DOT Gazette

FBR PAKISTAN

TAX ADMINISTRATION– INTERNATIONAL BEST PRACTICES



M Muneer Qureshi
DG(DOT)(DT)

The effectiveness of Tax Administration is evidenced by a) the quantum of tax collection expressed as a percentage of GDP; b) the financial cost of tax collection for every Rupee of tax brought in; c) the extent of the tax base; d) the efficacy of fiscal policy in achieving specific socio-economic objectives [like reducing inequalities in the distribution of income; bringing in foreign investment; reduction in the size of the informal sector]; e) the workforce required to assess and collect tax ; f) the extent of tax compliance [Total Tax Returns filed vis a vis the total number of taxpayers borne on record and g) how equitable is the sectoral contribution of tax payment.

Benchmarking is a useful way of comparing standards achieved by our own tax administration against specific parameters referred to above and the standards set by other administrations. To illustrate, in the case of tax collected as a percentage of GDP, in Pakistan it is just over 10% whereas it is much higher in most countries that have levels of development broadly similar to Pakistan's viz Turkey [32.3%] and Malaysia [24.8%].. Again, in Pakistan the tax base is 1.3% of population as against 20% in Malaysia and 10% in Turkey. In the case of tax collection cost, in Pakistan it is 0.7% of total revenue collected which is very low compared to all developed countries and is also low compared to most developing countries. However this does not translate into 'efficiency' of our tax administration because the 'apparent' better performance is due to an abnormally depressed compensation package for tax employees. As regards income inequalities, Pakistan scores 30.6 on the gini index as against 36.3 for Indonesia, 36.8 for India, 43 for Turkey, and 46.1 for Malaysia- which means that income inequalities in Pakistan are less than that prevalent in these countries - the lower the index the lesser is the extent of inequality. [The most equitable income distribution in the world is in Sweden which is placed at 23 on the gini index.]

Generally speaking, the performance of tax administration reflects the quality of it's workforce, the effectiveness of fiscal policy and the systems in place for processing and collating tax related data.

The simplest way to improve tax administration would be to adopt [and in some cases 'adapt'] international best practices rather than try and experiment with different policy regimens and design everything anew from scratch.

If it is acknowledged that the better performance of tax administration is directly relatable to a significant degree to the quality of training imparted and the policies and systems in place for the assessment and collection of tax then it follows that these areas in Pakistan need to be looked at critically and it needs to be seen how far these arrangements stand comparison with the arrangements in place in other countries.

In the case of training arrangements, we see that the more successful tax administrations with which we can reasonably compare ourselves have elaborate training facilities and well structured programs for training their tax personnel. They have dedicated and well equipped campuses and well qualified and permanent faculty in sufficient numbers in all the different areas that are germane to the training of a tax administrator. They also use specialized methods of instruc

continued on page 2

INSIDE THIS ISSUE

Tax Administration
International Best Practices.
Page - 1

The IBFD connection
Page - 6

IBFD

Inaugural of three weeks
"Train the Trainer Course"
Page - 8

PATRON
M. Muneer Qureshi
Director General

EDITOR-IN-CHIEF
Amna Faiz Bhatty
Deputy Director

LAYOUT & DESIGN
Asad Ali

Directorate General of Training & Research (Direct Taxes), Allama Iqbal Town, Lahore.
Ph: +92-42-9260347
PABX: +92-42-9260341-2
Fax: +92-42-9260346
Web: www.dgtrdt.gov.pk
email: dg@dgtrdt.gov.pk

SEQUENCE OF TRAINING AT DOT(DT), PAKISTAN

Induction on the basis of CSS Exam. by FPSC (for University Graduates)

