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REFLECTIONS ON THE FEDERAL BUDGET, 2007-08 AND THE GENERAL ECONOMIC SCENARIO



M. Muneer Qureshi
DG (DOT)(DT)

The Budget presented in the National Assembly on the 9th of June 2007 by the Minister of State for Finance and Revenue, Mr Omar Ayub Khan, is unique in that it is the first Budget in Pakistan's sixty years of existence as an independent country, presented by an elected Government completing it's constitutionally mandated five year term in office. At Rs 1.874 trillion (consolidated) it is also the 'largest Budget' ever. And there are no 'new taxes.' Agriculture, the largest sector in the economy, contributing 24% to GDP, remains exempt from levy of Income Tax as before. The allocation for the Public Sector Development Program [PSDP] at Rs 520 billion is a quantum jump over previous allocations especially in the Bhutto & Nawaz years- [Rs 87 billion in fiscal 1998-99]. This is hugely significant because implementation of the PSDP injects 'purchasing power' into the economy. There are salary and wage increases for government employees and for labor employed in the private sector. Subsidies on many items of general interest especially food items- to the public at large have been announced and thousands of utility stores are to be opened throughout the length and breadth of the country. Revenue collection is at an all time high and we are now looking at a collection of over Rs one trillion next year. What is even more important is that receipts from Income Taxation are now the largest single revenue component! Direct Taxes have recorded a massive growth of 51% .All this with Universal Self Assessment and no 'regular audit' of Income Tax Returns for the last few years and at a time when tax rates both individual as well as corporate- are at their lowest. The country's foreign exchange reserves are at their highest at $ 15 bill and we can actually finance needed imports and pay off mark up and principal on the National Debt a far cry from the state of 'virtual default' in Oct 1999.

The corporate sector has received special attention in the Budget proposals and it is clear from the amendments proposed as these relate to the corporate sector that it is the intention of government to create conditions conducive to an accelerated build up of the corporate sector. This is a significant move because corporatization necessarily entails fairly comprehensive documentation, more so in the case of 'Listed Companies.' Such documentation is crucial to the conduct of meaningful tax audit and is the ultimate weapon against the informal sector that robs the exchequer of huge revenues and is otherwise undesirable in the context of orderly economic development.

Given the general State of the Economy, the 'burden less budget' with it's many positive features referred to above, should be a cause for all round celebration. Sadly, that is hardly the case.

For the framers of the Budget, this is indeed a time of great euphoria and 'great expectations' are being raised from their 'budgeting prowess.' The high GDP growth rate is expected to be maintained even improved further. The 'trickle down effect' is expected to be accelerated so that the fruits of economic development are passed on to the neediest in society and poverty alleviation made a reality.

For those in the camp of the 'opposition' however, the budget is nothing short of a diabolical exercise at fooling the public. They see only dark clouds on the horizon with not even a hint at a silver lining!

There is no doubt that while this may not be a 'perfect budget' it has indeed much to commend. The extreme, wholly negative position taken by those placed in the 'opposite camp' reflects the polarization in our society and the jaundiced world view of those who see no good in anything done by a government not to their liking.

What is the reality?

The continuum of policy that a government completing a five year term of office represents is indeed a positive development because it helps create a climate of certainty which boosts investor confidence and improves the business climate. A Budget formulated in this context especially when efforts are all too evident to make it 'business friendly' and 'pro common man' is generally viewed favorably by the 'apolitical' lay public at large. And that is true in Pakistan as well. After all why should the ordinary man in the street mind a budget that levies no new tax, allows subsidies on many items of general interest, commits funds for a greatly enhanced development program by government that must mean more jobs and more money for those employed on the projects covered in the program- , creates thousands of utility stores that translate into lower prices for a host of items - increases salaries and wages, reduces the electricity bill burden for the agriculturist using a tubewell, guarantees self assessment across the board to all categories of taxpayers with little or no audit of tax Returns etc. After all, these are 'real benefits' for the public and they know it protestations of the detractors notwithstanding.

There is much controversy about the 'trickle down effect' in Pakistan. The 'opposition' is especially vocal and proclaims loudly that there is no 'trickle down' of the gains from

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Strength of CBR: Revenue Performance

- In the legacy system it took 43 years to collect the first 100 billion (1947-48 to 1990-91);
- Within the next four years, this amount was doubled and crossed Rs. 200 billions in 1994-95.
- Another seven years, the collection crossed Rs. 400 billions in 2001-02.
- In the next five years CBR exceeded the target of Rs. 835 billions for 2006-07.
- For 2007-08 the target is Rs. 1.025 trillion.

