

Note:

Analysis of Key Determinants of Tax Policy and Administration

Ahmad Khan*

Introduction

Similar to most countries, the objectives of the taxation system in Pakistan are not well-defined. Historically, the primary objective has been resource generation for the government. The taxation system has simultaneously addressed the secondary objectives of promoting area/sector-specific economic activities, discouraging undesired imports/production, encouraging savings and investment. These objectives were met through a variety of tax concessions and exemptions, rebates and credits, differentiated tax rates and tariffs. The revenue shortfalls/leakages resulting from preferential tax treatment of the desired activities were offset through appropriate changes in various fiscal instruments, e.g. high tax rates and tariffs, regulatory duties, extended withholding and presumptive taxes, excise duties on services, and many more. These measures, in turn, complicated the taxation system and adversely affected the equity, neutrality and progressivity thereof.

Consequent to the pursuit of conflicting objectives, Pakistan's taxation system is characterised by a number of structural problems. These include:-

- (i) The low overall level of fiscal effort and the Tax-to-GDP ratio remains more or less stagnant at between 12 to 13 per cent.
- (ii) There is over dependence on indirect taxes notwithstanding that the share of direct taxes has increased from 16 per cent in 1990-91 to over 35 per cent during 1997-98. This has increased the regressivity of the taxation system and imposed a higher excess burden of taxation.
- (iii) Amongst indirect taxes, the dominant share continues from taxes on international trade (both customs duties and sales tax) which has promoted inefficiency, distorted resource allocation and encouraged illicit trade.

* The author is former Member, Tax Policy, CBR and is presently posted as Member, Monopoly Control Authority, Ministry of Finance, Islamabad.

- (iv) Effective tax bases of most taxes is narrow due to wide ranging exemptions/concessions and rampant tax evasion.
- (v) The tax administration is characterised by conventional and inefficient work distribution, out-moded procedures, lack of appropriate skills, dependence on manual rather than automated functioning, considerable arbitrariness and discretion. The common perception about the taxation system is of corruption, inefficiency and arbitrariness.

With the background of the above structural problems and growing institutional decline and erosion of fiscal, financial and administrative discipline, low economic growth and high fiscal deficits, governments at various times have attempted serious structural reforms. Several task forces, committees and commissions on tax reforms were constituted to examine the reform issues and to recommend appropriate steps to improve the tax effort. The latest of such efforts was undertaken by the present government immediately after it assumed office in February 1997. The fiscal component of the Economic Reforms Package of March 1997 and the subsequent policy announcements through the 1997 and 1998 Budgets are part of a series of steps in this direction. Notwithstanding these major policy initiatives, adequate expansion of effective tax bases and increase in revenues as a percentage of GDP still remains a dream unfulfilled.

It is, therefore, imperative that the issues in tax policy and administration are examined in a candid and forthright manner, the underlying complexities and dynamics understood, and rational decisions based thereon implemented with full political support. A consensus on macro and micro details of the taxation system amongst the special interest groups i.e. government and the tax paying community, is a prerequisite for its successful implementation.

The present paper accordingly, examines within the overall macro-economic setting, the salient features and structural problems of the taxation system, assessment of previous tax reforms, and key issues in tax policy and administration. Specific recommendations to improve resource mobilisation, both in the short and long term, have been made. Policy and administrative aspects are discussed separately.

Macro-economic setting

While Pakistan has generally witnessed a satisfactory level of economic progress in terms of growth in GDP and structural changes in composition of output, and the performance in key sectors up to the 1980's was reasonable, the problems of structural imbalance in public finances have been noticeable

since the mid 1970's. The over all fiscal deficit remained in excess of 6 per cent of GDP until 1992-93 which was subsequently brought down to less than 6 per cent. The rapidly growing interest payments on high levels of borrowing in the early years, however, exerted a strong upward pressure on current expenditure which, overtime, has increased from 13.6 per cent of GDP in 1980-81 to 18 per cent of GDP in 1997-98. Increase in debt servicing and defence expenditure has kept public expenditure at a high level, i.e. 69.65 per cent of total expenditure in 1997-98 as against 42.7 per cent in 1979-80. As a percentage of federal revenues, such expenditure has increased from 64.56 per cent in 1979-80 to 78.48 per cent in 1997-98. This has led to the scaling down of public sector development expenditure from 0.3 per cent in 1980-81 to 3.1 per cent in 1997-98.

