

The background of the slide is a large, semi-transparent image of the Pakistani flag, featuring a green field with a white crescent and star, and a white band at the top with the national motto in Urdu. The flag is slightly tilted and has a soft glow effect.

# TAX AUDIT CAPACITY

**Azra Mujtaba**  
Ministry of Finance  
Government of Pakistan

Fourth IMF-Japan High-Level Tax Conference,  
Tokyo, April 4, 2013



# Agenda



- 1. Evolution of Taxation in Pakistan**
- 2. Tax Revenue as Percentage of Total Revenue**
- 3. Growth in Tax Revenue**
- 4. Tax Revenue as Percentage of Total Expenditure**
- 5. Tax-to-GDP**
  - I. Tax Revenue as a Percentage of Total GDP
  - II. World Comparison: Tax-to-GDP
- 6. Enhancing Resource Mobilization**
- 7. Tax Audit**
  - I. Introduction
  - II. Job Description
  - III. Past and Present
  - IV. Selection Criterion
  - V. Summary of Cases for Tax Year 2011
  - VI. Ethics
  - VII. Taxpayer Feedback
  - VIII. Facilitation and Tax Payer Education (FATE)
  - IX. Incentive Schemes
- 8. Recommendations/Way Forward**

# Evolution of Taxation in Pakistan



- Income Tax Ordinance 1922
- Income Tax Ordinance 1979
- Income Tax Ordinance 2001
- Sales Tax Act 1951
- Sales Tax Act 1990
- Central Excise Act 1944
- Federal Excise Act 2005
- Changes due to FBR reforms mandated by the World Bank and IMF

# Tax Revenue Statistics



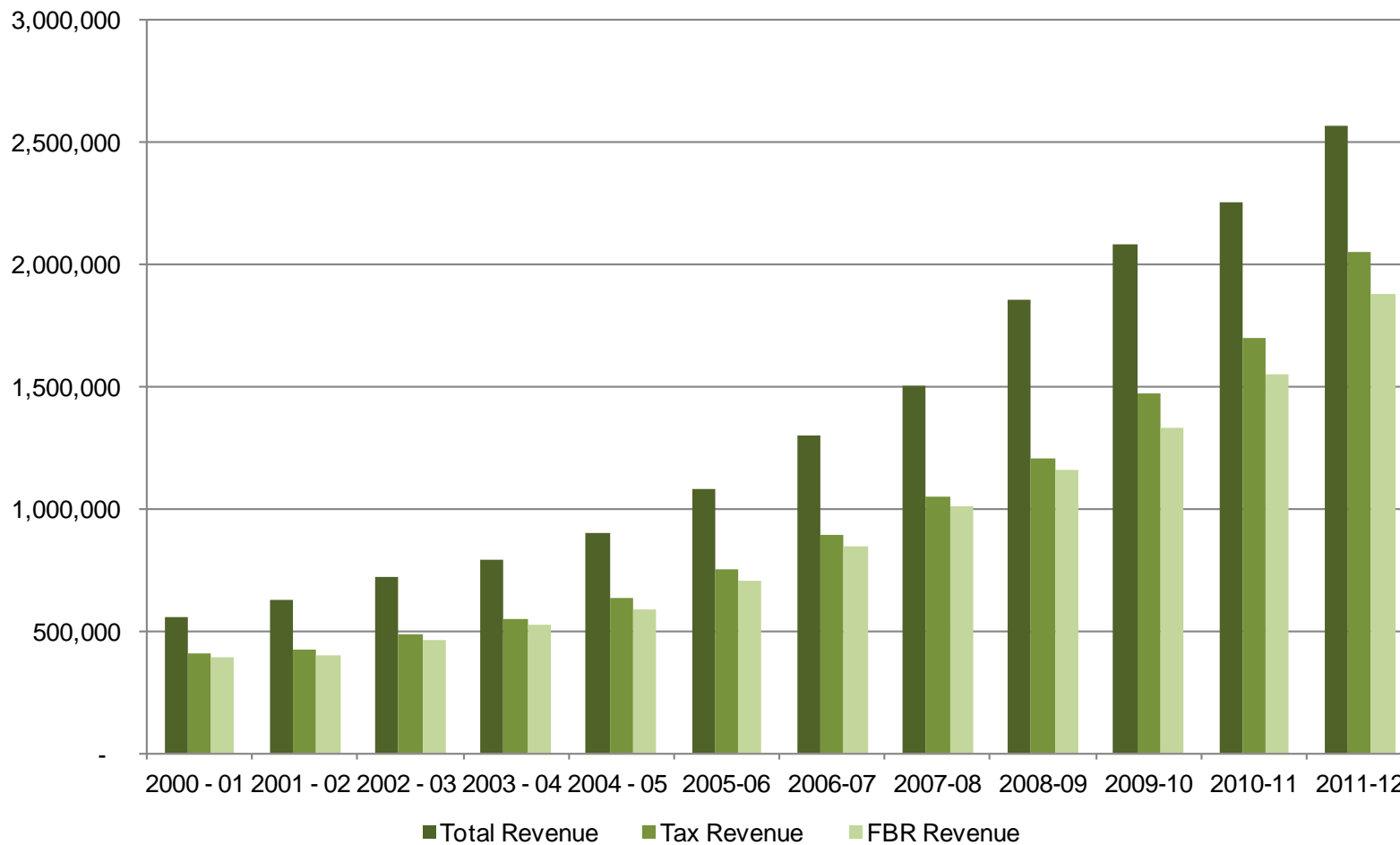
## Year Wise Total Revenue, Tax Revenue & FBR Revenue