MBA Program for Income Tax Group Officers

16 Credit Hours	21 Credit Hours	33 Credit Hours
C.S.A., Lahore C.T.P (10 months)	DOT (DT), Lahore S.T.P (5 months)	IBA, Karachi MBA Final Phase (12 months)
• Foundation Courses (6 weeks)[English writing skills, Public Speaking, Research Methodology, IT] • 4 Core Subjects: (28 weeks, 4x7) 1. National Issues of Pakistan & Contemporary issues of Islam 2. Public Admin. & management. 3. Economics & Public Finance. 4. Govt. Functioning in Pakistan & Office Management.	1. Income Tax Foundation Course 2. Accountancy Foundation Course 3. Audit-I 4. Audit-II 5. Information Processing 6. Enforcement 7. Sales Tax Other Acts	1. Analysis of Financial Statements 2. Business Maths. & Stat. 3. Audit 4. Financial Management 5. Business Policy/Stragic Management 6. Business Process Re-engineering 7. International Trade 8. Financial Accounting 9. Management Accounting 10. IAS Financial Reporting Systems 11. Business Laws 12. Public Economics 13. HRM

Capacity Building Training (Annual)

BS-19/18/17 at DOT (DT) Conducted by IBA 2 Cohorts 6 days each

• PC, Communication, and Presentation Skills Module.
• Management / Leadership Skills Module

DOT Gazette

EDITORIAL

The May issue of the DOT Gazette coincides with the swirling heat waves sweeping across the country and the blazing sunlight. If the extremity of weather is not enough to test human endurance, add to this the pressure of attaining budgetary targets towards the end of each financial year. Hence the job of a tax collector is never an easy one!!

The preoccupation of most tax collectors at the end of financial year 2008 with achieving the desired targets is thus understandable. The Directorate and its sub offices at Islamabad and Karachi had to postpone week long training modules on "Effective Monitoring & Collection of Withholding Taxes" to be initiated simultaneously at all of these venues due to reasons cited above by the field offices. This module is based upon practical aspects of monitoring of withholding taxes using case laws and hands on training on "e-portal". It has been decided to postpone this training to July 2008 to derive maximum utility from this module.

In the meantime the Audit wing Federal Board of Revenue (FBR), led by Member Audit Mr. Abdur Razzaq has decided to organize a standardized training program for all officers posted in the Audit Wing through out the country.

In the first phase a group of thirty (30) officers from the Income Tax and Sales Tax groups shall be trained to act as "Trainers" for future training modules. Commencing from 28th April 2008, this training module for co-trainers shall be conducted by PAC (Professionals' Academy of Commerce) at DOT Campus, Lahore. The module is based upon discussions, case studies especially developed for FBR personnel, industrial visits etc.

continued from page 1

tion like simulation learning to reinforce the classroom teaching. Furthermore, they have also introduced automation in a big way.

Malaysia is one country that has received a lot of attention in Pakistan because of the rapid strides that it has made in economic development generally and in improving tax administration particularly. It set up it's training academy, the Malaysian Tax Academy (MTA) in 1995 on a sprawling [15.10 hectares] acres campus and today (march 2008) it has a permanent faculty [full time teaching professionals especially recruited for the purpose] of [100] in Management studies, International & Research studies, Taxation studies, Information Technology and e-learning . Besides the permanent faculty there are [92] support personnel [Administrative Staff [30] ; Logistic, domestic, maintenance & security [62]]. The training regimen devised for specialist career professionals inducted into the workforce not as generalists through a general civil service exam but recruited separately by Internal Revenue Board Malaysia [IRBM] is carefully planned to inculcate skills in a phased manner throughout the career path of the individual.

A similar situation obtains in Japan. Extremely well equipped training institutions staffed by well qualified faculty and very well structured programs of study and evaluation to instill basic and advanced level skills in the workforce is the norm.

In Pakistan we are woefully deficient in terms of adequate permanent teaching faculty at the training academy for FBR's direct tax personnel, the Directorate General of Training and Research, [DOT(DT)] at Allama Iqbal Town, Lahore. DOT(DT) main campus at Lahore has a faculty of [12] only -that includes the Director General and Director; ([3] permanent faculty; [7] temporary faculty- regular officers of the Income Tax Group and PRAL temporarily posted at DOT(DT)-; [2] visiting faculty from the private sector professional institutions). The deployment of support staff at DOT(DT) is disproportionately high at [111] [as against [12] faculty].