Improvements in resource mobilisation were observed until the year 1991-92. After that, it is a story of continual decline i.e. total revenues as a percentage of GDP went down from 19.1 per cent in 1991-92 to 16.1 per cent in 1997-98. The tax-to-GDP ratio declined from 14.3 per cent in 1988-89 to 12.7 per cent in 1997-98 (which is expected to further decline in 1998-99). While the Direct Taxes-to-GDP ratio, during this period increased from 2.2 per cent to 4.1 per cent, the Indirect Taxes-to-GDP ratio declined from 10 per cent to 7.5 per cent - the major decline being in customs duties. The ratio of non-tax revenues to GDP has, however, been moving up. In absolute terms, the increase in tax and non-tax receipts in relation to GDP was almost equal. The minimum target for the Tax-to-GDP ratio is to increase it by about one percentage point every year until it reaches 17 per cent of the GDP. Given the revenue performance during the July, 1998 - April 1999 period, no improvements are expected.

As to the level of total fiscal effort, wide divergence is observed between the federal and provincial governments. The federal Tax-to-GDP ratio has remained between 13 per cent to 14 per cent declining to below 13 per cent for 1997-98. The provincial Tax-to-GDP ratio, however, declined from 0.9 per cent in 1980-81 to 0.6 per cent in 1997-98. Several explanations have been offered for the poor performance, such as limited fiscal space and narrow and inelastic tax base. The gap between provincial expenditure and revenues has now become so wide that a radical rearrangement of taxation powers between the federation and the provinces is required.

In terms of international comparisons, the level of tax revenues in Pakistan is lower than developing countries with similar circumstances. Against the average Tax-to-GDP ratio of around 18.5 per cent in the case of several developing countries, Pakistan's Tax-to-GDP ratio is less than 13 per cent . Further, the share of direct taxes to the overall tax revenues in Pakistan has historically remained between 2.68 per cent to 3.8 per cent of GDP as

against an average of 7.2 per cent for other developing countries. On the contrary, for the same period, Tax-to-GDP ratio in respect of indirect taxes was around 9 per cent in Pakistan as against 5.2 per cent in the case of other developing countries. The ratio of direct and indirect taxes in total tax revenues has, however, improved from 18 % : 82 % in 1990-91 to 35 % : 65 % in 1997-98. The overall cost of revenue collection has generally remained around 1 per cent for Pakistan which is modest in comparison with other developing countries.

The extraordinary performance in direct taxes is largely due to the extension of the withholding tax regime during the 1990's. Payments accompanying corporate tax returns have also continued to grow despite some fall in tax rates. Major additions in revenue were observed in 1997-98 consequent to the change in the basis of computation of quarterly advance income tax payments under Section-53 of the Income Tax Ordinance, 1979 through the 1997 Budget. Tax receipts under this head improved by around 104 per cent during 1997-98. On the contrary, reforms i.e. indirect taxes by way of reduction in the maximum tariffs and the resort to capacity taxation and fixed sales taxation have led to a loss in revenues. The broadening of the tax base of excise duties by its extension to telephone and banking services has only partially compensated for these losses.

The tax base for most of the taxes in Pakistan has been growing faster than the GDP, particularly in respect of direct taxes and sales tax. However, these tax bases have not been captured fully and the effective tax bases remain narrow and skewed. Thus, even though the buoyancy of the tax system has increased over time, the tax revenues have not grown adequately (partly due to distortions in tax policy and partly due to the failure of tax administration) As a consequence, the low elasticity coefficient remains depressed.

In looking at the reasons for low elasticity of taxes, it is observed that high tax rates, pursuit of secondary economic and social objectives (through a variety of tax concessions), non-taxation of agricultural incomes and an inefficient tax administration contributed towards the low elasticity in direct taxes. The story has been repeated in the case of indirect taxes, especially import duties. The introduction of fixed sales tax in some industries tended to reduce the elasticity of GST. On the contrary, the levy of *ad-valorem* taxes of capital incomes (which are growing relatively rapidly in the economy), the extension of *ad-valorem* excise duties to services such as telecommunication and the switch-over from specific to *ad-valorem* duties are some of the factors responsible for the enhancement in the elasticity of the taxation system. It is of interest to note that tax expenditure due to exemptions from direct taxes and custom duties for the year 1990-91 has been estimated at around 116 per cent and 55 per cent of the total

revenues respectively. Tax expenditures related to excise duties are relatively limited, although the study carried out by the Resource Mobilisation and Tax Reforms Commission shows that the tax expenditure on cottage industries amounted to over Rs. 3.2 billion in 1991-92.