Year	Total Revenue	Tax Revenue	FBR Revenue
2000 - 01	552,841	411,236	392,071
2001 - 02	630,337	422,641	400,882
2002 - 03	720,704	487,540	461,620
2003 - 04	794,125	550,075	521,867
2004 - 05	900,036	632,593	588,376
2005-06	1,076,634	752,996	702,885
2006-07	1,297,957	889,685	847,171
2007-08	1,499,379	1,050,694	1,007,555
2008-09	1,850,901	1,204,670	1,157,002
2009-10	2,078,165	1,472,821	1,327,422
2010-11	2,252,855	1,699,334	1,550,157
2011-12	2,566,514	2,052,886	1,881,480

Source: Fiscal Operations, Finance Division, Government of Pakistan



## Year-Wise Total Revenue, Tax Revenue & FBR Revenue



# Tax-to-GDP Ratio Trend



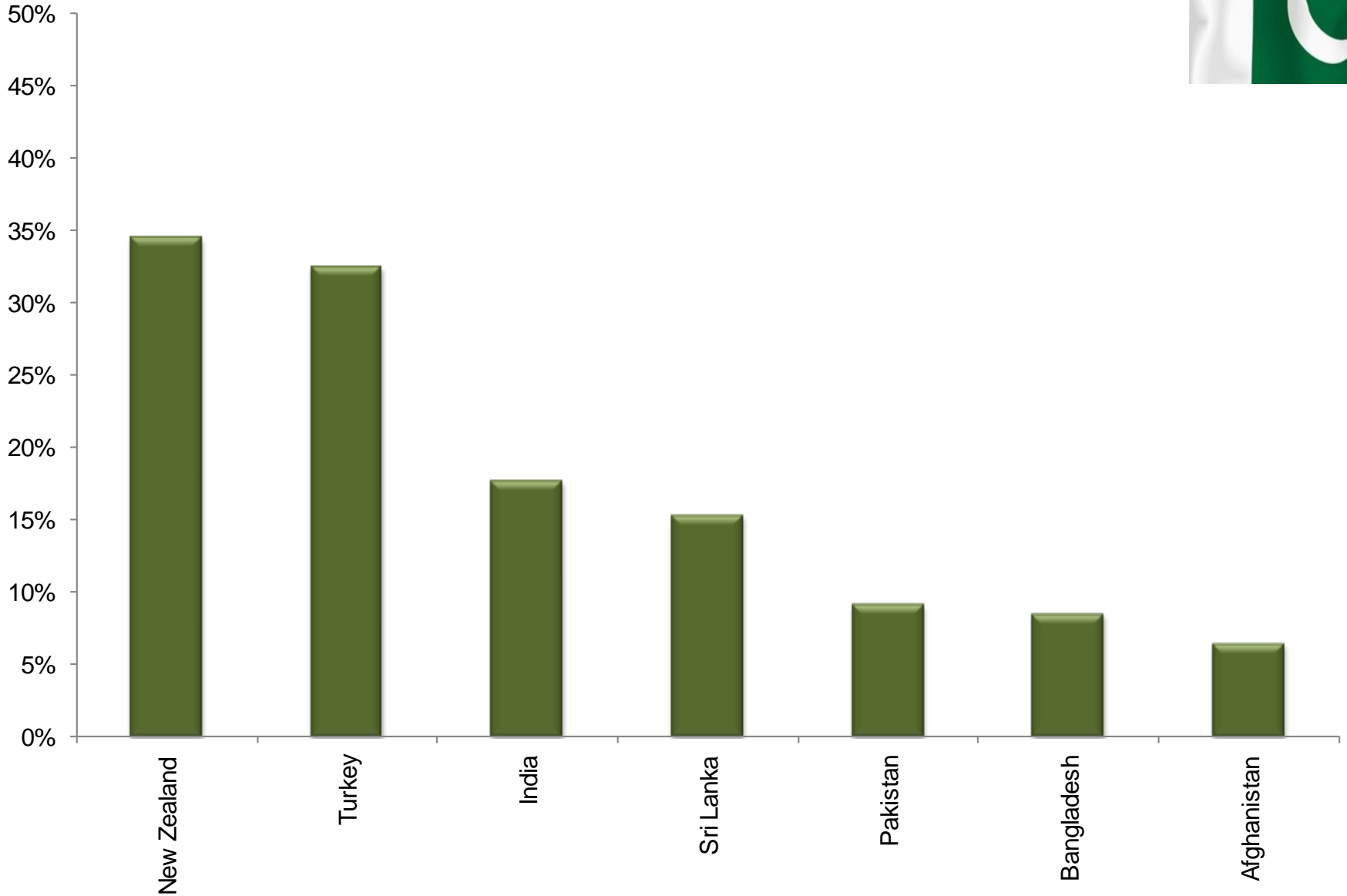
Year	Tax-to-GDP Ratio
2000-01	9.4%
2001-02	9.2%
2002-03	9.6%
2003-04	9.2%
2004-05	8.9%
2005-06	9.4%
2006-07	9.7%
2007-08	9.8%
2008-09	9.1%
2009-10	9.0%
2010-11	8.6%
2011-12	9.1%