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HIGHLIGHTS OF THE YEAR 2006-07



By
Amna Faiz Bhatty
Deputy Director

As the financial year 2006-07draws to an end, it is time to reflect and analyze the past one year's performance necessary for evaluation of success of organizational objectives and goals. For a Specialized Training Institution like DOT , the evaluation criteria or the yard stick of performance is the quality of training imparted to all end users in CBR along with introduction of non conventional and technology based instructional procedures .

The year 2006-07 witnessed renewed efforts to synergize the reform objectives of CBR with the training imparted at DOT. Be it the Specialized Training for probationary officers , or Capacity Building Programs for the hither to neglected officials in grade 5-15 , DOT endeavored to fulfill its commitment of excellence in training imparted .

The Specialized Training of the 33rd STP which commenced in April, was redesigned in line with functional division of Income Tax Group in the newly created RTO's, LTu's and MTU's. Training curriculum in specialized fields such as Forensic Audit, Taxpayer's Investigation, Withholding Tax & Recovery, Information Processing, Tax payers Facilitation & Legal System, etc were designed with focus more on practical application of legal provisions in the field. Modern training methodologies based upon case studies, field trips, role plays/presentations were introduced which greatly enhanced the learning capabilities.

From April 2006 to December 2006, side by side with the training program for the 33rd STP , the Directorate also managed to organize a sizable number of Capacity building programs for officers as well as officials of Income Tax group. The dedicated faculty chosen through the process of Internal Job Posting (IJP) and led by the inspirational leadership of the Director General, Mr. M. Munir Qureshi managed **to impart training to 2711 officers /official of Income Tax Group through 162 training courses in the year 2006-07 as against 102 such trainings organized in the year 2005-06 for 1831 officers/officials. Realizing the importance of computer and allied trainings for field officials in the newly created RTO's , LTU's , 106 such trainings for 1563 officials were organized in this year as against 47 such trainings organized for 980 officials in the corresponding period last year.**

The highlight of this year's training was the organization of three "Integrated Audit Training Programs" in collaboration with the Audit Wing, CBR. Each of these trainings comprised of twelve days sessions and **for the first time personnel from both direct and indirect tax jurisdictions participated in these trainings.** In all 128 Audit officers /officials from both Income Tax & Sales Tax Groups were trained by a professional private sector institution. DOT fully participated in designing the training curricula and also made its excellent facilities available for each training session.

The year 2006-07 also witnessed the organization of first ever ATAIC Heads of Training Institutions Conference from 12-14th March 2007, at the Directorate. The theme of the conference was "Technology as a Force Multiplier in Training and the Workplace". In this three day conference, participants from Malaysia, Morocco, Yemen, Turkey, Kuwait and Sudan presented their country papers and presentations on pre-assigned topics were made. Observers from IBFD (International Bureau of Fiscal Documentation) and the U.S Department of Treasury also participated in the formal sessions. Pakistan was represented in these deliberations by Member HRM, CBR Mr. Muhammad Talha and DG (DOT) Mr. M. Munir Qureshi. The conference was a great success in forging a closer link between Training Institutions of member Islamic Countries for future collaboration in the use of technology and in recognizing the "Best Practices Modules" in tax training. Through this event of international caliber, the stature of DOT as a "regional training hub" has been established thanks to painstaking efforts of DOT administration in organizing this mega event.

Consistent development of training facilities and infrastructure has been the leading priority of DOT administration. The year 2006-07, witnessed a number of improvements/ additions in training facilities and physical infrastructure. In November 2006, Chairman CBR, Mr. M. Abdullah Yusuf inaugurated the newly refurbished Iqbal Memorial Conference Hall. This hall with seating capacity of 40-50 participants is fully equipped with latest audio/video aides and is tastefully decorated. Its potential & grandeur were rightly utilized while holding ATAIC Conference sessions at this venue. Similarly the facilities at the new International Hostel have been upgraded and a Sports Gym added to this hostel with an aim to develop both mental as well as physical fitness of trainees. Similarly improvements in the Old hostel are underway including provision of air conditioning facilities to new probationary officers.

