



Awareness & Prevention
Division

GOVERNMENT OF PAKISTAN
NATIONAL ACCOUNTABILITY BUREAU
ATTA TURK AVENUE, G-5/2
ISLAMABAD

SAY NO TO CORRUPTION

No: 3-2(1)(46)S-I/MW-II/NAB HQ/CVC/319
April 16, 2015

The Chairman
Federal Board of Revenue,
FBR Building,
Islamabad.

Subject: Recommendations of the Prevention Committee on Tax Evasion

In pursuance of Section 33 C of National Accountability Ordinance 1999, Chairman NAB constituted a Prevention Committee on Tax Evasion in order to study the weaknesses in the taxation system and to suggest measures to plug such loopholes. In order to augment the proposal / recommendation, representatives from Federal Board of Revenue, State Bank of Pakistan, FPCCI, ICAP and TIP were requested for participation in the meetings to contribute their valuable inputs. After thorough and detailed discussions and brain storming, recommendations of the committee have been finalized which are enclosed for due consideration and implementation.

2. We hope that the collaboration with FBR will go a long way in eradicating the corruption and corrupt practices and to broaden the tax net from the existence system.
3. We assure our assistance and cooperation in this regard.

With profound regards and best wishes.

Encl: As stated:


Rear Admiral (R)
Saeed Ahmed Sargana
Deputy Chairman NAB

Copy for information to:

- a. PS to Federal Ministry for Finance, Islamabad
- b. PS to Secretary to Prime Minister, Islamabad
- c. PS to Governor State Bank, Karachi
- d. Chairman Transparency International Pakistan, Karachi
- e. Chairman Prime Minister Inspection Commission, Islamabad.
- f. Chairman FPCCI, Islamabad.
- g. Chairman ICAP, Karachi
- h. President PTBA, Karachi
- i. AD (Coord) Cn. Sectt, NAB HQ
- j. Sr. PS to Dy. Chairman, NAB HQ
- k. All members of Prevention Committee.

Recommendations of Prevention Committee on Tax Evasion

The meetings of Prevention Committee on Tax Evasion were held on 16th March and 14th April, 2015 at NAB HQ, presided by the Rear Admiral (R) Saeed Ahmed Sargana, Deputy Chairman NAB. (List of Prevention Committee on Tax Evasion is attached as Annex-A). After detailed discussion, the following recommendations were agreed upon by the members:-

Point – 1: USE OF AUTOMATION

RECOMMENDATIONS:

- a. The committee considered that an efficient, reliable and user friendly automation system will help to achieve the following important objectives :-
 - (i) To bring transparency in the FBR system;
 - (ii) To bring confidence in the FBR working;
 - (iii) To minimize leakages/fraud of tax;
 - (iv) To provide confidence to honest and willing taxpayers;
 - (v) Broaden the tax base; and
 - (vi) To minimize personal contact.

- b. It is expected that the national goals would be realized if the following recommendations are implemented in letter and spirit:-
 - i) Compilation/integration of following data information available within the Database of FBR and other Government or Semi-Government departments:-
 - (a) Transaction conducted or expenditure incurred carrying CNIC or Passport number;
 - (b) Transaction conducted between the parties carrying National Tax Number, Sales Tax Registration number, Company Registration Number etc.
 - ii) Reconciliation of data compiled be made with the information available with FBR in the shape of Withholding Statements, Return of Income and Purchase/Sale Summaries of Sales Tax Returns, with SECP data bank with listed companies distributed dividends, with Banks and National Saving

Centers for distribution of profit and Vehicle registration authorities, with Stock Exchanges of shares sale and purchase transactions, with immovable property registration authorities for sale and purchase of properties etc. to unearth new taxpayers and tax the untaxed income.

- iii) Enterprise Resource Plan (ERP) software is committed to be launched by FBR in two phases first by 1st July, 2015 and second by 31st December, 2015.

