Ordinance is the competent authority to provide a format for the levy of this tax. Income has been broadly defined in the ordinance. According to the Ordinance Income Tax is the combination of two concepts i.e. income and tax. They are defined as: Income: 2(29) Income includes any amount chargeable to tax under this ordinance, any amount subject to collection or deduction of tax under specified sections and any amount treated as income under any provision of this ordinance and any loss of income but does not include certain instances which have also been mentioned in the definition [9].

The same way Tax is defined under section 2 subsection (63) “tax” means any tax imposed under the chapter II, and includes any penalty, fee or other charge or any sum or amount Levi-able or payable under this Ordinance. [10] Therefore Income tax is a tax levied on money one earns, it can either be in the form of wages for individuals, the profits from one’s business or salary if one is working for any organization whether government’s or private. Income tax could be imposed in a number of ways and the Income Tax Ordinance has undergone infinite changes year by year to reach its present shape. Income tax could be levied as a progressive, proportional, regressive or a flat tax etc.

The legal historical development of taxation has undergone the following phases. In 1860 Income Tax Act was first implemented in the British India. This was formulated on the same lines as that of United Kingdom. The underlying rational behind it was to fill the revenue gap in the wake of war of independence of 1857. It

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was further replaced by the License Act in 1867 and more changes were introduced in the year 1886, 1903 and 1918. Income Tax Act 1922 was promulgated in India in that year and the same was adopted by Pakistan in 1947. First book of law dealing with income tax came in the form of the Income Tax Ordinance in 1979. [11]

It is important to mention that Income Tax Law is that law that undergoes the most changes. Between 1922 and 1979, as many as 71 amendment acts were passed by the legislators. Yet the necessity of a new ordinance was felt and it came as the Income Tax Ordinance in the year 2001. However, before it was enforced around 322 changes were introduced in it through Finance Act 2002. This phenomenon underlines the fact that the process of taxation has got acute affects and much importance is given to its implications and scope of affect. [12]

Sales tax:

Generally speaking Sales tax is a tax levied on the sale of goods and services. It has been explicitly defined in the Sales Tax Ordinance under section 2 subsection (29A) as (a) the tax, additional tax, or default surcharge levied under this Act; (b) a fine, penalty or fee imposed or charged under this Act; and (c) any other sum payable under the provisions of this Act or the rules made thereunder. [13]. The Ordinance also provides proper format for the levy of Sales Tax. The Sales tax amount is usually calculated by applying a percentage rate to the taxable price of a sale. In Pakistan the contribution of Sales Tax in the revenue collection is …… Most sales taxes are collected from the buyer by the seller, who remits the tax to a government agency. Sales taxes are commonly charged on sales of goods, but many sales taxes are also charged on sales of services. Ideally, a sales tax would have a high compliance rate that could be difficult to avoid, and be simple to calculate and collect.

As the evolution of the recent Sales Tax scenario goes in which it has been extracted from the Customs group and given to be the part of the Inland Revenue Service; the Sales Tax was primarily a provincial subject under the Indian Act of 1935. Sales Tax was centralized in the year 1948 through the law of the Pakistan General Sales Tax Act 1948. Later the Sales Tax Act of 1951 was adopted. It was one staged tax. 1990 Ordinance of the Sales Tax further incorporated many

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changes. Today the Sales Tax stands at the point where it collects maximum revenue. [14]

Federal excise duty:

Federal excise duty is a tax that is levied on production or consumption of goods in a country. An excise is considered as an indirect tax. The producer or seller who pays the tax to the government is expected to try to recover the tax by raising the price paid by the buyer. This tax is for immediate payment, applied to the production or consumption of certain products.

The excise laws goes back to the year 1934 when a compendium was drafted which agglomerated more than ten separate excise acts which had grown up piecemeal over many years. Another useful effort was made in the year 1944 when a consolidated and single enactment saw the light of the day and which still holds the field in the excise laws to be called as the Central Excise Act, 1944. [15]

Concept of integration:

It has been already mentioned that the basic aim of taxation is to generate revenue effectively. In this regard the concept of integration provides a solid framework to bring about efficacy in the system. Tax integration is a concept that tax authorities use to try to ensure that the total tax burden is the same, regardless of the form of business ownership. Integration tries to make sure that the total tax the government receives is the same whether your business is a corporation, a partnership, or sole proprietorship.