A good Library is an in-valuable asset for any teaching institute. The Library at DOT has been upgraded with purchases of quality journals and literary publications of both English and Urdu. DOT recently acquired a soft-ware for Library Management (LIMS) and as a result of this soft-ware; the computerized cataloging of all books / publications in Library has been done. With the help of Bar Code Scanners, books can now be issued and returned through computer instead of doing the same task manually. DOT has also purchased licensed anti virus software for protection of its extensive computer facilities.

In order to facilitate quality research, DOT has also acquired an affiliation with IBFD (International Bureau of Fiscal Documentation), Holland this year. As a result, we now have easy access to their international online journals and case laws.

It is hoped that all these efforts shall augur a bright and academically challenging year ahead for DOT.





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YEAR 2006-07 IN PICTURES



Passing out of 33rd STP





Award holders of 33rd STP



Integrated Audit Training



Yassie Hodges addressing the Trainees



Member Audit & DG DOT



Awareness Workshop by Member HRM



Capacity Building Training B-19 in Progress



Inauguration of Conference Hall by Chairman CBR



ATAIC Conference of Heads of Training Institutions



Chairman CBR being introduced to delegates



ATAIC session in progress

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economic development and all these gains go to the privileged and well off sections of society and the poor are getting poorer by the day and that their ranks are being augmented as more people become poor due to the alleged 'wrong policies' of the government.

Without a doubt, it is just not true that there is zero trickle down of the gains from economic development in Pakistan. The fact of the matter is that so far as grinding poverty goes, there can be no comparison with the sort of abject poverty prevalent in certain pockets of, say, India or Bangladesh. You just don't see 'en masse' occupation of city pavements at night by families that have no shelter as is common even today in many of the large, seemingly booming cities in India. That ofcourse is not to say that in Pakistan ALL the fruits of economic development are being passed on to the neediest sections of society. On the internationally recognized 'Gini Index' Pakistan scores a not so heartening [41] which tells us that disparities in income distribution are indeed a cause for some concern. But the situation is certainly not 'apocalyptic' as the 'opposition' would have us believe. After all, so far as the Gini Index goes, the United States scores [45]! [the higher the Index number, the greater the level of disparity].

It is a fact that the economy has been 'over heating' somewhat in recent years. And this has contributed to a build up of inflationary pressure that translates into higher prices. Part of this pressure is due to the process of economic development itself. There have been sustained high growth rates in most sectors of the economy over the last five years and these usually bring in their wake a degree of price inflation especially in developing countries. However, a somewhat 'easy money policy' coupled with an increase in liquidity [M1] has also been a contributory factor. Unfortunately a 'tight money policy' is not a solution as it can stifle growth and if carried too far put the economy into reverse.

While Pakistan has been spared the ravages of significant double digit inflation [the type that has plagued many countries in latin America in recent years], the situation does merit concern in Pakistan especially with regard to food price inflation. For the common man, this is indeed the single most important area of worry and is behind much of the negative comment that you see in the print and electronic media when people are queried about the state of the economy. Inflation in any degree hits the fixed income group especially hard and even when the income is variable inflation is a cause for concern. Administrative measures can and should be taken to control prices especially prices of food items- as far as is practical and feasible as this can help reassure the public at large that government is really concerned about inflation and in their welfare.

Among the most encouraging developments in recent years are the CBR tax reform measures initiated since the publication of the oft referred to 'Shahid Hussain' Report that seems to have been accepted by government in letter and spirit. There has been a 'sea change' in the tax administration apparatus of government for the mobilization of revenue. Improvements are evident in all areas. The all powerful 'ITO' is gone. In the Field formations where the actual work of assessment, monitoring and collecting taxes -and the no less important work of disbursement of refunds - takes place, all statutory Authority is now 'delegated' by the Commissioner of Income Tax down the line as he deems fit. Formal Audit of tax Returns has been held in abeyance for some time now [except ofcourse for 'Desk Audit'] and is expected to commence once the workforce completes necessary training in the proper conduct of audit. Across the board, Self Assessment of Income is a practical reality. The CBR organogram for Headquarters' and field formations [LTU's , MTU's & RTO's] is now indicative of an emphasis on functional specialization. Work processes are being automated and rationalized using Business Process re-engineering and computerization is in full swing. The work force is being trimmed. Training of the workforce- at all levels- has been given the highest priority and all entrants to the executive cadre [Assistant Commissioners of Income Tax-ACIT's] now undergo training leading to an MBA degree in Tax Administration from the prestigious Institute of Business Administration at Karachi. An enhanced compensation package for officers and support staff selected under the Internal Job Policy of the CBR [double the normal salary] has done much to assure a 'living wage' for tax personnel and has gone a long way in reducing the scourge of corruption.