# Tax-to-GDP



- Pakistan facing a low tax-to-GDP ratio trap
- Partially successful tax reform—the main reason
- Failure to increase tax revenue significantly during a period of high growth in the past decade
- Efficient resource mobilization can still lead to some success in a period of economic slowdown

# World Comparison—Tax-to-GDP (Percentage)





# Enhancing Resource Mobilization



- Expanding current GST to cover services and exempted & zero-rated sectors
- Improvement of direct/income tax administration Process
- Enhancement in the provincial tax-to-GDP ratio
- Broadening of tax base

# Tax Audit



- Integral part of taxpayers' scrutiny, especially after the introduction of Universal Self Assessment Scheme (USAS) by the FBR in 2003
- Ensuring proper documentation
- Deterrence against under-filing while filling out tax returns

# Tax Audit: Introduction



- Taxpayer Audit Wing established in 2003
- Aims to promote voluntary compliance, documentation, and self-policing
- Process enhanced by risk bases and Automated “Tax Audit Management System (TAMS)”

# Summary of Cases for Tax Year 2011



SR No.		Total Filers	Less Salary	Less PTR/Nil Filers	Balance Filers Subject to Ballot	Cases Selected
1	Income Tax	1,565,226	1,006,600	73,206	485,420	10,271
2	Sales Tax	93,785	N/A	N/A	93,785	2,312
3	Federal Excise	516	N/A	N/A	516	26
	Total	1,659,527	1,006,600	73,206	579,721	12,609

# Past and Present



- 2002/03 (USAS)
- 2004/05/06/07—no audit
- 2008—audit conducted for the first time
  - Outsourced to CA Firm/Field Officers
  - Did not work
  - Reasons: Conflict of interest, inward pressure from the Department, resistance from the taxpayers

# Past and Present (cont'd)



- 2010—Computer ballot (Results were poor)
- 2011—Returns filed September 2011
  - Computerized December 2011
- 2012—Parameters were developed, but the taxpayers challenged those

# Tax Audit: Job Description



- Planning and designing audit procedures
- Evaluating tax audits for all domestic taxes
- Devise and implement a National Audit Plan
- Design selection criteria for coverage of all higher-risk areas
- Develop audit methodology to ensure audit quality

# **Tax Audit: Job Description (cont'd)**



- Audit and monitoring of unlawful sales tax input adjustment
- Monitoring post-refund audit of income tax, sales tax, and federal excise duty
- Desk audit and resultant legal actions
- Any other duties assigned by Chairman FBR



# Tax Audit: Selection Criterion



- FBR undertakes the audit in a courteous, professional, and efficient manner
- Taxpayers are selected for audit on the basis of a transparent, discretion-free, and automated process
- Done by computer, using different information items and parameters
- Identities of tax payers remain anonymous

# Tax Audit: Ethics



- Overall Integrity Program has been implemented within the organization
- Auditors and managers are expected to meet the highest ethical standards
- Disciplinary actions are initiated against unethical practices
- A quality review process has been put into place

# Tax Audit: Taxpayer Feedback



- Periodic feedback from Field Formations and Tax Bars Associations is obtained to:
  - Gauge perception of the audit process
  - Improve the overall audit process
  - Evaluate the behavior, professionalism, and competence of audit staff

# Recommendations/Way Forward



- Develop an audit/tax force on scientific lines (i.e. sectoral studies to be developed by experts)
- SOPs checklist to be developed based on international best practices
- Proper training (local, as well as international) for Human Resource Development
- Criteria for audit to be laid down, after which the system could be automated



**THANK YOU**