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## **Foreword**

*The current issue of the CBR Quarterly Review provides an update on CBR revenue generating effort. The in-depth analysis of data for the July-March 2005-06 provides an insight into various constituents of federal taxes. It also explains how the growth in tax yield is directly linked with the sectoral performance of the economy. A distinction has been drawn between the contribution of the corporate and non-corporate sectors.*

*The current issue includes an article on the telecommunication sector in Pakistan. The paper evaluates the contribution and significance of the sector in transforming the national economy. Using historical evidence, the study explores how the sector has grown in a short span of time, its contribution in terms of the level of investment, revenue and employment generation. It also highlights its role in poverty alleviation by providing business activities in remote areas. The study also outlines certain issues that require attention to further boost the telecom sector activities in the country. Additionally, the article on perception survey has been included to underscore the importance of feedback from various stakeholders. It may be recalled that a similar effort was undertaken in the past, which serves as the baseline scenario. It is important that the current status is assessed again to gauge, in quantitative terms, the impact of various changes introduced in the system. The foremost concern will be on simplification of business processes and transparency of the system.*

*I appreciate the valuable effort put in by the Fiscal Research Wing of the CBR in bringing out the publication and hope that the contents of the Review will be useful for the readers. We look forward to receiving your valuable comments and suggestions for improving this research effort.*

*M. Abdullah Yusuf  
Chairman, CBR*

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# I

## **CBR Tax Collection: An Analysis of the Q3: 05-06 Outturn<sup>1</sup>**

*When we risk no contradiction, it prompts the tongue to deal in fiction.  
John Gay (1685 - 1732) English Poet*

### **The Economy**

Pakistan's economy is passing through a phase where leading indicators are exhibiting varied, and at times, contradictory signals. Consequently, the performance is being interpreted in a manner that suits one's purpose. For some, the economy continues to be strong and vibrant. Barring certain abnormal blips, the overall growth momentum has been maintained. To others, the danger of recurrence of macroeconomic instability is looming with ever increasing chances of derailing the growth process.

While the 'soothsayers' are relying on increasing levels of production and sales, duly supported by above target revenue performance, improved profitability of the corporate sector, consistently high growth of exports, inspiring performance of the telecom, banking and insurance, and oil and gas sectors to offer the much-needed comfort level; to 'naysayer' the slow down in the industrial sector, continuously high inflation, deteriorating fiscal and trade imbalances are warning signs to present a gloomy picture. The question is why this conflict - whether it reflects weakness of the domestic economy or the external factors are responsible for this contradiction? Unfortunately, neither of the two claims could be rejected out-rightly on the basis of the available evidence. To prove the point further the attention is confined to three areas, namely, price instability, fiscal position, and trade imbalance. We start with the issue of instability of domestic prices.

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<sup>1</sup> The Research Team of the Fiscal Research Wing of CBR has carried out the analysis. The collaboration by the staff of the Budget Wings of Direct and Indirect Taxes and of Computer wing of DRS is gratefully acknowledged.

There is no doubt that the soaring and fairly volatile international prices of energy have been responsible for raising inflationary expectations. However, on the domestic front, the Government is faced with a difficult choice of either freezing domestic oil prices or shifting the increase forward. The outcome is not appealing in either case. If it chooses the freezing option then it has to forego revenue not only in the shape of Petroleum Development Levy (PDL), but also in terms of regular tax receipts, and if the increase is passed on, then it has a spiraling effect on domestic prices.<sup>2</sup> Regrettably, both these situations have been experienced in the past.<sup>3</sup> As if the pressure from external sector is not enough, the ‘opportunists’ have not hesitated in creating supply-side constraints of essential food and non-food items to further aggravate the inflationary pressure. On the other hand, partly due to monetary overhang and partly due to excessive credit disbursement and financing of debt through State Bank, money has been held responsible for inflation. As a result, it has been ‘tightened’ enough to correct the imbalance – albeit without much success. However, in the process, the cost of borrowing has risen sharply and resultantly the financial institutions are thriving due to yawning divergence between lending and borrowing rates. It appears that the ‘infant industry argument’ is being contemplated again – now to protect the prosperous and affluent financial sector!

Besides inflation, the second serious concern has been the emerging fiscal imbalance. It may be recalled that until recently the well thought out fiscal policy stance was concentrating on three areas: (a) effective resource mobilization through improvement in the taxation system, (b) strict expenditure management through restraint and prioritization, and (c) targeting fiscal deficit and debt reduction

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<sup>2</sup> While the loss in terms of reduced collection of PDL was equivalent to 1.5 points of tax/GDP ratio, the loss in revenue receipts to CBR was more Rs. 5 billion during FY 04-05.

<sup>3</sup> The role of fixation of oil prices has now been taken away from oil companies and entrusted to the Oil and Gas Regulatory Authority (OGRA), which as the name suggests has the responsibility to regulate the oil business after its deregulation.

through a fine blend of revenue and expenditure measures and debt reduction and exit strategy. While the effort to generate resources at the provincial level remains abysmal, the collection at the federal level is well on track. As a result, the Government has been saved from 'possible' liquidity crunch. However, it is the expenditure side that has started to create ripples in certain minds. Thus, a careful analysis is in order. The statistics confirm that there are two leading sources of increase in government spending, namely, the expenditure on public sector development program (PSDP), which has been enhanced, and the extra spending on earthquake relief and rehabilitation activities. Regarding PSDP, there is no doubt that an expansionary fiscal policy stance is being pursued not only to promote growth, but also to make up for the neglect of the past, especially in social sector spending. The spending on relief operations was purely unanticipated. Thus, there has been worsening of the budget deficit to GDP ratio. The question is will it deteriorate to the extent of entering into 'unsustainable' range? The indications are that it will not. However, the re-emergence of primary deficit is a sure sign of fiscal weakness that needs immediate correction.

The third area of macroeconomic instability relates to international trade transactions, where the trade gap is widening at a fast speed. Not only that there has been an unprecedented increase in imports, the exports are also growing but the differential is in favor of the former. However, to understand how far consumerism has been responsible for emergence of trade deficit, a detailed analysis of the composition of imports for the July-March 2005-06 is presented to avoid judgmental reaction.

- The three quarter growth in imports (in rupee value) has been 31.8% over the corresponding period of last year. The share of only 23 commodity-groups has been 86.4% in total import value. Last year the share of same commodity-groups

was 83.2%, indicating rather ‘insignificant’ variability in the composition of broad categories of imports;

- The four commodity-groups with largest share in imports are: Mineral oils (including petroleum products), Mechanical Machinery and parts, Electrical Machinery and parts, and Vehicles. The respective shares in total import value are: 21.2%, 11.8%, 9.4%, and 5.9%. Thus, nearly 50% of import value relates to these four heads;
- Unusual growth in imports (value) has been registered in the imports of sugar, fertilizer, man-made filaments and staple fibres, and iron and steel and their products. It is rather easy to understand that domestic supply constraints, especially of sugar, fertilizer, and iron and steel, have been responsible for higher imports of these items. In all probability this should be a one-off phenomenon;
- A deeper analysis confirms that only 6% of imports within the mechanical machinery group relates to consumer durables – washing machines, refrigerators, and air conditioners etc. The rest can safely be categorized as ‘productive’ plant, machinery, and equipment. Similarly, within the electrical machinery group a large fraction of imports relates to the telecom sector where considerable investment has taken place;
- Finally, imports worth Rs. 73.6 billion relate to vehicles including motor cars, trucks, tractors, and motorcycles, and also their parts. Most of the motor vehicles (67% of import value of motor cars) have been imported in CKD and SKD condition and the rest have been imported in CBU condition – a phenomenon consistent with improvement in assembly lines. A further categorization suggests that the share of motor vehicles in total import value has been 59.2%, dumpers and trucks 11%, and tractors 9.2%.

Thus, despite madness, there seems to be some method in it. It is reassuring that the foreign trade sector is not ‘misbehaving’.

To conclude, while it is true that the persistence of inflation remains a worrying factor – a major source of instability, but the concern about fiscal and trade imbalances appears to be a bit premature. Despite deterioration, these ratios remain within ‘sustainable’ limits. In fact, the single most influencing factor for voluminous increase in the import bill has been the volatility of world oil prices. Similarly, the extra spending on relief operations was never budgeted but had to be undertaken. Therefore, notwithstanding the exogeneity of these factors, certain weakness has been observed. But to avoid misperception, let it be added quickly that the situation demands no complacency. How-so-ever justifiable this reasoning may sound, the onus remains on the policy planners to preserve macroeconomic stability to avoid contradiction. In fact, the stability of the system is a pre-requisite to high and sustained growth and equitable distribution of resources.

#### **CBR Revenue Position vis-à-vis Target**

CBR has successfully achieved the revenue target of Rs. 476.7 billion fixed for the first nine months of CFY by collecting Rs. 489.8 billion. The net revenue gain has been Rs.13.1 billion. Whereas the July-March 2005-06 net collection has exceeded the assigned target by 2.8%, the real strength has come from the vibrant performance of two future taxes, i.e., direct taxes and GST. In the case of the former, the target has been surpassed by 8.2% and it has been exceeded by 3% in the case of sales tax. In fact, the growth in the overall tax collection has exceeded the nominal growth of GDP, thus confirming the buoyancy of tax receipts on month-to-month basis.