Evolution Process:

FBR envisages the establishment of PRS (Pakistan Revenue Service), while following the directive of IFM to get itself entitled for the third tranche of standby loan of 7.6 billion. [16].

The harmonization of Income Tax, Sales Tax and Federal Excise Laws will be undertaken by changes in the Income Tax Ordinance 2001, Sales Tax Act 1990 and the Federal Excise Act 2005. A committee of Member Policy Direct Taxes and Domestic Operations South was formed by FBR in this regard to spearhead the

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task of harmonization and assess the legal implications of the reform. An amendment through Finance Act 2009 has been introduced and Presidential Ordinance will be incorporated for further changes. WB's review mission is leading the advice for all the changes in domestic taxes nature. According to the WB legal backing will be provided to all these changes, relevant SRO and technical adjustments will be ensured. Changes in appeal proceedings, fee, fines, penalties and appointment have been introduced through Finance Bill 2009-10. Business community will be facilitated. [17]

The immediate steps taken for the formation of IRS are as follows:

At the preliminary stage a summary was dispatched to the Establishment Division and Revenue Division for the establishment of PRS and Customs Service but since all officers were not seeing head to head, IRS was formed instead. The official procedure requires the channeling of proposal by the Chairman FBR to revenue Division by a competent authority. The Secretary Revenue Division would then forward the proposal to the Establishment Division. WB has asked for the relevant legislation. A conversion program will take care of all the postings and transfer activities. FBR established single operational wing at headquarters. Cross-delegation of power by Commissioners/Collectors was put in place in May 2009.

Legal issues emerged and the aggrieved went to the courts and works at LTU's and RTO's was affected. To work things out amicably Income Tax Group Officers Association and the CEG officers Association was called to discuss issues. On 30th June 2009, through an office order a revised functionally integrated organization was sanctioned at senior management level. This Organization was headed by the Chairman and has 12 members working along four broad functional categories, i.e. Operations, functional, policy and support. The regional formations to be headed by the members in operation groups, North and South. [18]

The establishment of IRS has been officially announced. IRS has been formed by unifying Customs and Excise Group. An option has been sought by the interested officials from the customs group to join IRS. If more officers opt for IRS, Pakistan

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Revenue Service will be established. The tentative strength of IRS has been 1196. Income Tax Group has been made defunct and will have no future intake. [19]

The Pakistan Customs and Excise Service was initially constituted with effect from Jan 1, 1960 vide S.R.O 597(K) of Dec 18, 1959 by amalgamating the Pakistan Customs Service Class I and the Class I posts in the Central Excise and Land Customs Department

Customs and Excise were placed into a unified Central Service Class I. This SRO, which was issued by the President of Pakistan, was in field on the commencing day of the 1973 Constitution; and its article 268, read with its article 241, protected all existing laws including this SRO, unless modified by appropriate legislature, these officers said.

It is important to know that the establishment of IRS was challenged by some officers of Customs and Excise Group around September 2009. They argued that establishment of IRS is a way of providing more influence to the erstwhile Income Tax Group of Pakistan and also that the terms and conditions of their service will be changed. But it is important to realize that the process of integration is undertaken under the Law and is in line with the international set ups which aims at improving the system. [20]

They presented various arguments such as the Parliament is the only authority to carry out the restructuring of any office. The establishment of IRS is a way to impinge the working of Customs and Excise Group by giving more show-case to the Income Tax Group. They also rendered the establishment of IRS as the violation of the Civil Servant's Act 1973. They also highlighted that no details of IRS cadre and posts has been made available and that the order appears to be based on fallacious assumptions. IRS is an attempt of abdication in the favor of sovereign authority of international monetary institutions. However, it is vital to point out that necessary legal work is done for the consolidation of IRS and it is established through the Presidential Ordinance. Therefore it is not in violation of the Civil Servant's Act 1973. With time the status and scope of IRS will be more clear and the issues pertaining to the seniority and number of posts will be resolved in the due course.