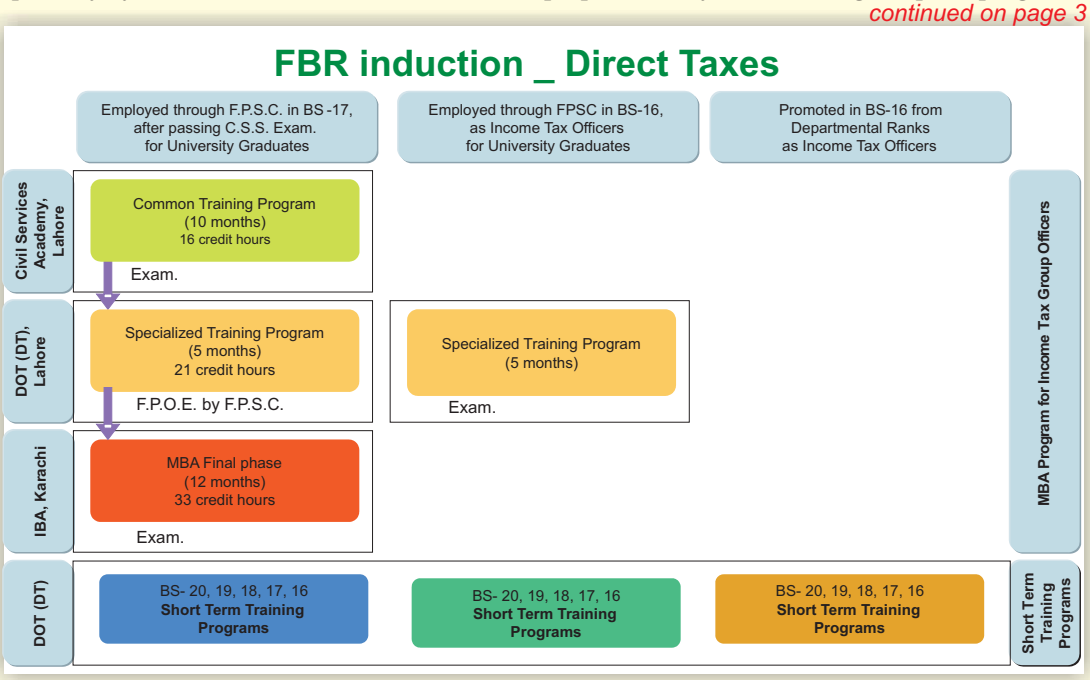
International best practices would appear to suggest that in order to ensure effective training of tax personnel adequate numbers of permanent instructors and a well structured training program are a necessary requirement in order to achieve optimum results.

TRAINING METHODOLOGY

How we impart training is fundamental to it's practical efficacy in instilling skills in the workforce. The traditional 'lecture' based training methodology is now being increasingly supplemented by other methodologies and one very promising approach is that of 'simulation' and in Malaysia we find that the simulation method of imparting training has shown it's practical effectiveness in building and enhancing the skill level of direct tax personnel.

Simulation seeks to recreate real life situations in an artificial class room environment. Complex scenarios are duplicated using computer program

continued on page 3



DOT Gazette

continued from page 2

ming and information technology and trainees are then placed in this abstracted and simplified 'virtual world' - as opposed to the very complex real world- and asked to make decisions given different variations of the basic theme in a particular area in which training is being imparted.

At the heart of the simulation methodology is a dedicated 'simulation centre' where the information technology essentials are located including the 'data base' on which the simulation exercises are to be based as well as the training area where the trainees participate in the simulation exercise in a 'work group' environment.

In Malaysia the simulation technique is being used to impart instruction in Tax Audit and Bookkeeping. Tax Audit simulation training is also included in the General tax Administration Course (GTAC) and the Tax Enforcement Course both of which include participants from tax administrations outside Malaysia.