These are big changes that few dared to visualize in the 1990's.

So far as the business community in general is concerned, the changes in the CBR have been received most favorably and this is evident from the fact that notwithstanding universal self assessment with no formal audit todate [except ofcourse routine 'desk audit'], Income Tax paid with Returns has continued to increase progressively leading to a significant escalation in revenue collection overall so much so that we are now confidently expecting a total collection in excess of Rs 1 trillion in the coming fiscal year. Especially well received is the change in 'mindset' of CBR personnel at all tiers. The overbearing approach, general negativity and widespread misuse of authority is now rarely seen when it was the 'norm' in the pre-reform era. Corruption though not totally eradicated is much reduced.

However it would be wrong to paint a wholly rosy picture so far as the economy is concerned especially in the context of revenue mobilization.

An area of serious concern is the agriculture sector that remains out of the tax net in it's entirety at the federal level contributing hardly Rs 1 billion to the exchequer in all when it's minimum direct tax potential has been conservatively estimated at Rs 50 bill, atleast.

All available indices show that there is considerable 'slack' in the agriculture sector in Pakistan that the right set of policies should be able to translate into much improved productivity. The experience of

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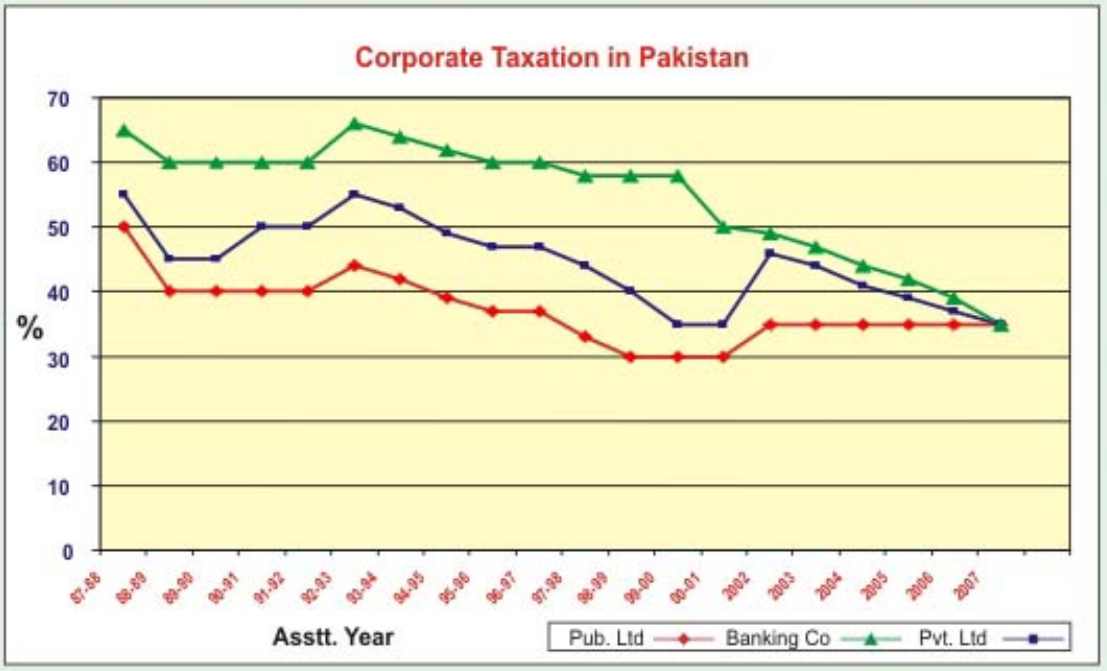