The performance presented in Table 1 confirms that barring July and January, the growth in net receipts has been remarkably high in the remaining months. Provided that a similar growth pattern is maintained in the fourth quarter, there is a fair chance that CBR would be able to regain the ground it has lost in terms of declining

tax/GDP ratio during the last two years provided that the original estimates of GDP remain true.<sup>4</sup>

**Table 1: Federal Gross and Net Revenue Receipts:  
A Monthly Comparison**

*(Revenue Receipts in Rs. Billion)*

	FY 05-06		FY 04-05		Growth (%)	
	Gross	Net	Gross	Net	Gross	Net
July	41.5	34.6	38.4	30.7	8.0	12.8
August	50.3	44.9	41.4	34.2	21.5	31.4
September	78.4	72.5	68.5	60.8	14.5	19.2
October	56.3	49.2	48.0	40.9	17.2	20.2
November	53.5	47.6	46.4	38.5	15.1	23.5
December	86.6	75.1	66.5	57.4	30.2	31.0
January	53.4	45.9	50.4	41.3	5.8	11.3
February	56.0	49.5	45.5	37.2	23.0	32.9
March	79.2	70.5	71.6	60.3	10.7	17.0
<b>July-March</b>	<b>555.2</b>	<b>489.8</b>	<b>476.8</b>	<b>401.3</b>	<b>16.4</b>	<b>22.1</b>

*Note: (1) Figures are rounded to one decimal place*

### **Overall Collection and Refunds**

CBR net collection has been Rs. 489.8 billion at the close of the third quarter of the CFY. When compared with last year's collection of the corresponding period, this indicates a healthy growth of 22.1%. The *gross* collection has increased by 16.4%, raising the collection from Rs. 476.8 billion to Rs. 555.2 billion, an increase of Rs. 78.4 billion. The *net* collection has jumped from Rs. 401.3 billion to Rs. 489.8 billion, indicating a difference of Rs. 88.6 billion. The overall refund/ rebate payments during first three quarters of CFY have been Rs. 65.4 billion relative to Rs. 75.6 billion paid back during the corresponding period of PFY (Table 2).

<sup>4</sup> It may be recalled that the CBR revenue to GDP ratio had declined from 9.4% to 9% during the last two years. Even though a number of factors had contributed for this fall, part of it remained unexplained and it was attributed to declining 'tax effort'. This required a number of corrective steps to generate additional resources.

**Table 2: Net Collection: July-March Comparison***(Collection in Rs. Billion)*

	<b>JM: 05-06</b>	<b>JM: 04-05</b>	<b>Growth (%)</b>
Direct Taxes	152.7	119.5	27.8
Sales Tax	202.4	165.4	22.4
<i>Imports</i>	<i>121.1</i>	<i>106.0</i>	<i>14.3</i>
<i>Domestic</i>	<i>81.3</i>	<i>59.4</i>	<i>36.9</i>
FED	39.6	36.3	9.1
Customs	95.1	80.1	18.7
<b>All Taxes</b>	<b>489.8</b>	<b>401.3</b>	<b>22.1</b>

*Note: Figures are rounded to one decimal place*

The overall double-digit growth of 22.1% in *net* collection is on average, one of the highest in recent years. It is encouraging that this growth has been broad-based. The highest growth of 27.8% has been recorded in the case of direct tax receipts, followed by sales tax (22.4%), customs duties (18.7%), and FED (9.1%). The two policy initiatives, i.e., the introduction of USAS in income tax and zero-rating of the five major exports oriented industries have been rewarding not only in promoting voluntary compliance in income tax, but also in reducing the magnitude of sales tax refunds. Resultantly the collection with returns has registered an all time high growth of 80.4% and the sales tax (domestic) collection has also recorded a healthy growth of 36.9% at the end of the third quarter of CFY.

The detailed picture of tax-wise payment of refunds and rebates is presented in Table 3. Notwithstanding the substantial increase in refund/ rebate payment in the case of direct taxes and customs duties, there has been an overall decline in these payments by Rs. 10.2 billion. The significant decline has been for sales tax refunds mainly due to zero-rating of five leading export related industries.<sup>5</sup>

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<sup>5</sup> It may be recalled that the five export-oriented industries were the major refund seekers in the past. For instance, Rs. 45.3 billion, constituting 79.2% of total sales tax refunds were paid back in FY: 04-05 to textile, leather, surgical and sports goods manufacturers.

On the other hand, the increase in customs related refunds has been due to the PTA factor – a fulfillment of sovereign commitment of the GOP to a reputed investor. Finally, the growth in direct tax related refunds highlight the seriousness of the DT Wing to liquidate its pending stock of refunds. With payment of Rs. 24.3 billion during CFY over an above Rs. 19.8 billion paid out during PFY, the direct tax related refund pendency has reduced substantially.

**Table 3: Refund/Rebate Payments: July-March Comparison**  
(Collection in Rs. Billion)

	JM: 05:06	JM: 04:05	Growth (%)
Direct Taxes	24.3	19.8	22.5
Sales Tax	26.8	44.0	-39.1
Federal Excise	0.2	--	--
Customs	14.1	11.8	19.8
<b>All Taxes</b>	<b>65.4</b>	<b>75.6</b>	<b>-13.4</b>

Note: (1) Figures are rounded to one decimal place

#### ***Detailed Analysis of Individual Taxes***

**Direct Taxes:** On the whole, the collection of direct taxes has been quite impressive when compared to last year (Table 4) confirming its buoyant nature. It is evident that the gross collection has registered a robust growth of 27.1%, an increase from Rs. 139.3 billion during first three quarters of PFY to Rs. 176.9 billion during the comparable period of CFY. With higher refund/rebate payments by 22.5%, the growth in net collection has been 27.8%. The net receipts have increased from Rs. 119.5 billion to Rs. 152.7 billion during the period under review.

One of the important features of direct tax collection has been the double-digit growth in its three components – voluntary payments, collection on demand, and withholding taxes. Specifically, the voluntary compliance has increased by 28.2%, the deductions at source have grown by 27.5%, and the collection on demand has also improved by 13%. Given the fact that most of the individual and

corporate returns have been received during the first two quarters, the substantial growth of 17.8% in net receipts during the third quarter is a significant development. The two factors that have been instrumental in this regards are the performance of the corporate sector and the way advance tax payments have been received. Both these factors are analyzed in the following paragraphs.

**Table 4: Gross and Net Revenue Receipts of Direct Taxes: A Comparison**  
(Revenue Receipts in Rs. Billion)

	FY 05-06		FY 04-05		Growth (%)	
	Gross	Net	Gross	Net	Gross	Net
Quarter-I	53.4	48.2	45.0	41.7	18.6	15.5
Quarter-II	66.2	56.1	43.9	36.7	51.0	53.1
<i>HI: 04-05</i>	<i>119.6</i>	<i>104.3</i>	<i>88.9</i>	<i>78.4</i>	<i>34.6</i>	<i>33.1</i>
Quarter III	57.3	48.4	50.4	41.1	13.8	17.8
<i>July-March</i>	<i>176.9</i>	<i>152.7</i>	<i>139.3</i>	<i>119.5</i>	<i>27.1</i>	<i>27.8</i>

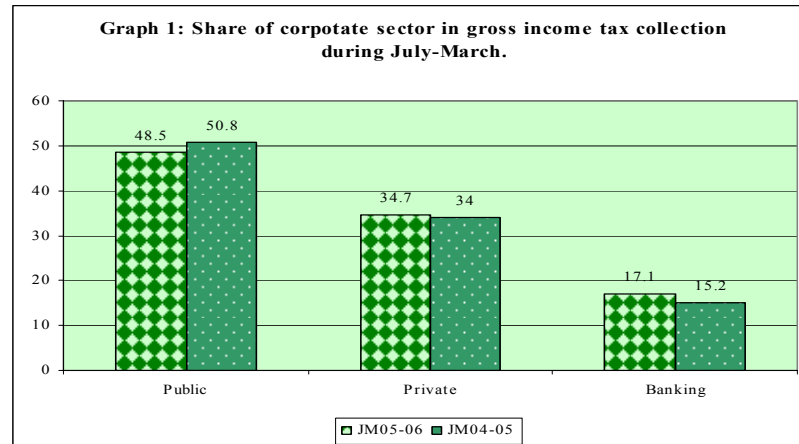
Note: (1) Figures are rounded to one decimal place

The Performance of Corporate Sector: It may be recalled that as a policy the rates for private and banking companies are being reduced gradually by 2% and 3%, respectively each year so that parity in corporate rate is attained at 35% by tax year 2007.<sup>6</sup> The revenue performance of each of the three types of corporations confirms that nearly 69% of gross collection originates from the corporate sector. Within the corporate sector, the share of public sector companies has been the highest, followed by private companies and banking companies (Graph 1).

A number of features of this outcome are worth mentioning. Firstly, the improved profitability of the banking sector, particularly consumer financing campaign by both the local and foreign banks, has enhanced its share in tax collection. Gradual reduction in the income tax rate has also helped in revenue realization. Secondly, sizable decline has been noticed in tax collection from public

<sup>6</sup> The rate faced by public companies is already stationary at 35% for quite sometime.

companies. Can this be attributed to privatization of the state owned enterprises? This is an important area that requires further research. Thirdly, the share of private companies in the corporate sector has marginally improved on account of enlargement of its size. This should be regarded as a positive development.



*Detailed Analysis of the Components:* Based on the currently available aggregated data for July-March 2004-05 and using the corresponding data of PFY, the following features of direct tax receipts (head-wise basis) have been observed.

#### *Voluntary Payments (VP)*

Voluntary compliance is one of the important components of direct taxes for two reasons. Firstly, it highlights taxpayers' confidence in the system, and secondly, an increasing share of VP is vital for maintaining the overall equity in the taxation system, as the incidence of presumptive taxes is fairly debatable. It is important to observe that both the components of VP, i.e., payments with returns and advance tax, have shown extraordinary changes during July-March period of CFY. For instance, the number of returns has increased from 1.17 million during the first three quarters of PFY to 1.33 million during the same period of CFY, depicting a growth of 13.7%. Similarly, the payments with returns have increased from Rs.

13.5 billion during JM 04-05 to Rs. 24.3 billion during CFY, yielding a healthy growth of 80.4%. Similarly, the collection on the basis of advanced taxes has also registered a significant growth of 10.2% by collecting Rs 42.9 billion. In fact, the three-quarter collection of CFY under advance tax has already exceeded the reported collection of Rs. 40 billion until May last year. The sectoral contribution of advance tax payment has been highlighted in Table 5, which shows the diversity of economic activities.