At first the IRS Group, draft was sent to Cabinet, Law Division. FBR has to undergo functional reorganization in the wake of reforms. In this phase RTOs and LTU's structures will undergo revision by Sep, 2009. The work force of FBR distributed over the income tax group and the customs and excise group have been

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given option to either join IRS or stay in Customs group. Irrevocable options from all officers will be obtained through their administrative heads the DG/ Chief Collector which is to be submitted to the member admin by 28th September. [21]

If more officers opt for IRS, Pakistan Revenue Service will be established. The tentative strength of IRS has been 1196. Income Tax Group has been made defunct and will have no future intake. Daily Times [22]

The establishment of IRS entails verification of taxpayers and elimination of manipulations by the taxpayer as the practice of separate registration will end and single registration identity will help cross check the proceedings. Tax evasion will be checked. But for that matter consolidation of records is essential. So far records are not well kept so a good solid scheme has to be initiated for that. [23]

IR officials are given the powers of Civil Court for recovery procedures under the Code of Civil Procedure, 1908 as given in section 64 of general Sales Tax bill 2010. “For the purpose of recovery of unpaid amount of tax recoverable under this Act or the rules made thereunder, the officer of Inland Revenue shall have the same powers which a civil court has for the purpose of recovery of an amount due under a decree under the Code of Civil Procedure, 1908. Provided that in case of any matter, if there is conflict or variance in the Code and this Act or rules made thereunder, the latter shall prevail.” In case of tax evasion activity FBR has also given officers of its Directorate of Internal Audit Inland Revenue the authority to arrest any taxpayer, industrialist, manufacturer or trader if found guilty of tax evasion through raids on manufacturing units, stores and offices belongings. [24]

Consequent of issuance of Establishment Division O.M. No.6/2/2009-C.P.II dated 12.09.2009, options were obtained from officers of ITG and CEG on 15.11.2010 officers were transferred and posted to IRS in terms of Civil Servants (Appointment, Transfer and Promotion) Rules 1973. Has a good prospect with place of 44 grade 21 officers.

However, the officials of Customs and Excise Group did not welcome the taking away of the Sales Tax and Federal Excise duties from their ambit. 52 out of 436 Customs Officials challenged the establishment of IRS in the Rawalpindi High Court. [25]

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Perspective of Integration of Income Tax, Sales tax and Federal Excise Duty

Pakistan needs additional revenues to meet the social and infrastructure requirements and thereby develop annually at a reasonable pace. Tax Gap is more than 50 percent of whatever is being collected at present. In order to achieve this there have been endeavors to bring reformative changes in FBR and introduce revenue friendly tax policy measures. In the last decade years tax to GDP ratio has almost been stagnant at around 10%. Obviously the present level of 10% tax to GDP ratio has to be enhanced and all are agree that the target should be to enhance to 14 to 15% in the next 5 to 7 years. Obviously it would require serious efforts by FBR and the political will and commitment of the GOP. Fortunately a roadmap is already available in the form of Tax administration reforms program (TARP} funded by World Bank and DFID. It is strongly believed that this needs to be devotedly followed by GOP till satisfactory achievement. There should be space to modify or to amend the program if and where required. [26]

Tax Administration Reform project

At the request of the Government of Pakistan, the World Bank approved the Tax Administration Reform project on December 12, 2004 to assist the Federal Board of Revenue (FBR) in implementing its own reform strategy. The project's development objective was to fundamentally reform the FBR into a more efficient and effective revenue administration system. This included measures to increase tax collection, promote voluntary compliance, and guarantee fairer and more equitable application of tax laws.

The total cost of the project is $149 million. The project is financed by a $78.5 million credit from the International Development Association (IDA), a $24.4 million loan from the International Bank for Reconstruction and Development (IBRD), a $23 million grant from the UK's Department for International Development (DID), and the Government of Pakistan ($23 million). [27]

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Why – Reforms were needed?

Reforms of tax policy and administration are among the most crucial economic reforms for any developing country, and Pakistan is no exception. Pakistan's tax to GDP ratio at around 10 percent is among the lowest in the world, severely jeopardizing national goals of reducing poverty and improving vital public services such health care and education.