It is proposed that a similar simulation centre be set up at DOT(DT) main campus at Lahore.

Besides simulation learning, e-learning is also in use in all major tax jurisdictions. Once the learning module has been developed only a PC or laptop is sufficient to start e-learning and regular 'coaching' and instruction and elaborate lab facilities are not required. It is therefore an economical and effective training methodology but is not a substitute for classroom instruction through lectures or simulation learning in a lab environment where such methodologies are necessary. It is best used to reinforce training already given through other methodologies.

INFORMATION & COMMUNICATIONS TECHNOLOGY AS 'FORCE MULTIPLIER'

The United States of America as model.

1) Manual procedures to collect, collate and disseminate tax data are inimical to efficiency as they are slow, cumbersome and prone to error, besides being vulnerable to manipulation with ulterior motive. The risk increases directly with the increase in the scale of operations undertaken and the complexity of the task in hand.

2) An effective solution to the problems posed by manual systems is the use of business process reengineering and information technology to study work processes, eliminate redundant processes, optimize the work cycle in processes deemed most important and useful to achieving the task in hand and then put information technology to use to speed up the work cycle and manipulate vast amounts of data with complete accuracy.

3) In the case of I.T. Systems, the rule of thumb is to adopt a fully integrated system that has a proven record of effectiveness. Attempts at experimentation and development of a 'new' system from scratch on an ad-hoc basis should be avoided as they are usually counter productive and expensive in terms of time and financial resources and only delay the introduction of new technology and systems.

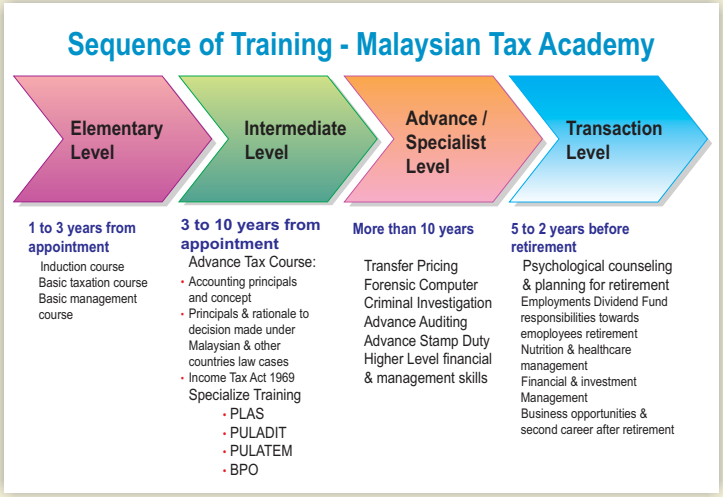
4) The most advanced I.T. based system in the world in the area of taxation is in the United States. Well over 100 million tax returns are processed electronically and data appended thereon matched with that available on a comprehensive data base. Any mismatch automatically throws up a red flag and is then available for detailed scrutiny and evaluation. However every red flag does not necessarily lead to a taxpayers audit.

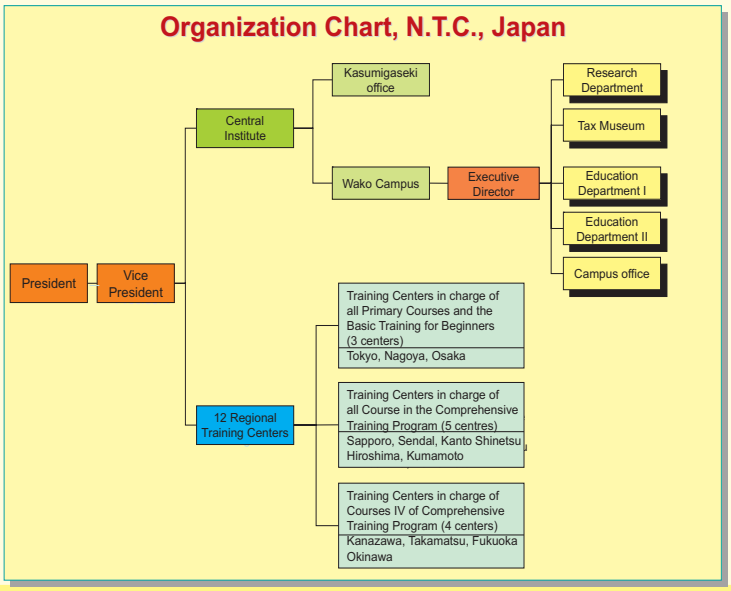
5) The selection of taxpayers cases for audit is an art in itself. The random method of selection is now thoroughly discredited as it is statistically heavily biased in favor of those cases that are most numerous which are invariably not the type of cases that are expected to be most fruitful in terms of the possibilities of realization of additional tax revenue over and above that declared along with the return of Income filed.