**Table 5: Advance Tax Payment by Major Sectors**

(Rs. Million)

Sector	Collection Sept 2005	Collection Dec 2005	Collection, March 2006	Collection Up to March	Share (%)
Oil & Gas	2468.8	4362.1	7876.2	14707.1	34.3
Telecom	3891.2	317.8	1548.9	5757.9	13.4
Banking	1825.2	1430.2	2386.9	5642.3	13.2
Fertilizer	481.2	878.9	538.3	1898.4	4.4
Tobacco	150	149	316.5	615.5	1.4
Textile	96.1	0	53.2	149.3	0.3
Pharmaceuticals	289.1	227.9	295.4	812.4	1.9
<b>Sub Total</b>	<b>9201.6</b>	<b>7365.9</b>	<b>13015.4</b>	<b>29582.9</b>	<b>69.0</b>
All others	4750.5	4282.4	4234.3	13267.8	31.0
<b>Total</b>	<b>13952.1</b>	<b>11648.3</b>	<b>17249.7</b>	<b>42850.7</b>	<b>100.0</b>

*Collection on Demand (CoD)*

The collection on account of demand creation has increased during the first nine months by 13%. Of the two components of CoD, the collection under arrear demand has significantly increased by 38.4% over the PFY. This growth is mainly due to disposal of the 'Brought Forward' cases lying pending with the Regions and internal activities of the income tax department against tax defaulters. The second component, i.e., current demand is expected to receive a boost during the 4<sup>th</sup> quarter of the year when initial assessment of

the returns will be completed and cases will be ripe for audit/assessment through random selection criteria.

#### *Withholding Taxes (WHT)*

WHT continues to be the leading component of direct tax receipts in view of the large informal sector of the economy. Despite that there is ample scope to enhance collection further under this head. This would, in turn, require a detailed review (audit) of the wide spectrum of withholding agents. The WHT collection during July-March 2005-06 has been Rs. 93.5 billion against Rs. 73.3 billion during PFY, indicating a healthy growth of 27.5%. The six major withholding taxes constituting 79.8% of total WHT collection are: contracts, imports, salary, exports, electricity, and line/ mobile phones (Table 6). The share of contracts (31.4%) remains at the top, followed by imports (20.9%), salary (10.9%), exports (7.9%) electricity (3.7%) and telephones (4.9%). Beside these WHT heads, withholding was also levied on cash withdrawal from banks exceeding Rs. 25,000. As expected, in view of the large informal sector in the country, this has turned out to be a major source of revenue for the exchequer.<sup>7</sup>

However, notwithstanding the share, the highest growth in WHT collection has been from contracts (44.8%), followed by telecom sector (31.4%) and exports (32.1%). This outcome reinforces the existing evidence of related economic indicators that the commercial activities are booming and higher government spending on infrastructure and development programs is generating further growth. Similarly, the exceptional international trade activities have been instrumental in raising the WHT receipts on account of imports and exports. Contrary to this, the growth in WHT deductions on electricity appears to be low as compared to the overall electricity consumption by the industrial and commercial sectors.

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<sup>7</sup> For details, see Box 1 in the following.

**Table 6: July-March Data on Leading WHT Heads:  
A Comparison of FY 05-06 & FY 04-05 Collection**

(Rs .Billion)

Collection Heads	FY: 05-06	FY: 04-05	Difference	
			Absolute	Percent
<b>Contracts</b>				
Q1	9.1	6.1	3.0	49.2
Q2	8.9	6.4	2.5	39.1
Q3	11.4	7.8	3.6	46.2
July-March	29.4	20.3	9.1	44.8
<b>Imports</b>				
Q1	6.7	6.3	0.4	6.3
Q2	6.5	6.0	0.5	8.3
Q3	6.3	5.8	0.5	8.6
July-March	19.5	18.2	1.3	7.1
<b>Salary</b>				
Q1	3.0	2.8	0.2	7.1
Q2	3.5	2.7	0.8	29.6
Q3	3.7	3.0	0.7	23.3
July-March	10.2	8.6	1.6	18.6
<b>Electricity</b>				
Q1	1.0	1.0	0.0	0.0
Q2	1.4	1.2	0.2	16.7
Q3	1.2	0.9	0.3	33.3
July-March	3.5	3.4	0.1	2.9
<b>Telephone</b>				
Q1	1.3	1.0	0.3	30.0
Q2	1.9	1.1	0.8	72.7
Q3	1.4	1.4	0.0	0.0
July-March	4.6	3.5	1.1	31.4
<b>Exports</b>				
Q1	2.3	1.7	0.6	35.3
Q2	2.6	1.9	0.7	36.8
Q3	2.5	1.9	0.6	31.6
July-March	7.4	5.6	1.8	32.1
a. Sub-Total	74.6	59.6	15.0	25.2
Share (%) in Total WHT	79.8	81.3	-	-
b. Other WHT	18.9	13.7	5.8	42.3
c. Total WHT	93.5	73.3	20.8	28.4
Share (%) in Gross I.Tax	55.0	54.5	-	-

Note: (1) Figures are rounded to one decimal place

Apart from six major WHT contributors, the relatively minor components have also recorded sizeable growth. For instance, WHT on bank interest and non-residents grew by 48.9% and 37.3% respectively during the first three quarters of CFY over the corresponding period of last year; commissions and brokerage by 133.1%; and rentals by 69.1%. The reasons of higher growth has

been the increasing trend in interest rates and enhanced economic activity in the country.

**Box1 : WHT on Cash Withdrawal**

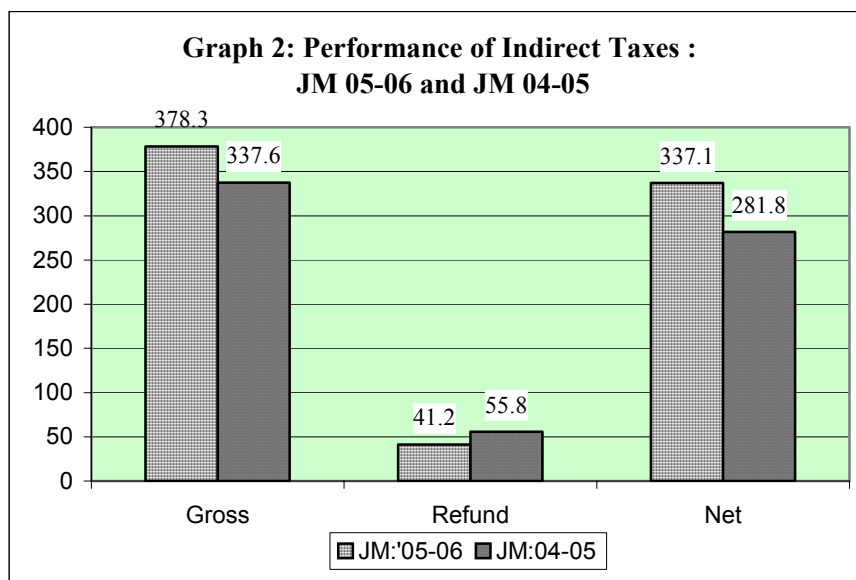
*A new policy intervention was introduced at the time of Budget FY: 2005-06 whereby every bank was entrusted to deduct tax @ 0.1% at the time of cash withdrawal exceeding Rs. 25,000/-. The exception to this rule were withdrawals by the Federal and Provincial Governments, Foreign Diplomats, Diplomatic Missions in Pakistan, and producers having exemption certificate from the Commissioner of Income Tax. The purpose of this tax was to tap the largely 'un-documented sector', which despite all the incentives has remained outside the tax net. Since this levy is adjustable in tax assessment therefore taxpayers should not be facing additional burden, as is the case with other adjustable withholding taxes. The collection up to March 2005 under this head has been Rs. 1736.6 million, which is not insignificant to warrant policy reversal.*

**Detailed Analysis of Indirect Taxes**

The three components of indirect taxes are: sales tax (GST), federal excise duties, and customs duties. The gross and net collection of indirect taxes has recorded a significant growth of 12.1% and 19.6%, respectively during the July-March period due to buoyancy of GST and exceptional growth of imports. The gross receipts have increased from Rs. 337.6 billion to Rs. 378.3 billion during the comparable period of PFY and CFY. Similarly, the net collection has reached Rs. 337.1 billion during CFY from Rs. 281.8 billion during PFY. The difference between gross and net receipts reflects the fewer amount of refund payments during the current year mainly due to zero-rating of five export industries. The refund/rebate payments on account of indirect taxes have declined by 26.2% during the period under consideration (Graph 2).

The overall statement of indirect taxes (sales tax, customs duties, and excise) confirms that the share of only seventeen commodities and utilities has been 71% in total indirect tax (gross) collection. Of

Rs. 378.3 billion collection, the amount generated by this group was Rs. 291.8 billion, constituting slightly over 5% of tax-GDP ratio. These commodities in descending order of revenue generation are petroleum products, automobiles, machinery, cigarettes, telecom, iron & steel, chemicals, textiles, edible oil, natural gas, electrical energy, cement, plastic and plastic products, sugar, beverages including concentrates, coffee and tea and fertilizer.



**Sales Tax:** GST being one of the major sources of federal tax receipts, has assumed great importance over the years. It has contributed 41.3% of the total net revenue collection during the July-March period of CFY. The gross and net sales tax collection has been Rs. 229.2 billion and Rs. 202.4 billion, respectively showing growth of 9.5% and 22.4% over the corresponding period of PFY. The refund payments has declined by 39% during this period, mainly for the reason that five major export oriented industries were the major claimants of sales tax refund and now they have been zero-rated. This decision which may appear to be contrary to the true spirit of GST implementation in VAT mode, was adopted

to address the lingering problem of delay in refund payments and accumulation of huge refund pendency on the one hand and CBR limitation to tackle flying and fake invoices on the other. However, notwithstanding these concerns, there are clear benefits of this policy intervention. The new system has improved the liquidity problem of the exporters and the amount so saved is being injected into the economy, resultantly the sales tax (domestic) collection has increased by 4.6% and 36.9% in gross and net terms respectively. On the other hand, the growth in gross and net ST collection from imports has been around 14.3%, which is consistent with the growth in imports during CFY.