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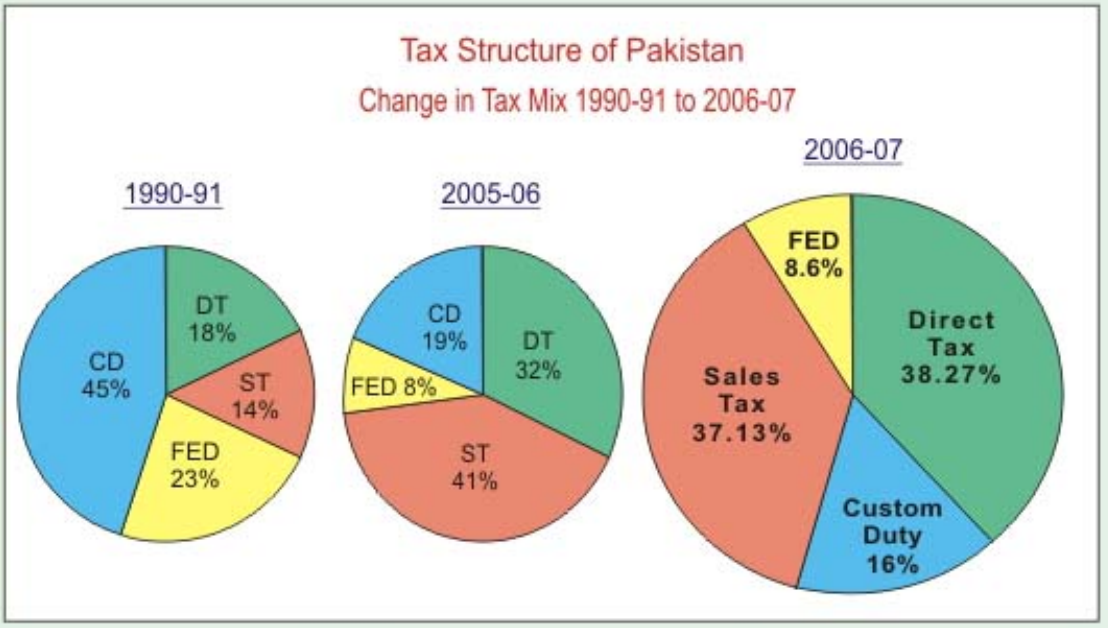
Japan shows that taxation alongwith other policy measures can create the impetus that would compel farmers to exert themselves to the fullest to realize higher income from their land so as to be able to bear the extra burden of taxation. Thus taxation of agriculture far from ruining the agriculturist actually becomes the reason for his eventual betterment. And productivity increases once firmly established increase the farmers income manifold so that payment of tax is no longer seen as a burden but a necessary contribution to the exchequer quite in line with similar contributions by those placed in other sectors of the economy realizing income from pursuits other than agriculture. No doubt the Constitution will have to be amended to enable the federation to levy tax on agricultural income. This however is necessary and should not be seen as an insurmountable obstacle.

Another area of serious concern is the textile sector, the largest manufacturing segment in the economy. With it's mainstay of coarse yarn and grey cloth, it has become uncompetitive in the fiercely competitive international market in textiles. It's great weakness is a chronic lack of 'value addition' coupled with deficient productivity. If it is to survive, then it must address these core issues.

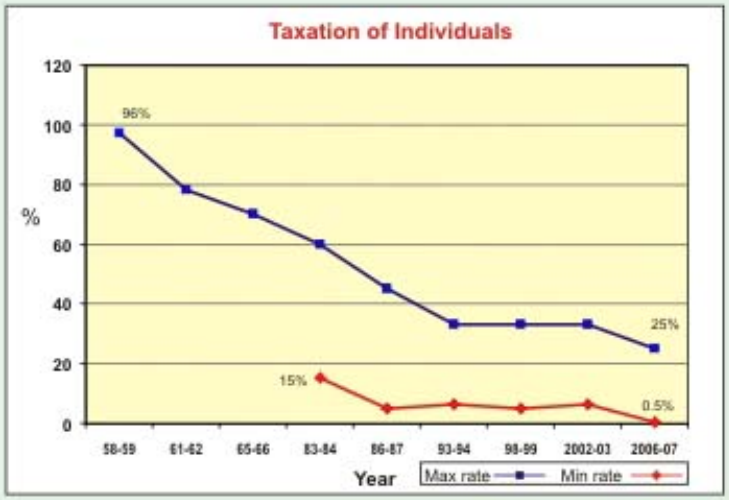
Within the CBR a 'big push' is imperative to bring to fruition a project that is of the utmost significance if there is ever to be true deterrence against tax evasion by the taxpayer. This is the Integrated Data Base project and it's linkage with the data incorporated in the Returns filed by taxpayers. Once this is achieved it should be possible to 'match' all the data from utilities, bank accounts, credit cards, mobile / land line phones etc with the data furnished by taxpayers under these Heads. Any 'mismatch' would throw up a red flag and could lead to an investigation. Unless this capability is achieved the individual taxpayer would continue to gamble with the rather scanty data that he is presently required to declare along with the Return of Income. However once the data requirement is rationalized and it is actually possible to run a super computer assisted data matching program any mis-declaration is bound to be detected and given this certainty it would no longer be feasible to take any chances. This capability is thus vital to securing the quantum jump in revenues that the department is looking forward to a jump way beyond the trillion rupees figure that CBR is projecting for 2007-08. On the other hand if this capability is not achieved tax collections will stagnate and there will be no significant improvement in the tax to GDP ratio.