6) The method of choice for case selection for audit is parametric selection. However the identification of the parameters is problematic and requires great deal of expertise in economics, tax law and accounts. Once the parameters are identified the next task is to develop a mathematical equation in which the parameters identified are placed and an algorithm is then developed to search the taxpayer data base to pick up cases in conformity with the parameters identified. The required number of cases is then short listed and notified for audit.

7) The United States employs top flight economists, financial experts and mathematicians to identify parameters and

continued on page 4





DOT Gazette

continued from page 3

develop the equation referred to supra. This pool of experts remains anonymous and the equation that is finally to be adopted is assigned a very high level of secrecy [level 3, U S Deptt of Defense].

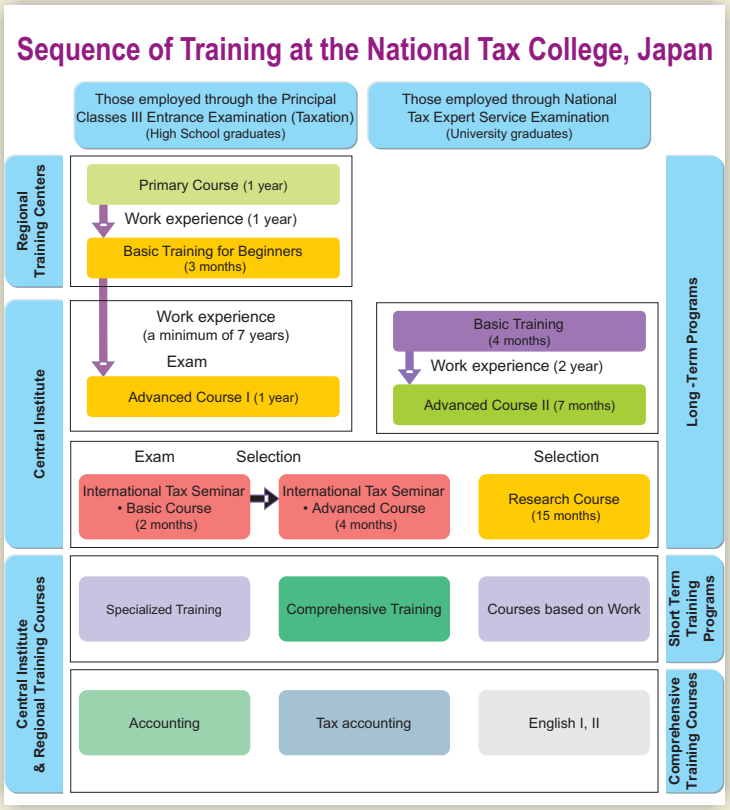
8) At first glance it might appear odd that the system and procedures used by the United States are recommended to be used in Pakistan. However it is my very carefully considered opinion that when it comes to Information and Communications Technology Systems only the best systems are good enough and it would be a grievous mistake to adopt a second best system [or third best for that matter] on the ground that for a developing country [like Pakistan] the best system is 'too good.' When much of the technology is in the 'public domain' and is commercially available at a competitive price there is no reason why the same should not be put to use even in a 'developing economy' like Pakistan. If any part of the technology is not in the public-domain like the latest 'super computer' for example that may be put to use to 'crunch' the vast amount of raw data in the IRS database, it does not really matter that much for a country like Pakistan as we do not have that much data to deal with and do not need the latest super computer. To that extent therefore we are free to 'adapt' the U S IRS Model to our own peculiar needs. Conceptually however it still has to be an advanced system modeled on that used by the US IRS as it is a proven, fully integrated, very high performance system.