Point – 2: SEPARATION OF REGULATORY AND IMPLEMENTATION FUNCTION FROM FBR

RECOMMENDATIONS:

- a. The scheme of tax Appellate authorities should be brought in line with the provisions of the Constitution of the Islamic Republic of Pakistan, by removing adjudicating officers from subordination of FBR. Commissioner (Appeals) / Collector (Appeals) be appointed and directly work under the supervision of Ministry of Law and members of appellate tribunal should be appointed and work under the respective High courts. The officials of FBR once transferred to Appellate forums should be transferred for the balance period of their service without any option to come back to parent department. The tax machinery under the control of the executive side is an obvious impediment in providing fair and quick justice to the harassed and bonafide taxpayer.
- b. Federal Board of Revenue shall only be an implementing Board, under Finance Ministry. It shall be relieved from performing the role of a Regulator.
- c. An Independent Pakistan Revenue Regulatory Authority PRRA shall be constituted, which shall make laws for revenue generation and report directly to the Prime Minister. It may comprise of five professional members i.e. three economists, one law professional and one chartered accountant.

Point – 3: FOREIGN REMITTANCE / FOREIGN ASSETS AND WITHDRAWAL OF SECTION 111(4).

RECOMMENDATIONS

- a. Section 111 of the Income Tax Ordinance, 2001 (**the IT Ordinance**) provides that where any person invest any amount or incurred any expenditure and such person offers no satisfactory explanation about the nature and source of the amount credited or invested or funds from which the expenditure was made, the same amount shall be included in the person's income chargeable to tax to the

extent it is not adequately explained. However foreign remittance from the identified source should not be questioned.

- b. Therefore, it is proposed that the exemption under Section 111(4) of the IT Ordinance to the foreign exchange brought into Pakistan through proper banking channel should be withdrawn, except to the extent as explained above.
- c. Section 5 of the Protection of Economic Reform Act 1992 may be amended accordingly.
- d. Appropriate laws should be made to enable the government to seize local assets, in equivalent value, or levy appropriate taxes, if any person holds any kind of assets outside the country for which source of income could not be established. Pakistan should sign bilateral / multilateral agreements with countries where there is suspicion of Pakistani Citizens illegally maintaining bank accounts and other assets to bring back the untaxed wealth from "tax heavens" abroad as being done by USA, India with Switzerland.

Point -4: **ISSUANCE OF BEARER CERTIFICATE/PRIZE BONDS ETC.**

RECOMMENDATIONS

- a. Presently State Bank of Pakistan is issuing bearer certificates/prize bonds of large denomination, which is not only providing opportunity to tax evaders to park their black money under this mode of financial instruments, but providing avenue to whiten black money at a reduced tax rate. Bearer certificates / prize bonds of Rs.7500/- and above denomination be issued by name.

Point – 5 **RATIONALIZATION OF COLLECTORATE RATES FOR PURPOSES OF STAMP DUTY AND OTHER LEVIES ON IMMOVEABLE PROPERTY.**

- a. Presently provinces are collecting stamp duty on transfer of immoveable properties at the values prescribed by the respective Revenue Collectors; which mostly do not commensurate with the prevailing market rates.
- b. The above mechanism is resulting in the following disadvantages to the Government exchequers, economy of the country and to the bonafide taxpayers:-
 - i. Black money is being parked at virtually no cost;
 - ii. Gain computed is far less than actual gain which result in lower tax revenue for the exchequer;
 - iii. Economy is not being documented properly and accurately; and

- iv. The taxpayer who purchases property out of bank loans; black their white money by paying the difference amount out of books.

RECOMMENDATIONS

- a) That Federal Government should work with Provincial Governments to create biannual / annual market rate based realistic table of valuation and reduced rates of not more than 1% of Market rate as stamp duty and other levies for transfer of immovable properties;

OR Alternatively

- b) Collect such tax on behalf of Provinces on the basis of biannual / annual market rate realistic table of valuation and reduced rates of stamp duty and other levies.

Point – 6 Measures to maximize documentation of economy and broadening of tax base.

- a. It may be appreciated that following three sectors of the economy are not contributing taxes in the ratio of their share in the GDP; which is not only defeating the Government's efforts of generating fair revenues, but it is great impediment in enhancing tax-to-GDP ratio and documentation of economy:-
 - i. Traders and businessman related to the agricultures product;
 - ii. Transport sector; and
 - iii. Wholesale and Retail sector.

Therefore, there is need to bring these sectors into tax net in order to document the economy of the country and to broaden the tax base.