Agriculture is not the only 'sacred cow' in the Pakistan tax code. The Stock Exchange is another 'no go' area for the taxman. Trading in stocks and shares is picking up fast and the 'gain' from such trading is exempt from levy of Income Tax under current tax law. This has to change as considerable potential tax revenue is locked up in such activity and atleast the gain from stocks traded in the short term ought to be subject to levy of Income Tax. Stocks held 'long term' would appear to qualify as 'investment' and can be allowed exemption on this score. But stocks traded in the short term should not.

Real Estate has been a 'hot item' in Pakistan's economy for many years now and prices continue to escalate yielding huge gains to the holders. This gain too is 'off limits' to the federal tax authorities. Immovable property is a 'provincial subject' and any gain emerging from dealings in real estate is to be taxed there. In actual fact, understatement in the value of real estate is endemic and only a fraction of the huge gains emerging suffer capital gains tax. Jurisdiction for tax purposes over this area needs to be re-appraised and re-assigned to the federal authorities who have the administrative machinery and expertise to deal with it effectively and stop the chronic hemorrhaging of revenue from this important source.

In the opinion of many of those who cast a critical look at the economic scene with the objective of realizing additional revenues, if the 'potential revenue' leakages from the agriculture sector, the stock exchanges and real estate are plugged by amending the Income Tax Ordinance 2001, it should be possible to improve the tax to GDP ratio to [15] as against the present [10] within the next two years or so instead of the projected ten to fifteen years timeframe. In the world community of civilized nations committed to economic development and the betterment of their people, this would give a great deal more respectability to Pakistan's prowess in levying tax on income than is currently the case. The Tax Base would also be broadened meaningfully and the net result would be the placement of a great deal more funds at the disposal of the country's money managers enabling them to retire a significant part of the debt with which the country is presently saddled and to 'widen' and 'deepen' the industrial infra structure making the economy more receptive to foreign and domestic investment.



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Moon Split



This is a photograph of the "Rocky Belt" that extends across the length of the lunar surface.

In the 7th century A.D., in the early years of Islam, the unbelievers of Makkah said to the prophet, "if you are truly a prophet, then split the moon and if you do so we shall believe what you proclaim." It was a full moon that night…

The prophet prayed to Allah to grant him this miracle, and lo and behold, the mooMoon Splitter was split. One half was seen over Mount Saffa, and the other half was seen over Mount Kaikaan.

The unbelievers of Makkah then said "……. the prophet has placed a spell on us. However, if he has indeed tricked us, he cannot trick all the people in the land." Abu Jahl said: "let us wait until the people of Abadiah come, and if they saw the moon split, then it is true; if not, then we all know it was a trick of magic."

When the people of Albadiah came, they said that they too saw the moon split. However the disbelievers then said "oh, how powerful Mohammad's magic is!"

Then Allah revealed Surat al Qamar: "The hour has come near and the moon has split, and when they see a sign, they turn and say 'this is a continuous magic' and they disbelieved and followed their desires…"

This took place in the days of the prophet Muhammad (PBUH) in Makkah.

In one of Dr. Zaghlool Al-Najaar's seminars at a British university, he said: "The miracle of the splitting of the moon has actually been proved recently.…" "One of our British brothers who is very concerned about the state of Islam, "Dawood Musa", and is also the new chairman of the British Muslims party and plans to enter the coming elections under the banner of Islam-which religion is spreading rapidly in the western world,- said that during his search for a religion, a friend gave him a copy of the Quran translated into English. He opened it and came across surat Al-Qamar that read, "The hour has come and the moon has split…." Reading the verse he wondered how 'The moon has split?!' He then stopped reading and did not open the Quran again.