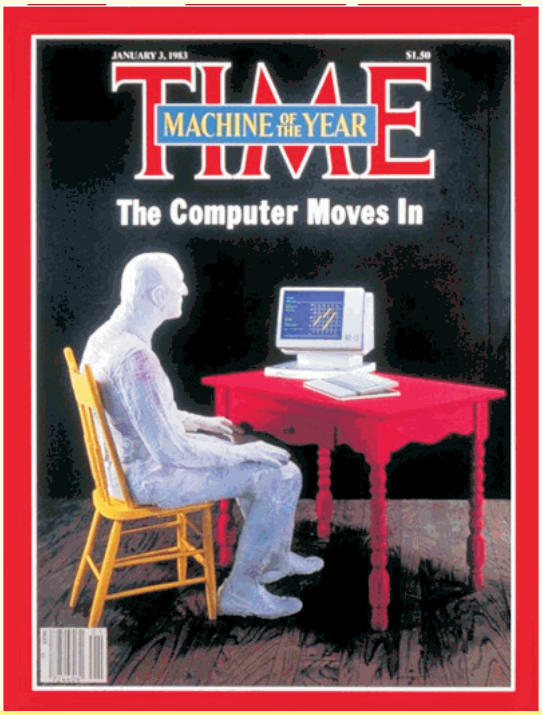
9) In Pakistan we have had an approach that is precisely the opposite of what is stated above. Although computer based data processing was first put to use by CBR in the mid 1970's that was only an ad hoc solution used for tabulating local collection of direct taxes and generating a periodic tax collection report. This was not an 'integrated' all Pakistan Report even for tax collection.

10) The Tax Management System (TMS) developed by CBR's BPR Team and PRAL in 2006 and it's subsequent alleged improved variant 'Mahasil' developed in 2007-08 have been praised as FBR's automation solution in the direct tax area. However by now the realization appears to have sunk in that both TMS and Mahasil are partial ad-hoc solutions that are not part of a fully Integrated ICT System for the FBR

11) Unlike Pakistan, the Tax Deptt in Turkey has put in place a fully integrated system basically modeled on the U S IRS system adapted for it's own use. The result has been a quantum jump in efficiency. Today 70% of the total Returns of Income- not merely the corporate Returns- filed in Turkey are through e-channel and the tax base has almost [7] million taxpayers. Furthermore, they are fast moving towards making a 'paper less office' a practical reality and are already saving a huge amount of expenditure by completely eliminating paper work entirely in many areas.

12) If Turkey can show such impressive results with I.T. and automation there is no reason at all why we cannot do so too.







DOTGazette

PICTORIAL - INAUGURAL OF THREE WEEKS "TRAIN THE TRAINER COURSE"























DOT Gazette

The IBFD connection

It was on the initiative of the Directorate General of Training and Research (Direct Taxes) in 2006 that FBR first took a close look at IBFD and eventually gave the "go ahead" for Full Membership for DOT(DT) in March 2007 when the first ever International Conference of the Heads of Training Institutions (Direct Tax) of the Association of Tax Authorities of Islamic Countries (ATAIC) took place at this Directorate General. However, full membership mean't as many as five access points to IBFD's vast on-line data base. Two access points were retained by DOT(DT) at it's main campus at Lahore, two were allocated to FBR (Members HRM & FR&S) and one given to DOT(Customs) at Karachi.

Unlimited access to IBFD's data base has led to a quantum jump in FBR's capacity to i) prepare position papers on issues of fiscal significance, ii) make recommendations on fiscal policy issues and iii) to carry out research.