Moreover, the structural shortcomings of the tax system have heightened Pakistan's vulnerability to economic distress. As Pakistan faced a mounting economic crisis in 2008, the need to increase tax revenues became the single most urgent priority of the Government. There was a broad recognition that the failure to improve revenue generation jeopardized the country's development efforts by limiting the resources necessary for planned investments. [28]

Scope of tax reforms

A comprehensive tax reform strategy titled Pakistan Tax Administration Reform: Comprehensive Medium and Long Term Strategy was approved by the Government of Pakistan in 2003. The strategy set out a clear objective – to shift from a type of tax organizational structure to a functionally integrated tax administration.

In a type of tax structure, each tax – sales tax, income tax, and excise tax – has its own administration. Taxpayers face a confusing array of different rules, processes and procedures to obtain tax registration, file returns, make payments, manage audit, and dispute controversies. This creates an unnecessary duplication of services that should be common across all tax types. More importantly, by increasing the number of points of contact between tax collectors and taxpayers and multiplying rules across different taxes, a type of tax structure opens greater opportunities for discretion in the application of tax laws, and hence, corruption.

Specifically, the main economic benefits of tax administration reforms can be summarized as:
An increase in government revenues as a result of widening of the tax base.
Improvement in customs procedures will reduce the cost of doing business since it will cut the number of days importers need to borrow from banks to finance imports.

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Improving voluntary tax compliance rates implies early revenue generation for the government, saving interest payments and administrative costs related to enforcing compliance.
Economy wide gains to the private sector as an increasing number of economic agents operate under the same set o f rules and taxes.
Greater predictability of tax liability and lower costs of doing business for the private sector. [29]

Reforms-corruption

Corruption in the tax administration is a two-way street. For each corrupt FBR employee, there is a corrupt private sector person who is indulging in corruption either willingly or under duress. A large majority of the private sector justifies non-payment of taxes because of the dismal or simple non-performance of the government in its duties. Many respondents to the task force survey mentioned other countries where the state ensures provision of decent quality infrastructure such as, health, education, social security, roads and, above all, security of life and property. Most felt that the GOP has failed miserably to provide for any of these facilities and hence does not have any moral basis to ask for taxes. [30]

To create of tax culture

Tax education is the next most important cause of corruption in the private sector. It is felt that this is because of unnecessarily complex systems of taxation and poor quality of management in the private sector. This results in easy manipulation of private business by unscrupulous tax functionaries. As outsiders cannot understand the tax system our systems. Even after one year of training I have great difficulty understanding the sales tax system. [31]

Because of the complexity, many respondents feel they are forced and/or tempted by tax administrators themselves into not paying the correct amount of tax.
Finally, many respondents cited greed and lack of accountability as a major reason of corruption by the private sector. They see many leading businessmen and rulers getting away without paying any taxes. Hence they feel they should try the same. So this is the main reasons to change the tax system or administration because of complex system.

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How -Tax Administration Reforms

The Federal Board of Revenue (FBR) is responsible for the collection of federal tax revenues in the country. It collects both direct and indirect tax revenues.
The direct taxes include Income Tax (IT), Workers Welfare Fund (WWF), Workers Profit Participation Fund (WPPF) and Capital Value Tax (CVT). On the other hand, Indirect Taxes collected by FBR include Sales Tax, Customs Duties and Federal Excise Duty.

An effective and efficient tax machinery (FBR) is required to be able to meet the challenge of revenue collection. In a growing economy the tax collection machinery has to run fast to standstill. Fair amount of progress has been made in restructuring through the creation of LTU's RTO's which has put all Internal Revenues under one roof. However complete integration of Internal Revenues (Income-tax , GST and Excise Duty) is still a long way . The proposed policy to create Inland Revenue Service has been implemented. Human Resource policy initiatives like career planning, training, compensation of staff and their working environment also need further action. It is the introduction of effective systems and procedures which can achieve the overall objective of an efficient and transparent FBR.