Then one day while watching a program on BBC TV, he saw the presenter talking with three American scientists. The presenter blamed America for spending billons of dollars on outlandish space projects, at a time when millions of people in the world suffered grinding poverty.

In reply the scientists explained why space exploration was so important.

The scientists began to discuss NASA's most expensive trip to the moon that had cost the American taxpayer about a 100 billion dollars. Incredulous, Incredulous the program presenter enquired, "Just so NASA could plant the American flag on the moon, it was all right to spend this much money?!"

The scientists replied that one of the reasons why so much money was spent on the moon project was because scientists wanted to study the internal structure of the moon to see what similarities, if any, it had with the Earth's internal structure. To their surprise NASA found on the lunar surface a 'Belt of Rocks' that extended across it's entire length and went down right to the inner depths of the moon.

When this information was passed on to expert geologists, they too expressed considerable surprise, and said that this couldn't be unless the moon was once split and then resealed! The scattered rocks on the belt appeared to be a result of the impact shock when the two halves of the moon recombined.

Watching this, brother Dawood Musa jumped off his seat exclaiming, "This is Muhammad's miracle which occurred more than 1400 years ago, and now the Americans are spending billions of dollars to prove it to the Muslims!" He then said "This must surely be a true religion." And so, where once Surat Al-Qamar was a cause for his scepticism in Islam, it was now the reason for his embracing Islam… Subhan Allah!

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POST BUDGET Seminar

held on 13th June, 2007

The complete understanding of intricacies of a budget document by all stake holders cannot be overemphasized. The ramification of various amendments and their consequential implications for various sectors of economy requires in-depth analysis and discourse amongst taxpayers and tax collectors.

Federal Budget 2007 was announced on 9th June by the Honorable Minister of State for Finance. The Directorate in collaboration with LTU, Lahore decided to organize "A Post Budget Seminar" for the benefit of taxpayers and other stake holders soon after the announcement of annual budget on 13th June at the Directorate.

The seminar comprised of three separate sessions. The first two sessions focused on the amendments brought about in the Income Tax Ordinance 2001 through the Finance Bill 2007, while the third and the last session discussed amendments in the Sales Tax Act envisaged through the Bill.

Mr. Abdur Razzak (Member Audit) , CBR was the chief guest at the occasion . In his inaugural speech, Mr. Razzaq presented an overview of CBR's recent budgetary history with special mention of increasing contribution of federal taxes to the national exchequer. He congratulated the Directorate & LTU, Lahore in prompt organization of such an event soon after the presentation of Federal Budget. This speech was followed by regular proceedings of the day.

The first session was Chaired by Mr. Asim Zulifiqar ,Senior Partner, A.F.Ferguson & Co. He discussed in detail the amendments in main sections of the Income Tax Ordinance 2001 brought about through the federal budget. An eloquent orator, his in-depth and incisive analysis of the proposed amendments vis-à-vis the taxpayers and tax collectors alike made the first session both stimulating and educative. This session was followed by a lively Q & A session where the participants raised queries related to the presentation.

The next session following the tea break was chaired by Mr. Nadeem Ahmed Farooqui , Add. Commissioner, Corporate Region, Karachi who highlighted the amendments proposed in the Schedules of Income Tax Ordinance through the Budget. This session was again followed by a Q& A session where a panel consisting of Mr. Nadeem and Mr. Asim Zulfiqar answered the queries raised to the satisfaction of the participants.

In the third session, amendments relating to the Sales Tax Act were thrashed out by Mr. Akhtar Ali Naeem , Ex- Collector Sales Tax. A Sales Tax consultant by profession now, his analysis on the proposed amendments was both detailed and critical. The Q &A session was answered by a panel consisting of Mr. Akhtar and Mr. Sohail Afzal , Collector Sales Tax, LTU, Lahore.

In his concluding speech Mr. Muhammad Muneer Qureshi, D.G, DOT highlighted the importance of exhaustive understanding of budgetary provisions. He explained that the seminar was a step in ensuring the involvement of tax-payers in decision making in line with current reform policies of CBR. He further added that it was for the first time in 60-years, that a National Government had completed five years in office and presented the budget thereby representing continuity in policy making.

Mr. Umar Farooq, D.G, LTU wrapped up the proceedings of the day by thanking all the participants for their active participants and interest in the seminar.



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POST BUDGET SEMINAR - PICTORIAL



