RECOMMENDATIONS

- a. CNIC number shall be declared as National Tax Number w.e.f 1st July, 2015.
- b. All CNIC holders having income above taxable limit shall submit annual tax return.
- c. Federal Government in consultation with Provincial Government should carry out assessment of the market rate of properties by engaging 3rd party and should produce a reference document. The same should be revised and issue every year on 1st July. Provincial Excise Department should be engaged for the subject purpose. In this regard, stamp duty and other levies for transfer of property should be between 0.5% to 1%.

- d. All businessman and retailers must be registered with Licensing Authority and with FBR.
- e. All receipt and payments above 50,000/- should be through only banking channel and other transaction should be banned;
- f. Incentives should be provided to those retailers/wholesalers who install electronic cash register without any turnover thresholds and connect with FBR database. They should also be absolved one time from payment of previous sales tax liabilities;
- g. Sales Tax/VAT should be implemented in its true form;
- h. Effective utilization of NADRA database should be made;
- i. Effective enforcement of provisions of Section 114 of the IT Ordinance should be ensured;
- j. Complete details and database of all the owners/ holders/allottee of the property (including residential, commercial, industrial), private vehicles, trucks, buses, international traveling, utilities with some threshold (including residential, commercial and industrial), transactions above certain threshold made through credit cards, debit cards / ATM, cross cheques, pay orders / all other banking channels, investment in fixed deposits, national saving schemes and stocks be prepared and on the basis of that information, a complete Profile may be generated and used effectively;
- k. Presently monthly or annual statements are required to be filed where withholding of tax is affected. However, it is suggested that the filing of such statements should also be made mandatory for the Housing Societies for registration/ transfer of Immovable Property (Industrial, Commercial, Residential and Agricultural). Motor Vehicle Registration Authorities, Clubs (Private and Public), Credit Card issuing authorities, Central Depository Company, National Clearing Company of Pakistan, large scale private hospitals and schools and Financial Institutions distributing profit more than statutory taxable limit or granting commercial loans, airline companies, FIA for travelling record and such information is crossed matched with the existing data with FBR. Withholding penalty should be minimized. In case the statements are filed within one week of the prescribed time defaulters may only be warned. However, if the default continues of more than one week penalty be imposed.
- l. The taxes must be equitable and fair between different classes of society. The payment of tax by all the segments of the society must be convenient. The laws imposing taxes must be so precisely and clearly worded as to make the taxpayer understand what the burden he is called upon to bear;
- m. To give comfort and confidence to the existing honest diligent, taxpayer bonafide and increased tax collections should not be made from them, but from those who are not reporting or under reporting. This will ensure a level playing field for all

income earners and eliminate the incidence of income earners from other sectors parking their wealth and income to avoid taxes;

- n. Accountability in tax administration must be introduced. The rampant corruption, without any real accountability of underperformers in delivering optimal collections from Income tax, Sales tax, Customs and Excise combined with misuse of powers are the reasons behind the inefficiency of the tax machinery and therefore, this needs to be corrected.
- o. To execute bilateral/multilateral agreements with different countries for sharing information related to investment made by Pakistanis in such countries and untaxed in Pakistan;
- p. Fiscal and taxation policies should be announced to remain static for at least three years.
- q. There should be consistency in tax policy and a strong political will to enforce the law in letter and spirit leading way to three year budget.

Point – 7 ELIMINATION OF EXEMPTION PROVIDED THROUGH SROS

RECOMMENDATIONS

- a. The FBR is currently evaluating the impact of SRO's on the revenue collection and their repercussions of overall economy. The committee of the view there are numbers of SRO's which are of beneficial and provide benefit and promote local manufacturing by allowing concessionary Customs duty on raw material and bringing new FDI in Pakistan. However there are large of number of SRO's which are being misused and duties / taxes are being avoided through them. We therefore, recommend that those positive SROs should be made part of law, i.e. annual budget, and SRO culture should be terminated w.e.f 1st July 2015.

Point – 8 INTRODUCTION OF FOOLPROOF SYSTEM TO COLLECT TAX FROM PROFESSIONALS AND OTHERS

RECOMMENDATIONS

- a. A very encouraging step in this direction was taken by the Government through the Finance Act, 2013 by insertion of Clause (ix) in Section 114 of the IT Ordinance for mandatory filing of returns by the professionals. There is a big group of artists, dress designers, models, event managers, sales and marketing people running different businesses from their homes or offices in the back streets or just through the cell system, etc. are generating significant untaxed revenues. However, it is a bitter truth that FBR has failed to make any significant