Structure of the Tax Administration:

Tax Administration is structured on type of tax basis. The longer term vision for the FBR is to establish a functionally integrated tax administration; however, recognizing the challenges of the change process, during the transitional period, separation of functions by tax type would have been required, but gradually reduced over time. Consequently, initially the reformed FBR would continue to be structured on a type of tax´ basis, with a more explicit and independent role for new µfunctional departments. This would require major structural reform at FBR Headquarter and its operational organization. Within this, the FBR moved towards integration of various taxes e.g. Income Tax, Sales Tax & Central Excise. Initially a model Large Taxpayer Unit (LTU) was established in July 2002 at Karachi. This Unit was fully tested for integration of taxes over medium term. A similar model unit of small/medium taxpayers was established in July 2003 and fully tested for all functional purposes particularly with reference to integration. [32]

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INLAND REVENUE SERVICES

The federal board of revenue (FBR) announced the formation of Inland Revenue Service (IRS) as proposed by the World Bank for functional integration of income tax, sales tax and federal excise duty as part of the reforms of the tax administration.

A newly furbished Human Resource Source Wing established in FBR has been given the task for preparation of the organization for the proposed service to be established on functional lines. The wing has already put in place a host of measures aimed at accelerating the pace of reforms process with a focus on re-organization and capacity building of the human resource. As to harmonize the sales tax, income tax, and federal excise tax laws into one functional group with a view to facilitating tax administration. Under the new structure, the responsibilities for sales, income, and excise taxes will be consolidated in one domestic revenue department. To reduce the risk of renewed legal challenges, a new occupational group encompassing the staff of the newly created department will be created within the FBR.

The new FBR management structure was put in place as of June 30, 2009 and the functional reorganization of the FBR, including the revision of the structures of RTOs and LTUs, will be completed by end-September 2009.

The new set-up paved the way for a fully integrated tax administration of sales tax, excise and income tax in line with recommendations and aspirations of the stakeholders. [33]

Federal Board of Revenue-view

Integration of Income tax, sales tax and federal excise under Inland Revenue Services (IRS) is up-date with global practices but will also improve institutional efficiency by integrating function, instruments, procedure and responsibilities. They were of the view that the amalgamation of direct and indirect taxes would considerably increase the revenue collection and also would create a healthy impact on tax to GDP ratio.

Due to merger of Income Tax, Sales Tax, federal excise into IRS the FBR field formations will be facilitated to deduct the Income tax from the sales tax refund.

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This will lead to a boost in income tax recovery. The coming into being of the PRS shall facilitate to check actual turnover as a major tax paying organizations had been maintaining duplicate books of accounts and concealing actual sale and purchase from the income tax officials. It will be easier for the official of IRS to check the actual turnovers and assess the income tax. The taxpayers in the field of hotels and restaurants will not be in position to evade the tax. [34] The inland revenue law seeks to bring uniformity through integration in the basic law underlying tax refunds, returns and times for appeal. [35]

Stakeholders-view

The consultations with tax professional circles have over the passage of time convinced that there is an overdue need to thoroughly reform and revamp the whole existing tax system to bring it closer to international standards. The new integration of taxes under IRS will change the mindset of the public at large as well as of the tax machinery and will strengthen government's efforts.

However, the chambers of commerce and industry and most of the members of other trade bodies have opposed to the merger of the sales tax and income tax as refund of sales tax for them like in the past case the department of sales tax, federal excise and income tax continues to work separately. It will also facilitate them to delaying tactics with regard to the payments of income tax liabilities. [36]

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Recommendations:

1. Real harmonization of all the laws as envisaged by FBR should be carried out along with legal backing.
2. Steps should be taken for proper adjustment of custom officers in the field.
3. Professional training of officers dealing with the sales tax should be carried out.
4. Steps should be taken to evolve Organizational culture development of IRS in accordance to the existing such models the world over.
5. Programs should be initiated for proper awareness /guidance of tax payers to stimulate and instill tax culture amongst the tax payers.
6. The mechanism for the insurance of transparency should be evolved.
7. Prime importance should be given to the enforcement of tax laws on equitable basis.
8. In order to boost revenue collection exemptions should be minimized.
9. The writ of FBR should be enhanced.
10. Solid steps should be taken for the enhancement of tax net.
11. To bring good pace in the working of the department prompt evaluation and timely reimbursement of refund claims should be ensured.
12. A rigid system of accountability and transparency should be placed.
13. Well defined policy framework should be implemented.

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