The taxation reforms still do not focus adequately on efficiency. While the fixed taxes on agriculture and on capacity in industry, reduction in maximum tariffs and introduction of a VAT type of sales tax, particularly its extension to the retail stage, is likely to improve efficiency in industries and contribute to a better allocation of resources, the process of reforms still being in the implementation phase, it is not possible to assess its contribution to greater efficiency.

Concerning the 'progressivity of the taxation system', the increase in the share of direct taxes in federal tax revenues from 18 per cent in 1991-92 to over 35 per cent in 1997-98 has, to some degree, contributed to greater progressivity of the tax system. It is, however, important to note that the switch-over from several withholding to fixed taxes in the form of presumptive taxes has imparted the features of indirect taxes to the major component of direct tax. The fact that almost 40 per cent of income tax receipts are collected via presumptive taxes and are passed on to the consumers as cost, substantially dilutes the progressivity element. The progressivity of the tax burden may have further deteriorated with the levy of minimum tax under section 80 D of the Income Tax Ordinance, 1979 and the enhanced probability of selection for the tax audit of small taxpayers in the self assessment scheme. Relatively low revenue increases out of the tax audit of corporate and personal income returns, coupled with reduction in income tax rates, has benefitted the upper income groups. The introduction of the scheduler basis of income taxation in respect of most investment ('passive') incomes and several business incomes, has rendered the taxation system less neutral.

While examining the sectoral incidence of taxes, the studies conducted by the Resource Mobilisation and Tax Reforms Commission for 1990-91 indicate the highest effective tax rates on cigarettes and tobacco (86 per cent), perfumery and cosmetics (48 per cent), beverages (46 per cent), soaps and detergents (42 per cent), electrical machinery (38 per cent), tea blending (35 per cent) paints and varnishes (34 per cent), cement (33 per cent), silk and synthetic textiles (27 per cent) and gas (27 per cent). Most of these sectors were subject to excise duties. The sectors which were found to be relatively under-taxed relate primarily to agricultural and services activities, catering to the upper income group. This discrepancy reflects lack of horizontal equity.

In terms of incidence of taxation by household income, the studies reveal that in 1990-91 the overall burden of federal taxes was regressive upto a household monthly income level of Rs. 4,600/-. It became somewhat progressive on higher incomes because of income tax payments by upper income households. On the contrary, import taxes and excise duties were found to be markedly regressive. The incidence of sales tax, by and large, has been neutral with respect to the level of household income. Overall, the indirect taxes are significantly regressive and the tax burden was found to be around 13 per cent on the lowest income groups which fell to less than 9 per cent for the upper income group. Given the continuation of the same pattern of taxation more or less, there are reasons to believe that the equity aspect of taxation, as observed for 1990-91, has undergone no significant changes.

While the tax bases have improved overtime, the effective tax bases continue to be narrow and skewed. Tax compliance remains low in almost all taxes. Major revenue leakages have been observed both in direct and indirect taxes. Smuggling of goods on a massive scale continues unhindered from the established sea and land routes. Quantitative mis-declaration of imports are also very common. Evasion of sales tax, particularly at the manufacturing and whole-sale stage, is rampant. The compliance level for direct taxes is extremely low. For the assessment year 1998-99, only 9,781 corporate tax returns were filed out of around 40,000 companies registered with the Corporate Law Authority. Similarly, around 600,000 income tax returns were filed by around 2.5 million persons engaged in business, professions and vocations. 300,000 wealth tax returns filed for the assessment year 1998-99 represent no more than 20-25 per cent of the persons otherwise liable to wealth tax. A large number of transactions subject to withholding taxes and capital value tax escape such taxation for reasons of misdeclaration and/or inadequate monitoring. This explains the existence of a vast underground economy which was estimated at Rs. 1,115 billion in 1996. Sarfraz and Zafar have estimated the total tax evasion for 1996 at Rs. 152 billion. It has also, however, been observed that incomes from underground activities in the foreign trade tax sector have been higher than the domestic tax sector and non-tax sector and that the evidence suggests that the rate of growth in the black economy has been higher than the rate of growth of the formal economy.