While it is true, that the incidence of overall refund claim and payment has declined considerably, a sum of Rs. 26.8 billion has nevertheless paid back during first three quarters. The details of this amount are discussed in Box 2.

**Box 2: ST Refunds & Major Recipients  
(Up to March 06)**

*In order to boost economic activity in the country and to improve cash-flow situation of the business community, sales tax refunds have been paid to the tune of Rs. 26.8 billion at the end of the 3<sup>rd</sup> quarter of FY: 2005-06.*

*Major sectors that have received refund payments are: textile sector (Rs. 12.9 billion), which is 48.1% of the total sales tax refunds paid; Electrical Energy (Rs. 3.8 billion, out of which Rs. 2.9 billion has been paid as carry forward claim of WAPDA and Rs. 0.7 billion has been paid to CAPCO); Vehicles (tractors) Rs. 1.4 billion, Plastic and Plastic Products (Rs. 1.0 billion), and Leather & Articles (Rs. 1.2 billion). The rest of Rs. 6.5 billion have been paid back to all other sectors of the economy.*

*Interestingly, within the textile sectors the major recipients of refund are: Ready Made Garments Rs. 2.8 billion, Cotton Yarn Rs. 1.9 billion, Processed Fabrics Rs. 1.9 billion and Cotton Fabrics Rs. 1.2 billion and Gray Cloth Rs. 1.2 billion.*

*While the current claims relate to stock piling prior to the zero-rating regime that should dry-up soon, it is anticipated that with the zero-rating of entire chain of export-oriented industries, the magnitude of refunds will decline substantially in coming months.*

*Domestic Sales Tax Collection and Major Revenue Spinners:* The detailed analysis of domestic sales tax collection on the basis of data for July-March 2006 indicates that around 60% of gross collection (Rs. 64 billion out of Rs. 108 billion) has been generated by ten major revenue spinners that include: Services (essentially Telephone and Tele fax), POL Products, Electrical Energy, Natural Gas, Cars/Auto parts, Cigarettes, Cement, Fertilizer, and Beverages. However, with the exception of few of these commodities/ utilities, the rest of the major revenue spinners have recorded fairly high growth. Relatively low -growth has been observed for electrical energy. The growth has been negative in the case of sugar and cigarettes. The low collection from sugar has been mainly due to decline in domestic production and releases that generated the recent sugar crisis. As a result, duty free import of sugar was encouraged and the loss in sales tax (domestic) was largely compensated. However, disequilibrium between demand and supply how-so-ever artificial it may be still persisting with serious inflationary implications.<sup>8</sup> The reduction in collection from cigarettes has been due to the withdrawal of further tax, and receipt of advance payments. This situation is now leveling off, but at the cost of low growth in tax receipts (Table 7).

On the brighter side, the highest positive growth of 37% has been recorded in the case of cement mainly due to higher domestic demand. So long as the construction boom continues, the demand will continue to be on the rise. Additionally, the demand for cement is expected to increase further in view of the reconstructions of infrastructure and public and private properties affected by the massive earthquake in Northern Pakistan and Azad Kashmir.

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<sup>8</sup> The shortfall in sales tax domestic has been compensated at ST(M) stage where the collection has increased by 383.4%, raising the overall collection of sugar from Rs. 7.4 billion to Rs. 9.1 billion in the period under review. Thus, the overall growth in tax revenue from sugar has been 23.5%. Similarly, in case of cigarette the total sales tax collection has been Rs. 3.81 billion as compared to Rs. 3.77 billion in the corresponding period of last year, indicating low growth impact only.

Similarly, nearly 33% increase in ST (D) collection on account of services confirms the widespread usage of mobile and telecom facilities. The 26.5% growth in collection from beverages is partly due to the onset of the summer season and partly due to higher consumer spending on drinks carrying brand names.

**Table 7: Sales Tax Collection from Ten Major Revenue Spinners (Domestic) for during FY 05-06 and FY 04-05**

*(Rs. Million)*

S. No.	Commodity	Collection Up to March 2006	Collection Up to March 2005	Growth (%)
1	Services (Including Telephone/Fax etc)	21883.4	16483.0	32.8
2	POL Products (Including Petroleum, Lubricating Oils)	2029.0	18042.9	12.5
3	Electrical Energy	10328.6	10077.6	2.5
4	Natural Gas	9333.0	7888.5	18.3
5	Sugar (Including Baggase and Molasses)	5869.0	6054.0	-3.1
6	Motor cars/ Auto parts	3733.0	3118.6	19.7
7	Cigarettes	3696.0	3730.8	-0.9
8	Cement	3453.5	2516.1	37.3
9	Fertilizers/Urea	1527.9	2409.0	-36.6
10	Beverages/ Aerated water	1686.5	1333.6	26.5
	<b>Sub Total</b>	<b>63539.5</b>	<b>71654.1</b>	<b>-11.3</b>
	Others	44499.8	31798.3	11.6
	<b>G. Total</b>	<b>108035</b>	<b>103294</b>	<b>4.6</b>
	Refunds	26739.0	43908.0	-39.1
	<b>Net GST Collection</b>	<b>81296.0</b>	<b>59386.0</b>	<b>36.5</b>

*Sales Tax at Import Stage:*

In terms of gross collection of sales tax, the contribution of Sales Tax at Import stage [ST (M)] has been around 53% during the July-March of CFY. However, since all refund claims are entertained from the domestic collection of sales tax, the contribution of ST (M) in terms of net collection increases to 60%. Interestingly, the ST (M) is levied on import value inclusive of customs duties for commodities that are subjected to customs duties and on actual

import value if they are duty free. Accordingly, slight variation in the effective rate is observed vis-à-vis the standard rate.

Of all the commodity groups subjected to sales tax, double-digit growth has been recorded in Sugar, Fertilizers, POL products, Iron and steel, Vehicles, Plastic, Paper & Paper Board, Oil Seeds and Edible Oils. The respective growth rates are 383.4%, 1150%, 57.1%, 57.5%, 56.1%, 18.6%, 25.2%, 24.1% and 17.5%. Relatively higher import of sugar, fertilizer, PoL and iron and steel that has been instrumental for higher collection of sales tax has been due to supply constraints in the domestic market. Regarding sugar, the trend is expected to continue, as sugar prices have not stabilized yet, despite all-out efforts by the Government. Similarly, domestic production of fertilizer has not been enough to cater to domestic demand. Finally, the domestic supply of iron and steel was hampered due to shut-down in part of the assembly lines at Pakistan Steel. Consequently, the dependence on imports increased, thereby generating revenue for the national exchequer (Table 8).

The zero-rating of specific machinery belonging to Chapters 84 and 85 has boosted the overall imports of electrical and mechanical machinery. However, in terms of revenue there is not much of gain. Whereas the collection of electrical machinery has reduced by 12.4%, it has been so far mechanical machinery by 21.1%. These losses need to be analyzed within the broader policy perspective that aims at reducing the up-front cost of plant, machinery, and equipment and thereby providing a competitive environment for investment. Finally, the reduction of duty on smuggling-prone items, especially tea, has encouraged importers to use regular channels and as a consequence, the sales tax receipts have increased.<sup>9</sup> On the whole, the recent boost in imports has improved the sales tax collection at import stage by 14.3%.

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<sup>9</sup> The adverse revenue implications of this decision have been felt on custom duties and WHT at import stage.

**Table 8: Major Revenue Spinners of Sales Tax at Import Stage**

PCT Chapter	Tariff Description	Growth in Imports (%)	ST (M) Collection [Rs. Billion]		
			JM: 05-06	JM: 04-05	Growth (%)
27	POL Products	50.9	41.0	26.1	57.1
87	Vehicles	50.6	13.5	8.7	56.1
72	Iron and Steel	60.5	11.2	7.1	57.5
39	Plastic Resins, etc.	35.0	6.7	5.6	18.6
15	Edible oil and Waxes	12.5	4.7	4.0	17.5
85	Electrical Machinery	44.3	4.2	4.8	-12.4
84	Mechanical Machinery	16.6	3.5	4.4	-21.1
17	Sugar and confectionary	412.8	3.3	0.7	383.4
29	Organic chemicals	2.6	2.6	7.3	-65.0
48	Paper and Paperboard	25.5	2.3	1.8	25.2
38	Misc. Chemical products	7.0	1.9	2.3	-13.7
09	Coffee, tea and spices	3.7	1.9	1.8	4.6
12	Oil seeds & oleaginous fruit etc.	25.0	1.8	1.4	24.1
40	Rubber and articles.	19.3	1.6	1.8	-11.5
31	Fertilizers.	105.3	1.5	.12	1150.0
<i>Sub-total</i>		<i>38.0</i>	<i>101.7</i>	<i>77.9</i>	<i>30.5</i>
Others		14.8	19.4	28.1	-30.9
<b>Grand Total</b>		<b>31.8</b>	<b>121.2</b>	<b>106.0</b>	<b>14.3</b>

*Note: JM stands for January-March*

**Customs Duties:** The gross and net collection from customs duties has exhibited remarkable growth during July-March 2005-06, by collecting Rs. 109.2 billion and Rs. 95.1 billion, respectively, showing a sizeable growth of 18.9% and 18.7% over the comparable period of PFY. At the same time, Rs. 14.1 billion have been paid back as refunds/ rebates during the CFY that are 19.8% higher. The details are presented in Box 3. The growth in collection is attributable to a number of factors including the record level of international trade transactions, incentives to investors and traders that have resulted into higher demand for inputs, and the continuous improvement in customs business processes in the shape of CARE and One-Customs projects that have contributed towards the goal of attaining efficiency gains.