The IBFD is an independent not-for-profit research and educational foundation, established under the laws of the Netherlands in 1938 by the founders of the International Fiscal Association. Its mission is to research, develop, process and disseminate information and insight in the fields of international and comparative taxation and foreign investment legislation.



Mr. M. Muneer Qureshi DG(DOT)(DT), presenting memento to Dr. V. Van Kommer, Manager, Government Consultancy, Holland, at DOT(DT), Lahore, March 13,2007.

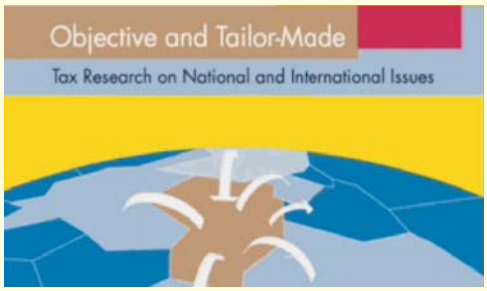


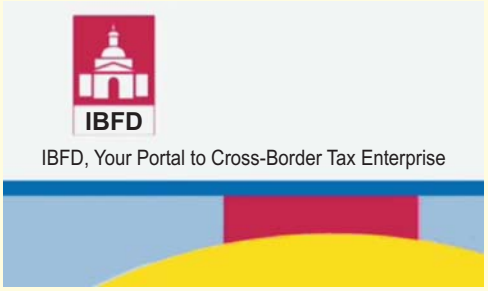
Dr. V. Van Kommer with Mr. Aurobindo Ponniah, at DOT(DT), Lahore, March 13, 2007.

The IBFD is completely independent, both organizationally and financially. This is essential when providing objective and unbiased content on research and educational projects. The organization's professional research group includes multilingual lawyers and economists from 45 countries, supported by a worldwide network of correspondents who monitor, report on and evaluate the latest tax changes and trends. Research findings are published in the IBFD's publications, incorporated in training programs, included in the IBFD's Library and Information Center, and on its Web site and CD-ROMs.

The IBFD has clients in 150 countries, including governments and tax administrations, international organizations such as the OECD and European Commission, internationally operating enterprises, accounting and law firms, international tax

continued on page-7







DOT Gazette

continued from page 6

consultants, law and business schools and libraries, as well as individuals with international interests.

The IBFD publishes more than 5,000 international tax and social security treaties, as well as supporting documents.

Based in Amsterdam, the Netherlands, the IBFD serves the needs of the world's leading accounting and law firms dealing with, amongst other things, the intricacies of international treaties on cross-border taxation and social securities.

The IBFD offers a unique service to a demanding group of professionals who need the right information, at the right time, in the right form

Since 1938, tax practitioners from all over the world rely on the International Bureau of Fiscal Documentation (IBFD) for authoritative expertise on cross-border taxation. IBFD is the portal to high quality independent tax research, international tax information and education with the aim to enable customers to do their work more quickly and efficiently. The wealth of IBFD's experience and knowledge is reflected in the make-up of the organization. IBFD employs over 50 research specialists and teacher's staff from around 25 different countries.

IBFD has grown from a tax documentation centre into a contemporary online research institute. It caters for both the private and the public sector. It fulfils the information needs of tax advisory firms, multinational enterprises, international organizations, ministries of finance, tax administrations, universities and other tax practitioners in over 150 countries.

The design used in IBFD's brochures, website etc. is inspired by 'De Stijl', a style developed in the Netherlands in the early 20th century. Mondriaan and Rietveld remain two of its most famous ambassadors.

Closely related to the Bauhaus style, this movement was truly international and started only two decades before IBFD was founded in 1938. This style has remained relevant and still influences many art and design forms. Both 'De Stijl' and Bauhaus use clarity of form and colour to express modernity and timelessness.

(Contributed)



Mr. M. Muneer Qureshi DG(DOT)(DT), with Mr. Aurobindo Ponniah, IBFD Country Head, Malaysia, at DOT(DT), Lahore, March 14,2007.