Salient features and structural problems of the taxation system

Under the Constitution of Pakistan, 1973 the federal government is empowered to levy and collect

- i) Taxes on income other than agricultural income, workers' welfare fund.
- ii) Taxes on capital i.e. wealth tax, capital value tax, capital assets tax.

- iii) Customs duties on international trade.
- iv) Excise duties on goods and services (excluding duties on alcoholic liquors, opium or other narcotics)
- v) Sales tax on imports, production and sale of goods.

Provincial governments are empowered to levy and collect taxes in respect of items other than those reserved for the federal government. These taxes include water tax, tax on trade and profession, stamp duty, duty on excises not included in the federal excise duty, electricity duty, entertainment duty, taxes on motor vehicles, tolls on roads and bridges, urban immovable property tax, betterment tax, capital gains tax, taxes on cinemas and hotels, and arms licence fees, court fees, cotton fees and various cesses. The provincial governments are not authorised to assess and collect entertainment tax and urban immovable property tax in cantonment areas within the provinces.

Local bodies such as municipalities, district and local councils may levy and collect taxes falling in the jurisdiction of the provincial government subject to the prior approval by the provincial government. The list of taxes, rates and fees leviable by the local bodies is given in the Local Government Act which includes the urban immovable property tax, taxes on value of land, animals, toll taxes and octroi duties.

The most noticeable dimension of the taxation powers under the Constitution is that the provincial taxation powers relate to low tax bases. Even where the provinces have the powers to tax certain products, the federal government has at times encroached upon their jurisdiction. The obvious examples included capital value tax and excise duties on services instead of sales tax which was part of the divisible pool.

As part of its macro-economic reforms in recent years, the GOP has focused its attention on improving the tax efforts, thereby reducing the resource gap. The key element of the tax reform programme includes broadening of tax bases, phasing out tax exemptions, conversion of specific rates of excise duty to *ad-valorem* rates and their extension in the service sector, reduction in tax rates and tariffs, conversion of sales tax to a broad based value added tax and its extension up to the retail stage, and improvements in tax administration. While implementing these tax reform programmes, the GOP undertook several measures to increase tax revenues in an anticipated environment of a liberal and unregulated market economy in Pakistan.

The policy developments, particularly those which have created the structural distortions in the taxation system, are discussed in some details in the following paragraphs. Administrative constraints are also discussed. Key reform issues will be identified in the process.

Income Tax, Wealth Tax, Capital Value Tax

The income tax law has historically followed the global basis of taxation of income at flat rates for corporate income and progressive rates for personal income. The first major distortion in the income tax law and policy was introduced in 1990 through fixed taxation for smaller tax payers. The tax payers, however, did not respond favourably, notwithstanding its simplicity and low tax rates. Hence, this concept was discarded. The next major conceptual distortion in the taxation system arose in 1991 with the introduction of the scheduler basis of taxation and conversion of some of the withholding taxes to presumptive taxes. The net of withholding and presumptive taxes expanded overtime with the result that presently more than two dozen economic activities are subject to these taxes as against 11 in FY 1990-91. Altogether, presumptive taxes constitute around 40 per cent of the total income tax receipts. The third distortion was introduced through the 1997 Budget by changing the basis of computation of tax prepayments u/s 53 of the Income Tax Ordinance, 1979, which added an equivalent amount of tax under this head to the tax receipts for 1997-98. The sum total of these distortions was that during 1997-98 over 86 per cent of the income tax receipts were generated via with-holding/presumptive taxes and advance tax payments, 4 per cent from payments accompanying corporate tax returns, and 2.5 per cent from payments along with non-corporate tax returns. The policy emphasis on prepayments as a major component of income tax receipts during the 1990s adversely impacted the tax audit functions, with the result that no more than 7.5 per cent of tax receipts were generated consequent to tax audit. Audit of non-corporate tax returns contributed around 0.2 per cent to the total income tax receipts. The reduction in tax rates, particularly the non-corporate tax rates, has not improved tax-compliance. Exclusion of agricultural income from the federal income tax base has not only diluted the effective income tax bases, but also served as an instrument of tax-evasion and avoidance. Continuation of liberal tax exemptions has also contributed to the regressivity of income tax.