**Box 3: Customs Refunds/ Rebates Major Recipients  
(Up to March 2006)**

*At the end of 3<sup>rd</sup> quarter 2005-06, a total amount of Rs. 14.1 billion refund /rebate has been paid back showing an increase of 19.8%. Of this amount, Rs. 4.5 billion are refund payments and the amount of rebate has been Rs. 9.6 billion.*

*About 96% of refund payment was made to fulfill GOP commitment with respect to PTA production. This amount was handed by the Appraisement Collect orate, Karachi. The major recipients of rebate were the textile sector, amounting Rs. 3.5 billion which constitutes 36.5% of the total rebate paid during the period under review, leather industry claiming Rs. 1.4 billion, and, vegetable ghee sector Rs. 1.2 billion. Rest of the amount has been paid back to relatively smaller groups of the industrial sector.*

The information presented in Table 9 indicates that there are not very many revenue spinners of customs duties which could be regarded as substantial contributors. In fact, 15 commodity-groups have generated 78.1% of gross customs duty collection during first three quarters. The share of these commodities was 74.4% during last year. Within these commodities, some of them have recorded substantial growth whereas in the case of others it has decelerated. For instance, the highest growth of 77.2% in customs duty has been recorded by POL Products listed in Chapter 27 of Pakistan Tariff, followed by 53.3% in vehicles and parts (Chapter 87), article of Iron & Steel by 46.4% (Chapter 73), and Iron & Steel by 30.1% (Chapter 72). The growth of these 15 major commodities has been 25% and the overall growth of all commodities is 18.8%.

With extensive revision in the duty structure within the existing slabs whereby duty has been reduced for capital goods and smuggling-prone items, the effective rate on dutiable imports for 15 major commodity groups has declined from 14.7% to 13.5% during July-March 2005-06 over the corresponding period of PFY. Similarly, the effective rate of all commodity groups has also declined from 14.9% to 14.2%. This reduction has been due to the changing composition of dutiable imports. Finally, it is also relevant

to mention that the effective rate has been higher than the maximum statutory rate for only two commodities implying that there are only few tariff peaks. These peaks are for commodities listed in Chapter 87 (essentially Vehicles) and Chapter 15 (essentially edible oils). A long term strategy is being pondered over to further improve the tariff structure related to primary, secondary, and intermediate and final products. The issues of tariff peaks and dispersion are also under consideration to make the tariff structure competitive with rest of the world and WTO compliant.

**Table 9: Major Revenue Spinners of Customs Duties and Effective Rates**  
(Growth and Effective Rates in percent)

PCT Chapter	Tariff Description	July-March Growth			Effective Rates on Dutiable Imports	
		Import Value	Dutiable Imports	Customs Duties	Up to March 06	Up to March 05
87	Vehicles	50.6	51.9	53.3	37.6	37.3
15	Edible oil and Waxes	12.5	15.9	22.3	32.5	30.7
84	Machinery	16.6	29.7	7.1	6.8	8.3
85	Electrical Machinery	44.3	36.6	4.9	7.7	10.1
27	POL Products	65.1	80.5	77.2	9.9	10.1
72	Iron and Steel	50.9	23.5	30.1	10.4	9.9
39	Plastic Resins, etc.	35.0	36.7	-4.3	8.6	12.2
29	Chemicals	2.6	-19.3	-25.9	8.3	9.1
48	Paper and Paperboard	25.5	24.4	23.2	18.6	18.8
38	Misc. Chemical Prod.	7.0	5.2	-13.4	8.7	10.6
9	Coffee and Tea etc.	3.7	1.5	-5.4	10.1	10.8
40	Rubber Products	19.3	-6.6	-4.9	11.8	11.6
54	Man-made Filaments	96.2	99.1	-5.2	9.0	18.9
32	Dyes, Paints etc.	17.3	7.8	-0.7	13.0	14.1
73	Iron & Steel Articles	71.2	59.3	46.4	13.4	14.6
	<i>Sub-total</i>	<i>34.9</i>	<i>31.9</i>	<i>25.0</i>	<i>13.5</i>	<i>14.2</i>
	Others	23.5	1.8	1.0	16.8	17.0
	<b>Grand Total</b>	<b>31.8</b>	<b>25.1</b>	<b>18.8</b>	<b>14.1</b>	<b>14.9</b>

**Federal Excise:** The overall performance of FED during CFY has been as projected. The net collection of FED during July-March 2006 has been Rs. 39.6 billion against Rs. 36.3 billion during the corresponding period of PFY, depicting a growth of 9.1%.

The five major revenue spinners of FED have contributed 91.3% in total gross collection during the period under review. The highest growth of 28.4% has been registered in beverages mainly due to upward revision of prices on account of increased sugar prices in the third quarter of CFY. Secondly, the FED collection from Cement and cigarettes has increased by 14.5% and 11.8%, respectively during the first three quarters of CFY. This improvement is attributable to 2.2% growth in cement production in response to the booming construction activity in the country and 13.1% growth in the production of cigarettes (Table 10).

**Table 10: A Comparative Analysis of FED Collection**

*(Rs. Million)*

Five Major Revenue Spinners	FY:05-06	FY:04-05	Difference	
	July-March		Absolute	Percent
Cigarettes	16426.4	14691.7	1734.7	11.8
Cement	9053.5	7905.2	1148.3	14.5
Natural Gas	4039.8	4099.8	-60.0	-1.2
POL Products	3024.6	3189.3	-164.7	-5.2
Beverages	3649.8	2837.7	812.1	28.6
Sub Total	36194.1	32723.8	3470.3	10.6
All Commodities	39646.1	36331.0	3315.1	9.1
Share in Gross (%)	91.3	90.1		

### Concluding Observations

The stage is set for accomplishing the assigned target of Rs 690 billion fixed for the FY 2005-06. In fact, there are bright chances that the assigned target will be surpassed by a comfortable margin

thereby ensuring consistency in performance. Even though all the four federal taxes have contributed towards this achievement, it is the performance of income and corporate taxes on the one hand, and GST on the other, that have taken the lead. Within the direct tax regime, significant improvement in voluntary compliance has been an important development. The increase in both, returns as well as payments with returns, in a universal self assessment environment is no ordinary accomplishment. It clearly reflects taxpayers' increasing confidence in the system. Similarly, the phenomenal increase in sales tax collection, on domestic production and sales, needs to be reviewed within the zero-rated regime for the export-oriented industries. Despite the fact that the incidence of refund claims has reduced, it is the availability of liquidity and improvement in the cash-flow situation of the taxpayers that has ignited the growth process. Furthermore, the reduction and rationalization of tariff rates has also been instrumental in generating growth by reducing the cost of doing business. It is anticipated that this growth will lead to further improvement in taxpaying capacity of the taxpayers and resultantly the tax collection will also improve.

Besides success on the revenue front, it is reassuring that the credibility of the organization has also improved in recent years. The appreciation is being received equally from domestic as well as international stakeholders. It is probably the first time that CBR has been awarded with a medal by the Chamber for its business friendly approach to tax matters. Similarly, the participants of a recent survey conducted by the American Business Council have overwhelmingly endorsed that the tax administration reforms in CBR have changed the business environment for the better. The signs of positive change are now becoming more and more visible. However, keeping these laurels aside, CBR plans to build upon this position of success in coming months and years to further improve its relationship with its customers, i.e., the taxpayers.

## **II**

### **Industry Profile: Telecom Industry in Pakistan<sup>10</sup>**

#### **Introduction**

It seems that the telecommunication sector around the world is growing at the speed of light! The dynamism in the telecom markets is attributed to rapid technological development and an increasingly liberal policy environment. Consequently, the world economies are being transformed at a fast pace through improvement in knowledge base. Pakistan even though a late starter in the field has invested quite heavily over the past two decades to improve its infrastructure. Not only that a multitude of services are available now to the customers, the quality of the service delivery has also improved remarkably. However, there is still a lot of catching-up to do when compared to the fore-runners in the field.

The purpose of this article is to evaluate the significance of the telecom sector in transforming national economy of Pakistan. Using historical evidence, the paper explores how the sector has grown in a short span of time; the way it has contributed to the national economy – especially the level of foreign investment it has attracted; and above all its revenue generating capacity, which is changing in a peculiar way. The study also outlines certain issues that require attention to further boost the telecom sector activities in the country.

#### **Historical Background**

Pakistan had suffered initially in adopting rapid growth in the telecommunication industry due to dilapidated infrastructure it inherited at the time of independence. The country, in 1947, started off with a meager telecommunication base with just 14,000

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operational telephone lines. This service was hardly enough to fulfill the requirements of the government. As part of initial reforms, the Telegraph & Telephone services were separated from the Postal Department in 1962. Major breakthrough, nonetheless, came through in the mid-1980s when the entire system was overhauled by undertaking heavy capital investment. The Telegraph and Telephone (T&T) Department was converted into Pakistan Telecommunication Corporation on 15<sup>th</sup> December 1990. However, riding on the wave of liberalization and deregulation, the telecommunications industry was reorganized into various sub-organizations; like the Pakistan Telecom Authority (PTA), the National Telecom Corporation (NTC), and the Frequency Allocation Board (FAB). Subsequently, the Pakistan Telecommunication Company Limited (PTCL) was established in 1996. More recently, part of the PTCL has been privatized but to operate under the ambit of PTA as a regulator.

### **Deregulation of the Sector**

Pakistan has opened up the telecom market in 2003 to private operators for fixed line and the cellular mobile sector. Resultantly, the telecom sector has emerged as one of the fastest growing sectors in the region. The intense competition has resulted into lowering of tariffs and other costs. The number of telephone users has multiplied rapidly in the country. The robust growth in subscription can be measured from the fact that the fixed line tele-density in Pakistan was only 2.2% in 2000-01, that has reached 3.4% in 2004-05. On the other hand, the cellular mobile density stands at 10.2% in 2005 [Pakistan Economic Survey, 2004-05]. Table 1 presents the growth in the telecom sector since 1991-92.

