

RESTRUCTURING OF FBR, ONLY WAY FORWARD!

Due to inherit weaknesses in the Federal Board of Revenue (hereafter “FBR”), successive governments of Pakistan have tried to expand tax base of the country, fix excessive scope of discretion and rent seeking behavior, eliminate corruption and tax evasion, complex and non-transparent tax system and improve tax machinery for which restructuring of FBR critical for the fiscal consolidation and making tax system more responsive to growth.

Prima facie, author has observed that FBR has become the case of political interference, corruption, tax evasion, grossly unfair practices of fake and illegal demands to meet revenue targets, criminal negligence, staff incompetence, frequent transfer postings, irrational revenue targets, inefficient and uncoordinated interaction between FBR wings, blocking of refunds, inhumane attitude towards tax payers, unwillingness, lack of motivation and low automation etc. are the underlying fundamental weaknesses that have caused FBR’s underperformance which led to the institutional collapse. Following are stages for complete restructuring and overhauling of FBR which are required to be implemented to accomplish the high economic growth of the country and finance the imbalances.

All the eleven wings of FBR require complete restructuring in a phased manner and the respective wings are systematically arched to function independently in following three stages:

STAGE 1:

Independent Policy Board

Despite separation of FBR’s policy Board, the same has not been effectively functioning independently. It is to be ensured that Policy Board constitute of truly independent, proficient, technically sound professionals and quality human resource who possess command on recent taxation issues and knowledge of international tax regimes. Policy Board should also have ground experience of fundamentals of contemporary taxation systems and policy making. Policy Board must have no interventions with the operations, administrations, audit and/or other critical functioning of FBR wings and thrust of formulated policies by the Independent Policy Board should be to accelerate Tax and Non-Tax Revenues by keeping taxpayers’ in confidence.

Through simplifying and harmonizing Income tax, Sales Tax and Provincial Laws, Policy Board should also be responsible to formulate the separate simplified Income Tax Laws for Corporates and Individuals. Policy wings of FBR should be merged into the Policy Board. Strategic Planning Reforms & Statistics (hereafter “SPR&S”) should report to Independent Policy Board at this stage and merged with Policy Board in the second stage.

Independent IT Body:

Following the independent functioning of Policy Board, IT body should also be made independent on the urgent basis. PRAL system needs to be upgraded and updated. Existing online systems operated by other like jurisdictions for tax assessments and collections should be pursued accordingly, while, for further automations single online platform for smooth collections and assessments of all types of taxes should be enforced. In order to achieve the deadlines, benchmark should be set for the up gradation, monitoring and capacity building of IT body.

Federal Tax Authority:

Given the high sensitivity of Taxpayers’ Audit function which is also placed as high-risk factor in corruption index, Taxpayers’ Audit function should also be categorized under segregate Federal Tax Audit Authority. In order to reduce likelihood of human interference, Audit assessments should be moved to online/digital mode and for this to happen, FBR’s existing staff serving under Audit wing be appointed in newly formed authorities presently. To ensure transparency and autonomy, appointments should be made through Federal Public Service Commission exams to induct competent manpower from junior Auditor to Executive Director over the period of two years. Following the Model of Turkey, newly appointed team should be trained in such a way that they possess specialized skills in audit, and in-depth understanding of accounting principles, and treatments of complex business transactions.

Federal Tax Legal Authority:

Pursuing similar strategy in-line with the Federal Tax Audit Authority, Federal Tax Legal Authority should also be formulated into a separate body considering its high-risk sensitivities. Existing manpower of FBR serving under legal wing may be appointed in newly formed authorities currently. Similarly, appointments should be made through Federal Public Service Commission exams for ensuring competent from top to bottom over the period of two years to achieve transparency and autonomy. The fresh team should be trained by acquiring specialized skills in litigations, and in-depth understanding of accounting principles, treatments of complex business transactions and legal principles. In order to ensure Litigation Authority’s independence in its true spirit, policy of relocation of relevant officers back to FBR may strictly be avoided while

writing judgments. The existing multiple appellate cadres should be reduced to make a single Federal Tax Legal Authority for Income Tax, Sales Tax, FED, Custom Duty and provincial taxes.

