

Enforcement Trends & Compliance Challenges (Pakistan's Experience in Sales Tax)

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Major Challenges in Sales Tax

- Illegal Input Tax Adjustments
- Inadmissible Refunds

Tax Gap Analysis

INTRODUCTION

Sales Tax operates as a tax on value addition after adjusting tax already paid at each stage of transaction

Input Tax = Tax paid on purchases

Output Tax = Charged @ 16% on taxable sales

Due Tax = Output Tax–Input Tax (Already Paid)

Verification of input tax already paid at each stage from raw material to disposal of finished product; major challenge even in developed economies

Tax Gap

Rs in Billions

ST Collection at a Glance: (CY 2012)

Output Tax = Tax Payments + Input Tax deducted
at source

Input Tax accrues from tax already paid on taxable
domestic supplies + tax paid on imports

Domestic Tax = 446

Tax on Imports = 376

Total Tax Due = 1577

Tax Gap: 755 (1577–822)

A Brief History of Systemic Solutions

- Manual punching of invoice summaries
- E-filing of returns with invoice summary
- Single stage identification of mismatching between buyer and seller
- Capturing of GD data from return filers
- Introduction of ERS
- Generation of lists relating to unlawful input tax adjustments
- Individual invoices replacing invoice summaries
- Selection of GDs from customs data for claiming input tax credits

Low effective rate due to estimated tax-gap

Return Discrepancies 2012 Jul-Oct	Tax Rs Billions
Input Tax credits on non verified taxable Purchases value=369 Billions	42
Input Tax credits on non verified taxable imports	2
Non payment of value addition tax on commercial Imports	11
Zero rated sales to inactive Units. (Value = 81 Billions)	4
Inadmissible exclusion from Section 8B	4.5
Export Mismatched =23 Billions (Refund impacts)	**
Total Revenue Impact	63.5
Effective Rate	3.9

iv. Expeditious Refund System– an over –view

	2009-2010			2010-2011			2011-2012		
Sector	Export Sale	Refund	Total	Export Sale	Refund	Total	Export Sale	Refund	Total
TEXTILE	785520.39	6966.16	792486.55	1071640.68	14604.76	1086245.44	1037150.88	12540.10	1049690.98
LEATHER	72718.23	427.88	73146.11	115153.13	1046.05	116199.18	84791.88	750.82	85542.70
SPORTS	38183.97	1.19	38185.16	35271.47	174.73	35446.20	45389.87	102.28	45492.15
CARPETS	3589.01	23.06	3612.07	4133.73	17.38	4151.11	4426.45	6.73	4433.18
SURGICAL	21748.85	1.52	21750.37	41320.64	239.55	41560.19	25536.29	155.95	25692.24
MISC	21872.33	197.28	22069.61	28674.52	242.84	28917.36	44120.41	323.64	44444.05
Total (Above)	943632.78	7617.09	951249.87	1296194.17	16325.31	1312519.48	1241415.78	13879.52	1255295.30
Increase % (Base Year 2009-2010)				37.36%	114.32%		31.56%	82.21%	

- No centralized, systemic return processing
- End buyer and sellers' transactions generally matched
- Disconnect between buyer and his suppliers' input tax credit
- The initial capital in registration application not linked with subsequent returns processing
- Importers misdeclaring their categories for nonpayment of 3% value addition tax on commercial imports
- Non-verifiable exports GDs, liable to be misused for adjusting zero-rated purchases

A centralized, risk-based solution to control illegal input adjustment and inadmissible refunds

FOR

Increasing the effective rate through minimizing the tax gap

Salient Features of the RMS

- Centralized verification system of transactions across the country
- Verification of all stages of transactions
- Risk-based evaluation and identification of discrepancies
- Identification of registered persons paying less than the weighted average effective rates of sector
- In-built filters for segregation of tax evasion cases
- Role-based task workflow
 - Taxpayers' Workflow
 - Officer Workflow
- Electronic interface for resolution of discrepancies
- Mechanism for electronic monitoring
- Real-time updating of data
- No discretion for resolving discrepancy without data matching

Results of Newly Developed System Shows

RP's Returns Data	Verification with	Mismatched
Taxable Purchases	Taxable Sales	46
Inputs on imports	Actual Tax in Customs Data	13
Zero Rated Sales	Buyers' Purchases	80

Conclusion

- A risk-based electronic system, supported by efficient data analysis capacity, is the best response to the challenges of enforcement and compliance