DOT (DT) at Pakistan Center for Philanthropy Workshop at Avari, Lahore on 26th Feb. 2008



DOT (DT) Fairwell luncheon for Mr. Haji Ahmad DG, RTO Lahore on his Retirement on 24th April, 2008

DOT Gazette

INAUGURAL OF THREE WEEKS "TRAIN THE TRAINER COURSE"

for Master Trainers arranged by Audit Wing FBR in collaboration with DOT(DT) & PAC

by
Amna Faiz Bhatty
Deputy Director

The Income Tax Ordinance 2001 is based upon a Universal Self Assessment Scheme (USAS) enjoyed by all categories of taxpayers. Side by side with USAS, the Ordinance envisages a strong Audit regime to act as deterrence against misreporting and understatements of incomes by taxpayers. Audit Wing Federal Board of Revenue (FBR) has therefore assumed an important role in the post reform phase in FBR.

This wing headed by Member Audit Mr. Abdur Razzaq (himself a Chartered Accountant) has initiated a string of efforts aimed at strengthening the Audit function in wake of reforms underway. Last year the Audit Wing FBR in collaboration with the Directorate General of Training & Research (Direct Taxes), and a professional Chartered Accountant training academy organized the first ever "Integrated Audit Training Program" for officers of both Income Tax and Sales Tax Groups. A total number of 128 officers were trained in modern Audit techniques through this program. The Audit Wing also spear headed a series of working sessions resulting in a "National Audit Plan" for introduction of standardization of steps / procedures involved in conducting meaningful audits.

Realizing the need to further develop the skills and capabilities of Audit Officers to conduct effective audits, the Audit Wing led by Member Audit Mr. Abdur Razzaq has initiated a sereies of training programs for all officers posted in the Audit Wing through out the country.

In the first phase a group of thirty (30) officers from the Income Tax and Sales Tax groups shall be trained to act as "Trainers" for future training modules. The aim of this 3 week long training is to train in house FBR personnel as future trainers. This training module for co-trainers shall be conducted by PAC (Professionals' Academy of Commerce) at DOT Campus, Lahore. The module is based upon discussions, case studies especially developed for FBR personnel, industrial visits etc. The profile of officers selected for this training reveals that they professionally competent officers having educational qualifications such as MBA, M. Com, Masters in Economics etc.

In the 2nd phase a massive training scheme for officers posted in the Audit Wing of Income Tax and Sales Tax Groups shall be launched. Commencing from July 2008, a specially designed training module titled "Accounting and Audit Training" shall be conducted in different stations namely Karachi, Lahore, Islamabad, Multan, Hyderabad, Peshawar, Gujranwala & Faisalabad. Comprising of 2 weeks long training, these twenty six (26) especially tailored courses shall continue till February 2009 in different locations. The departmental trainers trained earlier shall assist the teaching faculty from PAC in conducting these modules.

It is hoped that the ambitious Audit training program envisaged by the Audit Wing shall be successful in training the field audit officers in the much required skills needed to conduct result oriented audits.

The Directorate General remains committed to provide all the material and logistic support to the Audit Wing FBR and PAC for this venture.

The inaugural ceremony of the "Train the Trainers" segment of this training was held on 28th April in the Directorate General. Chairman Federal Board of Revenue Mr. M. Abdullah Yusuf was to be the chief guest at the occasion but he could not attend the ceremony due to his official commitments. However Member (HRM) Federal Board of Revenue Mr. Muhammad Talha and Member (Audit) Federal Board of Revenue Mr. Abdur Razzaq graced the occasion with their presence. In his speech Mr. Abdur Razzaq impressed upon the trainee officers to derive maximum benefit from the training module specially designed for officers of FBR. Director General DOT Mr. M. Munir Qureshi in his address highlighted the significance of effective audits in detection of concealments and under statements of incomes. Member (HRM) Mr. Muhammad Talha reiterated the need to develop work force capabilities necessary for audit officers to perform their jobs efficiently.