On the other hand, the internet usage has also increased rapidly in the country. Starting with only 500,000 internet subscribers in 1999-2000, the figure now runs into millions. It is amazing to observe how quickly the internet access has spread to well over 2000 cities and small towns in Pakistan and the demand is still growing.

**Table 1: Growth of Telecommunication Industry**

Years	Telephone Connection (000 No.)	Internet Connection (000 No.)	Cities with Internet Connection	No. of PCOs	Mobile Phones (000 No.)
1991-92	1461	-	-	4676	-
1995-96	2376	-	-	9410	68
1999-00	3124	500	-	10400	307
2000-01	3340	800	-	66968	743
2001-02	3656	1000	-	97751	1699
2002-03	4940	1600	1350	139491	2405
2003-04	4460	2000	1898	180901	5023
2004-05	6736	2200	2200	219922	12,771

Source: Pakistan Telecommunication Authority, Annual Report, 2004-05

The emergence of new players in the field has been a welcome addition. Being the fore-runner, the *Mobilink* has attracted the maximum number of subscribers. Its share in subscription has reached 52%; followed by *Ufone* (23%), *Warid* (10%) and *Telenor* (9%). The *Warid* and *Telenor*, the two most recent entrants, have offered fairly competitive rates and as a result they have captured a sizeable share of the market fairly quickly. The yearly growth of different mobile phone service providers is depicted in Table 2.

**Table 2: Pattern of Mobile Phone Subscribers**

	Mobilink	Ufone	Paktel	Instaphon	Telenor	Warid	Total
2000	114,272	-	80,221	112,000	-	-	306,493
2001	309,272	116,711	96,623	220,000	-	-	742,606
2002	800,000	350,000	218,536	330,000	-	-	1,698,536
2003	1,115,000	550,000	319,400	420,000	-	-	2,404,400
2004	3,215,989	801,160	470,021	535,738	-	-	5,022,908
2005	7,469,085	2,579,103	924,486	454,147	835,727	508,655	12,771,203
March 06	12,990,643	5,750,516	954,933	396,756	2,332,117	2,578,043	25,003,008
Share (%) in 2006	52.0	23.0	3.8	1.6	9.3	10.3	100.0

Source: [http://www.pta.gov.pk/index.php?option=com\\_content&task=view&id=650&Itemid=603](http://www.pta.gov.pk/index.php?option=com_content&task=view&id=650&Itemid=603)

### **Telecom Sector and the Economy**

Telecom sector is playing a vital role in boosting economic growth, generating employment, attracting foreign investment and acting as a facilitator for other sectors. For instance, the share of this sector in GDP has increased to 1.9% in FY 2004-05 from 1.6% in FY 2000-01. Similarly in terms of employment generation, it has emerged as a leading sector providing employment in remote areas [through Public Call Offices (PCOs) and internet connections] thereby having favorable implications towards the goal of poverty alleviation. According to an estimate this sector has generated 436,213 direct and indirect employment opportunities after the adoption of the policy of liberalization and deregulation. The company-wise position of employment generation is given in Table 3.

**Table 3: Employment Status in Telecom Sector  
(After Deregulation 2004)**

<b>S. No.</b>	<b>Sector</b>	<b>Direct</b>	<b>Indirect</b>
1	Cellular Mobile	31922	23495
2	Wireless Local Loop	653	9,032
3	Long Distance International	2687	8061
4	Local Loop	120	160
5	Manufacturers	1145	2912
6	Card Payphones	188,800	188,800
7	ISPs	343	686
8	Sets & Accessories Sellers	6,000	120
<b>Total Employees</b>		<b>202947</b>	<b>233266</b>

*Source: Pakistan Telecommunication Authority, Annual Report, 2004-05*

### ***FDI in the Telecom Sector***

There is no denying the fact that Foreign Direct Investment (FDI) plays an important role in the growth process of an economy. This is also true for Pakistan. Since the telecom sector has been one of the most vibrant sectors, it has attracted enormous international interest. Table 4 indicates that the flow of FDI is on the rise. During the last four years, the share of FDI in the telecom sector has increased from

1.3% in 2001-02 to 32.4% in 2004-05. On the whole, the FDI has reached US \$2.2 billion during July-March 2005-06 compared to \$792.6 million during the corresponding period last year [SBP 2006]. Of this, the telecom sector has attracted nearly US \$1 billion during the period under review. However, lest it be misunderstood, this figure also includes privatization proceeds of PTCL.

**Table 4: The Details of Direct Investment**

*(US \$ Million)*

Years	Total FDI	FDI in Telecom Sector	Telecom Share (%)	Overall FDI Growth (%)	Telecom FDI Growth (%)
2001-02	484.7	6.1	1.3	-	-
2002-03	798.0	13.5	1.7	64.6	121.3
2003-04	979.9	207.1	21.1	22.8	1434.1
2004-05	1524.0	494.4	32.4	55.5	138.7

Source: *Pakistan Telecommunication Authority, Annual Report, 2004-05*

### **Telecom Sector and Revenue Generation**

This is true that higher taxes usually discourage investment. They also erode country's competitiveness in the world market. Even though the Government has been quite liberal over the years to provide incentives to promote activities in the telecom sector, the revenue generation is inconsistent with the incentive structure. No doubt that with acceleration in growth, the contribution of the telecom sector in the shape of federal tax receipts has increased over the years, but the tele-tax/GDP ratio has been stagnant around 0.6% and 0.7%, indicating that only the natural growth effect has been captured by the tax system. The additionality somehow remains untapped. It appears that concessions are far too generous, yet they fail to attract FDI (Table 5).

The wide array of concessions includes a scheme of declining corporate tax rates. This scheme is already in vogue for the last four years whereby 2% decline in private company rate takes effect

automatically till it is reduced to 35% by tax year 2007 and parity is attained between the corporate tax rate of private, public and banking companies. Secondly, the activation charge of Rs. 2000 on new mobile phone connection was reduced to Rs.1000 in FY 2004-05. It was slashed further to Rs. 500 in FY 2005-06. Thirdly, to boost the usage of public payphones, mostly utilized by the low-income groups who do not have fixed line phones, the levy of WHT @ 10% on pre-paid card services was withdrawn in FY 2005-06. Fourthly, the customs duty on the cellular mobile phone was reduced from 25% in FY 2004-05 to 5% in FY 2005-06.<sup>11</sup> Finally, the import of plant, machinery, and equipment including parts was zero-rated for sales tax purposes during 2005-06. This facility is also available to the telecom sector.

**Table 5: Total Direct and Indirect Taxes Realized from Telecom Sector**

*(Rs. Million)*

Years	Direct Taxes	Indirect Taxes	Total Taxes	Share in Federal Taxes (%)	Share in GDP (%)
2002-03	15573.3	12273.1	27846.4	6.0	0.6%
2003-04	21009.1	13345.8	34354.9	6.6	0.6%
2004-05	19799.3	23002.2	42801.5	7.2	0.7%
2005-06	15641.7	19604.8	35246.5	7.2	0.6%

*Source: CBR; Note: The figures for 2005-06 are July-March period*

Revenue Position: Despite adverse implications of concessions, the sheer growth in volume has resulted into manifold increase in revenue receipts through direct and indirect taxes. The overall revenue from the telecom sector has registered a significant growth of 24.6% in FY 2004-05. The revenue has increased to Rs. 42.8 billion as compared to Rs. 34.4 billion in FY 2003-04 (Table 5). The details concerning individual taxes are presented in the following paragraphs.

<sup>11</sup> This reduction in statutory rate needs to be read with SROs 565, 567, and 575 for further finer details.

*Income Tax:* Since the concessions offered to the corporate sector are also available to the telecom sector, therefore, the income tax paid by the different companies in telecom sector reflects their actual contribution based on their profitability. The details presented in Table 6 clearly indicate that the share of income tax paid by the telecom sector in total income tax collection was around 8% during FY 2004-05. This share in total federal taxes was around 2.5%. The income tax data further reveals a peculiar picture whereby it transpires that almost entire contribution has been made by the PTCL and other state controlled companies. In fact, the PTCL has been the largest contributor of around 95% during 2004-05. The second major source of corporate income taxpayer has been NTC, which contributed about Rs. 3.3% in the total income tax collection. Within the private sector, notwithstanding its large market share, *Mobilink* has contributed only 1.8% in the direct tax receipts. The rest of the companies are still struggling to make any significant contribution towards national exchequer, may be due to the completion of the gestation period on their investment. However, the fact remains that a tax where forward shifting is limited has been entirely paid by the public sector companies with only nominal contribution by the private sector. Since these companies are also serving as withholding agents for the government, their role as WHT agents requires immediate attention and, if possible, detailed audit.

**Table 6: Income Tax paid by Major Companies  
in the Telecom Sector**

*(Rs. Million)*

	<b>FY 02-03</b>	<b>FY 03-04</b>	<b>FY 04-05</b>
PTCL	13062.6	15258.6	13892.3
Mobilink	-	1625.9	272.6
Ufone	-	21.2	69.0
Warid	-	-	0.3
Telenor	-	-	3.0
Paktel	56.9	23.3	13.0
NTC	-	322.9	491.9
<b>Total</b>	<b>13119.5</b>	<b>17252.0</b>	<b>14742.0</b>

*Source: Pakistan Revenue Automation Limited (PRAL)*

**Indirect Taxes:** The share of indirect taxes generated by the telecom sector in total federal receipts has increased from 2.7% in FY: 2002-03 to 4% during CFY. On an average, the indirect tax revenue has increased by 60.7% annually since 2002-03, the year when private companies started their operations in Pakistan (Table 7).