Generally, wealth tax has not been considered as a major source of revenues. Until 1994, wealth tax was levied only on non-agricultural assets. Self-occupied residential houses (in lieu of Rs. 1 million basic exemption) and assets created through foreign remittances were/are exempt from wealth tax. Wealth tax was extended to agricultural assets through the 1994 budget. The legislation provided for separately taxing agricultural and non-agricultural assets

with a Rupees one million exemption limit for each. Buildings appurtenant to agricultural land and motor vehicles were excluded from the taxable base. Produce Index Unit was adopted as a basis of valuation for agricultural land. Separation of agricultural from non-agricultural assets for wealth tax purposes has not only compromised progressivity and equity of the taxation system, but also contributed no more than Rs. 6.7 million to the revenues. Valuation basis of taxable assets is questionable, particularly for the immovable properties as it is based on values adopted for the purpose of stamp duty rather than the market value. Minimum wealth tax on plots, buildings and motor vehicles introduced through the 1997 budget on a notional basis, is debatable. The methodology for collection of pre-payments via advance taxes is inefficient as it leaves much to the voluntary compliance of tax payers.

Capital value tax, in its present form, has very limited scope as it applies only to the transfer of immovable properties, air tickets and imported/old motor vehicles. Tax collections are a direct function of the valuation basis and monitoring arrangements. Since July, 1997, CVT is adjustable against wealth tax payments which further reduces its efficacy as a revenue generating instrument. Notwithstanding that CVT collections increased by over 110 per cent during 1996-97 and remained at the same level inspite of across-the-board 50 per cent reduction in CVT rates in 1997-98, it can not qualify as a major source of federal revenue.

The present organisation of the income tax and wealth tax department, in its relatively well-defined form, has successfully performed over the years. In an environment of shifting emphasis on withholding taxes and other pre-payments as a major means of revenue collection, the advantage of a traditional administrative organisation under which a tax unit encompasses all tax-related functions, has become a disadvantage in the handling of diverse functions. The specialised character of trade and industry no longer permits the handling of tax audit by generalists, as it requires trade and industry specialisation. Similarly, the system and procedures for the filing of tax returns, assessment and payment of taxes, record keeping, monitoring of withholding taxes and other pre-payments, booking of tax-defaulters, and access to market information are inefficient and time consuming. The use of automation is limited to the data-entry of tax-payment *challans* and simple tax computation of salary and business tax returns. A management information system for better tax audit and the expansion of effective tax bases is not in place inspite of around Rupees one billion investment in the computerisation of the CBR.

The practice of the same tax unit having jurisdiction over income tax and wealth tax returns has led to a lopsided emphasis on the former at the expense of wealth tax returns, which can be a major source of additional revenues. Similarly, the allocation of personnel dealing with corporate and non-

corporate income tax payers has historically been disproportionate to their revenue generating capacity. The selection basis for tax-audit continues to be random balloting rather than an objective parameteric approach based on some kind of discriminant functions. Coupled with inadequate tax audit skills, such a selection basis has rendered the tax audit function marginally effective.

There is no well defined monitoring arrangement for the capital value tax. CVT collections, being no more than 1.5 per cent of the overall direct tax revenues, the assessing officers are not expected to make much contribution in this regard unless major functional re-arrangement is made.

In brief, the department lacks the requisite professional specialisation otherwise available to most of the tax administrations in developed countries. This situation is definitely not expected to enable the department to capture the increased tax bases.

Central Excise Duty

Central Excise duties are charged on selected commodities and services. Commodities are charged advalorem duties on value, specific rates based on weights/volumes, and as a percentage of the retail price. Services are charged to advalorem duties, and/or on charge basis. The concept of capacity taxation is very limited as of now. More than 70 items are subject to excise duty but a handful of these items; i.e. cigarettes, cement, sugar, natural gas and petroleum products, telephone services, and beverages are the major duty spinners contributing around 70 per cent of tax revenues. There are immense leakages of excise duties both with respect to supervised and non-supervised clearance of goods and services. The latter are particularly prone to tax evasion. Revenue leakages are primarily due to malpractices and the collusion of central excise officials with taxpayers, their complacent attitudes and lower-than-optimal tax audits, particularly in respect of services, lack of integrated data base on the manufacture of taxable commodities/services and over-reliance on the major duty spinners.

The Central Excise Department continues to have a narrow focus only on major excise duty spinners. A large number of small excise duty contributors and services remain inadequately attended notwithstanding that their large tax bases can be converted into effective tax bases. The composite Customs and Central Excise Collectorates have the in-built disadvantage of attending more to customs functions rather than excise duties. The staff assignment at units other than major excise duty spinners' as well as those monitoring the services sector, are considered less preferable and the staff spend most of their energies on their transfer to greener pastures.