**Table 7: Share of Indirect Taxes in Federal Taxes and GDP**

(Rs. Million)

Year	Sales Tax	Customs Duties	Indirect Taxes	Growth (%)	Share in Federal Taxes (%)	Share in GDP (%)
2002-03	12126.4	146.7	12273.1		2.7	0.3
2003-04	12790.9	554.9	13345.8	8.7	2.6	0.2
2004-05	21374.9	1627.3	23002.2	72.4	3.9	0.4
2004-05*	14548.0	1086.0	15634.0		3.9	0.3
2005-06*	19082.5	522.3	19604.8	25.4	4.0	0.3

- July-March only
- Source: CBR

**Sales Tax:** Sales tax @ 15% is applicable both at import stage and on air time. The collection realized under activation tax during 2003-04 and 2004-05 was Rs. 4.02 billion and Rs. 7.5 billion, respectively. In other words, a 50% decline in tax rates and augmented economic activities in the country, have generated a substantial growth in demand for the usage of cell phones. Resultantly, the revenue realization has also increased significantly.

**Company-wise Domestic Sales Tax Collection:** The contribution in GST made by the telecom companies operating in Pakistan presented in Table 8, shows a substantial growth during last few years. The collection has increased from Rs. 11.5 billion in 2002-03 to Rs. 20.4 billion in 2004-05. The GST collected through the telecom sector during July-March 05-06 was Rs. 18.9 billion, which was around 23% of GST (Domestic) collection and 9% of total sales

tax (collected at domestic and import stages combined). However, notwithstanding this growth, a peculiar phenomenon is emerging in sales tax receipts when viewed from the contribution of each company. Until FY 2004-05, the PTCL was the leading source of GST because of its size and strength. It was followed by *Mobilink* and other smaller companies. However, in FY 2005-06 *Mobilink* has taken the lead in generating the GST revenues. The reason is that the use of cell phones is growing at a fast pace in the country and *Mobilink* has the largest clientele. Incidentally, the new players, namely, *Warid* and *Telenor* have also captured a sizeable share of the market. Accordingly, the GST contribution by them has swelled to 8.8% and 4.3% respectively, within a short span of time. This trend further confirms the argument that the private sector, despite its spectacular performance is contributing very little in terms of direct taxes. It appears that there is no problem in reporting those taxes where the tax incidence can easily be shifted forward on to the final consumers.

**Table 8: Sales Tax (Domestic) Generated by Major Companies**

*(Rs. Million)*

	02-03	03-04	04-05	05-06 (Jul-March)
Mobilink	1602.8	3746	7014.1	7444.2
PTCL	7991.9	6556.9	9337.3	5501.8
Ufone	814.8	609	1767.5	2516.0
Warid	-	-	116.2	1517.9
Telenor	-	-	744.2	826.8
Paktel	366.3	381.9	741.6	543.7
NTC	256.2	317.7	340.9	177.5
Instaphone	493.6	506.8	328.4	129.5
Sub- Total	11525.6	12118.3	20390.2	18657.4
Others	0.8	0.9	7.9	226.9
<b>Total</b>	<b>11526.4</b>	<b>12119.2</b>	<b>20397.4</b>	<b>18884.3</b>

*Source: CBR*

**Customs Duties:** An uneven spike has been observed in customs duties collection during FY 2004-05, due to 310% increase in import

value of telecom related items. This was the time when new firms were entering the domestic market and making substantial investment in infrastructure. However, this one-time surge appears to have been subsided. Consequently, the overall collection at import stage has also declined by around 64%. Furthermore, the decline in revenue can also be attributed to reduction in tariff rates on cellular mobile-phones and batteries.

### **Issues and Concerns<sup>12</sup>**

The ongoing process of liberalization has induced competition in every segment of the telecom sector. Technology is changing with rapid pace and its transfer to local market is even faster. The private sector with its ability to adapt and exploit benefits of investment in emerging fields is taking full advantage of the situation. However, despite this growth, the telecom sector is confronted with its share of challenges. Some of the pressing areas are highlighted below to have general awareness and necessary policy response from the concerned quarters.

***Rural Telephony:*** Tele-density in rural areas is low at 1.26%. Even though with liberalization this figure was expected to increase further, but the growth has been very slow. The main reason is the low return on investment made in the unattractive markets in rural areas. One would have expected from the industry to be a bit more conscientious to fulfill its obligations to operate in areas where profit margin is low. But until that happens, this area remains a challenge for the regulating authority as well as the Government. The evidence from countries like the Philippines and India is that they have established Tele-centers in the rural areas, which are cheaper and easy to install and offer short-run solution. However, to tackle the challenge on longer term basis, the Government

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<sup>12</sup> The authors are grateful to the staff of the Economics Wing of the Pakistan Telecommunication Authority for fruitful discussion and insight on these issues.

intervention seems inevitable. It will have to be proactive in providing necessary support to the industry so that the system keeps rolling without hiccups.

***Grey Traffic:*** Gray Traffic is another challenge being faced by the telecom sector and the government. This happens when National Gateway Exchange is by-passed through local (illegal) set-up. Resultantly, huge loss to national exchequer and the licensed operators is caused. This difficult area requires careful planning to track. It requires close cooperation between telecom companies, intelligence gathering agencies, and the general public.

***Alternate Infrastructure:*** Pakistan had faced the worst ever internet blackout and international disconnection in May 2005 when the Optic Fiber Cable, SE-ME-WE-3 was damaged. It resulted in billions of rupees of loss to the Government of Pakistan and various companies. Realizing that alternative arrangement for international connectivity is crucial for such disaster recovery and for the seamless business continuity when such events happen, second cable SE-ME-WE-4 has been planned which will be available shortly.<sup>13</sup> Simultaneously, the private sector is also planning to have its connectivity ready in the near future, and as a result, three alternative cable options will be available for information flows.

***Rollout:*** Under the telecom deregulation and mobile cellular policies, the licensees are required to roll out their networks across Pakistan within stipulated time period. The mobile licensees are required to cover at least 70% of Tehsil headquarters in four years with a minimum of 10% Tehsil coverage in all four provinces.<sup>14</sup> Performance bonds by the licensees are deposited with PTA, which

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<sup>13</sup> Besides connectivity through cable, linkage through satellite is also available and it is being exploited. However, cost consideration and quality of connection favors cable over the satellite link.

<sup>14</sup> Currently 90% of Tehsil Headquarters have mobile connectivity in Punjab. However, partly because of remoteness and diversity, the coverage is only 29% in Balochistan [Source: Pakistan Telecommunication Authority].

are released on achievement of coverage targets. Since concentration of all new licensees for business interest lies in metropolitan cities, therefore, it would be a challenge for the Authority to compel new operators to fulfill the roll out obligations under deregulation and mobile policies.

***Broadband Penetration:*** Penetration of broadband is directly associated with the social and economic uplift of the country. Unfortunately, it is very low in Pakistan, mainly due to non-availability of appropriate infrastructure, high prices and lack of awareness among general public. There is a cumbersome process for infrastructure development as a number of NOCs are required from various agencies. All relevant agencies need to recognize the importance of the sector by simplifying their processes to help boost the facilities faster. This will have a spiral effect on economic development and the benefits will be for everyone to reap.

***Manufacturing:*** Currently, there are three manufacturing factories in Pakistan, namely, the Telephone Industry of Pakistan (TIP), the Carrier Telephone Industry (CTI), and the Alcatel (Pakistan). Despite their production, these units are unable to meet the growing local demand due to limited capacity. Whereas limited quantity of drop wire, aerial and underground cables are manufactured locally, the rest of the demand is met through imports. Consequently, the expansion of the telephone network either remains restricted, or it requires huge sum of foreign exchange. Likewise, even though the land-line telephone sets are being assembled under license in Pakistan, but the growing demand is again met through imports. Finally, assuming that the telephone network will grow at a rate of 700 thousand lines per year, the existing switching production capacity of around 375 thousand lines per annum would satisfy only half of the country's demand. All these factors point to the fact that the domestic manufacturing capacity needs a real boost. The indigenization will not only save precious foreign exchange, but it

will also create employment opportunities, which are so desperately needed. For strengthening of the manufacturing sector, the direction of FDI also needs a careful review to ensure that sufficient share of FDI is directed towards new manufacturing establishments, i.e., the aim should be diversification, rather than the purchase of the existing units.

***Smuggling:*** The smuggling of telecom equipment is also harming the local interests. Markets in Pakistan are flooded with all sorts of smuggled products. Effective checks against smuggling, as well as mis-declaration and under-invoicing are needed to restrict its 'illegal' inflow. Simultaneously, effective anti-dumping laws may also be enforced to discourage foreign 'dumpers'.

### **Concluding Remarks**

For years Pakistan's telecom sector has plodded along seemingly stuck in the mid-20th century. From 2.1 phones per 100 Pakistanis in 1999, the number of fixed lines has crept up to just 2.9 per 100 today. While the cellular phone service has been more dynamic, only about 5% of Pakistanis have cell phones. All this has to change, as the telecom sector has been deregulated. The entry of private companies and few more gearing up to jump into the bandwagon provides necessary support to the argument that Pakistan is emerging on the world scene as one of the fastest-growing cellular markets. According to an estimate, it is anticipated that as much as US \$8 billion will be injected into the system (networks and equipment) over the next five years, compared with just US \$1.5 billion since 1999.

Even though the future outlook is bright, the existing situation is not bad either. The emergence of new players in the telecom sector has facilitated the society and the economy significantly. It has a positive impact on business transactions as well as on the daily life of common citizens. It is remarkable to observe that the growing

competition among the service providers has resulted into customer facilitation at reduced rates. Nonetheless, for residents of remote areas, these facilities largely remain inaccessible for various reasons. The real concern is how to motivate the private sector to operate in areas where cost of doing business is high and there are concerns about safety and security of the infrastructure and the personnel. Consequently the returns are low. If not handled passionately, this may turn out to be a classic example of market failure, where ultimately the government would have to act as a savior. Similarly, the role of private sector as revenue generator needs a fair assessment. While the revenue generated by the telecom sector is growing, a fairly modest contribution is being received from the prosperous private sector under the head of income and corporate tax. This outcome is quite alarming and appears to be inconsistent with the perceived profitability of the private companies.

### III

#### **Reform Program: Need and Scope of Perception Survey<sup>15</sup>**

##### **Background**

How the stakeholders visualize the dealing and working of an organization, especially those engaged in public dealing, generally determines its success or failure. If used objectively, such perceptions play a critical role in the design of future policies. However, when the systems are not transparent, the interaction with stakeholders is usually discouraged. Regrettably, the perception of various stakeholders is often termed as ‘useless’ and given no weight at all. Instead, more attention is paid to closed-door activities and self-praising. Ultimately, the fate of such inwardly designed vision results into miserable failures.

CBR has been no exception to this situation in the past. The organization which is a major source of resource mobilization in the country did not give due importance to obtaining feedback from taxpayers, its employees, collaborating government departments, and the general public to evaluate its activities. Resultantly, it lost its credibility and received an unfriendly response from the taxpayers. However, with the introduction of tax administration reforms this important area has been given due importance and efforts are being made to understand stakeholders’ concerns to rectify them promptly.

The purpose of this article is to revisit the results of the earlier (baseline) surveys conducted in 1999 and 2000, which paved the way for tax administration reforms in CBR. The paper also outlines the scope of the up-coming effort on a country-wide perception and

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<sup>15</sup> Authors: Robina Ather Ahmed, *Chief*, and Umar Wahid, *Secretary* (Fiscal Research and Statistics) CBR.

feedback survey and its importance in framing future policies and actions plans.

### **Review of Earlier Surveys**

The process of tax administration reforms at CBR was started during late 1990s. At that stage it was felt necessary to get feedback from the taxpayers and other stakeholders about various attributes of CBR to serve as the 'baseline' response. The attributes on which opinions were sought included: courtesy and honesty of the staff, means of communication and procedural difficulties faced by the taxpayers.<sup>16</sup> The survey was conducted on the basis of indirect contact method. The questionnaire along with a letter from Chairman CBR, highlighting the importance of the survey was mailed to 128,000 taxpayers, tax advisors and accountants, randomly selected from the CBR database. Of this, 126,000 letters were sent to taxpayers with varying tax payments and 2000 to tax advisors and accountants.

Despite the large number of mailed questionnaires, surprisingly only 6000 taxpayers responded to record their responses. Those who chose to respond had the view that Pakistan's taxation system fell short of their expectations. Taxpayers opined that the laws were complicated; rules and regulations were stringent; the staff (tax machinery) was inefficient and corrupt; and the tax administration was non-responsive to dynamics of fiscal and commercial environment. The survey outcome further revealed that the level of courtesy was low and connivance between the taxpayers and the tax collectors was on the higher side.

A similar exercise was undertaken by the Task Force on Tax Administration.<sup>17</sup> The survey was based on a number of target

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<sup>16</sup> The survey was awarded to Gallup (1999) with the objective to get frank opinion of the respondents without disclosing respondent's identity.

<sup>17</sup> See 'Reform of Tax Administration in Pakistan' Report of the Task Force on Tax Administration prepared under the Chairmanship of Mr. Shahid Hasan, April 2001.

groups selected from various walks of life. The first group consisted of the employees of CBR and its field formations; the second group included taxpayers, representatives of key economic sectors, and opinion leaders of key segments of society; and the third group was selected from representatives of general public.

A fundamental question was asked up front that inquired as to whether as Pakistani the respondent is really worried about corruption. Table 1 confirms that all the respondents including the taxpayers, tax collectors, and the representatives of civil society were equally worried about this menace. However, surprisingly more worried were the taxpayers and tax collectors than the members of civil society.

**Table 1: How Worried are Pakistanis about Corruption**

	Overall	Tax Administrators	Taxpayers	Civil Society
Not at all Worried	2	3	0	4
A Little Worried	4	8	2	0
Worried	15	15	11	24
Very Worried	28	21	33	32
<b>Extremely Worried</b>	<b>51</b>	<b>53</b>	<b>54</b>	<b>40</b>

*Source: Task Force Report on Tax Administration Reforms (2001)*

The second important outcome of the survey was the view held the respondents that corruption was not only widespread, but the public and private organizations were equally corrupt. Not surprisingly, the private sector respondents did not endorse to this view of the civil society representatives. Thirdly, the respondents believed that corruption was not simply restricted to CBR only, rather many other government departments were also engaged in such unhealthy practices. In fact, when they were asked to rank government

departments according to the perceived level of corruption, many of these departments were ranked higher than CBR.<sup>18</sup>

An attempt was also made in the survey to get taxpayers' perception about revenue losses incurred via corruption. The results suggest that the amount of revenue loss was substantial. Furthermore, the problem of 'speed money' in the case of customs clearance and seeking refund payments was also calculated and highlighted in the Report.

### **Administrative Reforms in CBR**

In order to achieve the tax administration reform objectives, it was felt necessary to undertake broad based administrative reforms to streamline the tax machinery and improve the working relationship between taxpayers and tax administrators. The key thrust of the reform process is as follows.

The continuation of tax policy and tax administration reforms is the strategic thrust of CBR. The purpose of these reforms is to develop an effective taxation system, make it fairer by reducing distortions, introduce transparency and create conducive environment for investment, trade and economic growth. The main stress of the tax administration reform is on encouraging tax compliance through an improved level of taxpayers' facilitation. In the long run, administrative reforms also enable tax administrators to effectively deal with delinquent taxpayers through a system of audit and penalties. Therefore, main focus is on implementation of its comprehensive reform agenda. This includes fundamental changes in the structure of tax instrument, tax assessment and collection procedures and practices, organization of the CBR and its field offices, personnel policies, database development and of course taking appropriate steps towards taxpayer facilitation. This

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<sup>18</sup> See the Tax Reform Report for further details, *op cit*.

comprehensive effort stems from the realization that unless basic changes are made in tax policy and administration, and the attitude of the collectors/ taxpayers towards tax collection/ payments changes, the results would not be encouraging. There will be no improvement in revenue collection, and tax effort would also gradually. Some of the recent initiatives with far reaching consequences are briefly described below.

To eliminate/ minimize the interface between the taxpayers and tax administration, the universal self assessment system (USAS) has been introduced in the income tax structure to promote voluntary compliance and regain the taxpayers' confidence.<sup>19</sup> Similarly, to facilitate the taxpayers and to eradicate corruption, substantial investment has been made in infrastructure development, re-engineering and end-to-end automation of business processes, and human resource development. Furthermore, to pilot test the 'reformed' setup, dedicated tax units (3 large taxpayer units and 5 medium taxpayer units) have been established. The Customs processes are re-engineered and Customs Administration Reform (CARE) has started working that has minimized the time of clearance of goods to few hours. To make the refund mechanism transparent and automated the project namely STARR/ STREAMS project was implemented. However, the enormity of the problem required a serious policy re-thinking. Consequently, the entire chain of five export-oriented industries, which incidentally were the major claimants of sales tax refunds, was zero-rated in FY 2005-06. Now the incidence of refund claims has reduced sharply. It has also resulted into improved liquidity position of the taxpayers that, in turn, has been helpful in generating economic activity.

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<sup>19</sup> Nearly 36% of the survey respondents had complaints about the behavior of the concerned tax officials.

## **Proposed Perception Survey**

To what degree CBR has achieved its objectives, particularly those concerning taxpayers facilitation, change in attitudes and improving the overall fiscal environment, has been the primary objective of the proposed perception survey, that is to be launched shortly in collaboration with Gallup, Pakistan. CBR also wishes to have a feedback from the taxpayers (and the general public at large) on integrity of the employees of CBR. A brief description of this ambitions undertaking is presented below:

**Survey Design:** The survey will be designed to the unique identification of stakeholders for each tax. Sample size and content will reflect the taxpayer profile of each tax and a decision will be made at the outset as to the frequency of data collection.

Four categories of stakeholders are identified:

1. Income and Corporate Taxpayers
  - Salaried Individuals;
  - Non-Salaried Cases
2. Sales Tax, Federal Excise and Customs Duty Payers
  - Wholesalers and Retail Traders;
  - Exporters;
  - Turnover Taxpayers;
  - Manufacturers;
  - Service Providers; and
  - Importers.
3. Employees of CBR and its Field Offices
4. Employees of other Government Agencies with specific interest in CBR activities.
  - Courts and Prosecutors;
  - Officials of the Ministry of Finance.

**Coverage and Sample Selection:** In view of the excessive cost and time involvement in recording responses from the entire population of the identified stakeholders, selection of a representative sample is the preferred option. Careful selection of the sample will ensure the validity of the findings of any research. Thus, a representative sample, both in terms of type of respondents and regional spread will be drawn. In certain cases ‘biases’ might have to be introduced in sample selection to capture marginalized groups.

### **Conclusion**

CBR has learned the hard lesson that inward looking policy has failed miserably. Rather than pursuing the hiding-behind the desk approach, a new approach of openness has been adopted where stakeholders’ participation in decision making takes the central position. This new policy of CBR has significantly improved the image of the organization in the eyes of the taxpayers, general public and CBR employees. The comprehensive nationwide survey will be another milestone towards a collaborative effort to design future strategies for the organization. The perception survey has been outsourced with the objective to get fair and free opinion of the stakeholders so that the reform initiatives are evaluated in a transparent manner. CBR would be in a better position to take corrective action for any deficiencies that might be detected through the survey findings.

Since the sincerity of the purpose is quite clear, CBR has high expectations from the taxpayers, employees, general public, and the opinion leaders to cooperate in this effort by providing candid and fair opinion about the organization and its operations.