Customs Duties

The existing structure of levies on imports is fairly complex. The basic duty structure is supplemented with a host of SROs allowing general/specific exemptions. The overall effect is neither visible to the economy nor do they serve as indicators for correction to policy makers. Cumulatively, tariff and paratariffs create substantial distortions in the structure of tariff schedules. The duty concessions/exemptions lead to substantial reductions in the tax base and provide opportunities for mis-characterisation of dutiable goods in the tax-exempt/low duty regimes. Tariff reforms initiated in recent years have not led to a surge in dutiable imports. On the contrary, it has resulted in a reduction in revenue collection. The major areas of tax leakages are ineffective anti-smuggling efforts, mis-declaration of quantities and value of imported goods, mis-characterisation of goods to benefit from lower duties under PCT and, of course, collusion of customs officials with importers.

Major administrative problems orbit around the anti-smuggling efforts, valuation of imported goods, quantitative misdeclaration of imports, management of ware houses, classification of goods for the assessment of custom duties and the collusion of custom officials with the importers. The job specialisation recently initiated in the Customs Department is capable of producing positive results. The general perception is that customs duty collections are a function of value-quantities of imports and the effective duty rate is disputed, particularly because the factors mentioned above also strongly influence revenue collection.

Sales Tax

The sales tax regime in its present form is restrictive in so far as it applies to the retailers. The narrow base leads to frequent breaks in the production - distribution - consumption chain. A wide range of exemptions, including the linkage with annual turnover in case of retailers, provide adequate room for tax evasion. In the presence of such exemptions, zero-rating of exports is not possible. Similarly, verification of the precision of transaction values is also difficult. Inadequate institutional capability and absence of full political support which leads to the government succumbing to the pressure of trade associations, has handicapped implementation of the GST. The recruitment of audit personnel has been inordinately delayed and shortages of required funds frequently observed. Taxpayers' education/assistance programmes are inadequate.

In the years to come, GST is expected to be converted into a consumption type VAT encompassing purchase/sales transactions at all levels and all commodities and services (Constitution permitting). The scope of work is, therefore, going to be immensely increased, particularly with

respect to activities other than the collection of sales tax at the import stage. The present level of political and administrative support is grossly insufficient to muster the full advantages of GST, both in terms of tax collection as well as help in creating the necessary data base to improve direct tax efforts.

Key Issues in Tax Reforms

The key issues in tax reforms which emerge from the foregoing analysis concern both tax policy and tax administration. While equity and progressivity of the taxation system are important considerations, resource mobilisation appears as the most important item on the government agenda. As part of ESAF/EFF arrangements with the IMF, the government is committed "to achieve a significant enhancement of the revenue effort while promoting a more equitable distribution of the tax burden and greater documentation of the economy. To this end, the tax base will be broadened by including un-taxed income and under-taxed sectors, and the tax administration improved in order to provide scope for a lowering of statutory tax rates. Further, administration of the GST in the textile sector will be improved and the GST extended to services, petroleum products, electricity and agricultural inputs. The government will fully implement agricultural income taxation and ensure the achievement of the 1998-99 budget revenue target of Rs. 2.5 billion. An action plan will be developed to strengthen the system of agricultural income taxation which will broaden the base as well as increase the rates. Revenues from agricultural income taxation are targeted atleast at 0.3 per cent of GDP over the medium term. Reform of the tax administration will aim at improving taxpayer compliance, reducing compliance costs and broadening the tax base in order to achieve a sustained growth of tax revenue. The CBR will be converted into an independent and autonomous Pakistan Revenue Service (PRS) and a comprehensive institution building programme for the PRS will be implemented with the assistance of the World Bank. The introduction of a unique tax identifier number which will replace all previous numbering systems in use in the tax and customs administration will be completed by May, 1999 and will form the basis for the harmonisation of the operations of the major tax departments. The number of registered taxpayers will be increased to 1.6 million by December 31, 1998 and to 1.8 million by May 31, 1999. The number of GST non-filers will be reduced to 10 per cent by June 1998. To strengthen the audit function within the CBR, the separate audit department established in the CBR will develop a joint audit programme for all tax liabilities which will cover 10-15 per cent of taxpayers by September 1999 and 20-25 per cent by December 1999."

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