Broadening of Tax Base under NADRA

To ensure effective utilization of data base available with the NADRA, Broadening of Tax Base (hereafter “BTB”) wing should be formulated over the period of three years. Potential tax evaders may be identified, utilizing NADRA data base through BTB specialized officers. The result reports may then be shared with FBR for further action i.e. issuance of notices, making inquiries, and make assessments.



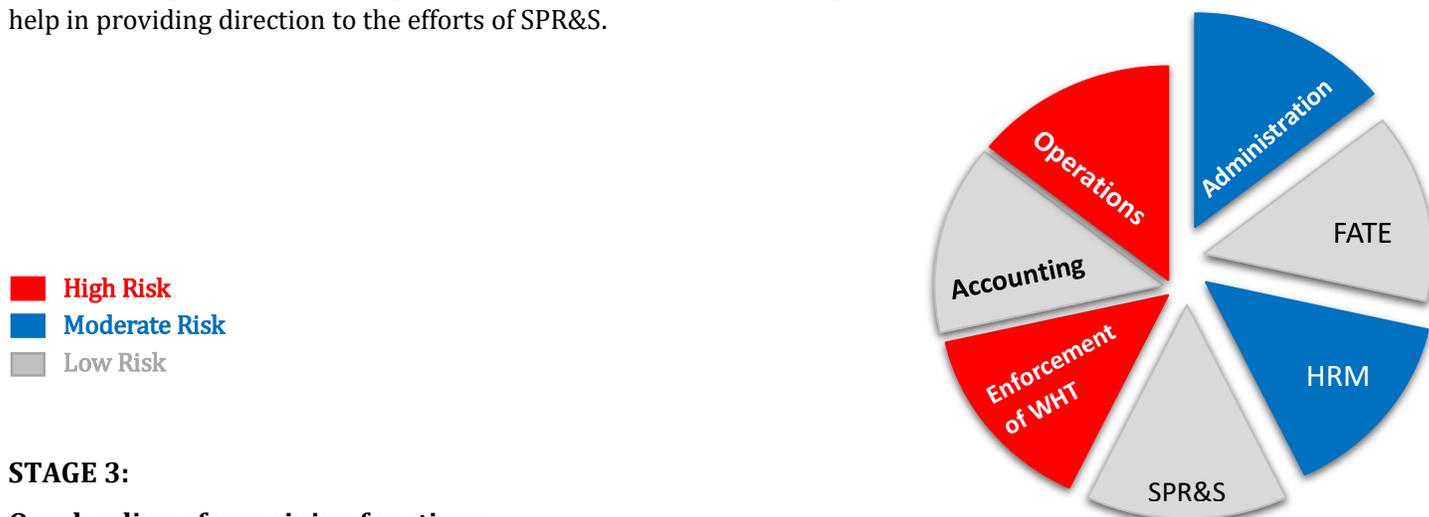
STAGE 2:

Merger of Administration, Facilitation and Taxpayer Education (FATE) and Human Resource Management (HRM) Functions

In second stage, functions of Administrations, FATE and HRM should be merged under a single independent body over a period of one and half year.

Merger of Strategic Planning Reforms & Statistics (SPR&S) with Policy Board

Strategic Planning Reforms & Statistics (hereafter “SPR&S”) function should be merged with Policy Body and it should be ensured that policies and strategies are formulated on the basis of up to date statistics and research results. This will also help in providing direction to the efforts of SPR&S.



STAGE 3:

Overhauling of remaining functions

The remaining functions of FBR, i.e. Operations, Administrations, etc. should be revamped and overhauled at this critical stage. Enforcement and collections should be ERP based and operations should also be digitized with least human interventions.

Change within FBR is inevitable to spur economic growth with the changing economic dynamics of the country. According to World Bank, Pakistan tax revenue potential is estimated around 26% of GDP against the stagnant tax to GDP ratio of 11.6% during 2018-19 which is amongst the lowest in the world. This means that tax authorities are only targeting half of the tax revenues, while around 15% of GDP are being abandoned by not restructuring and overhauling FBR. The untapped potential

warrants to speedily implementing above carefully crafted indepth structural reforms which are needed to reduce country's vulnerability to economic shocks, ensuring fiscal sustainability, generating fiscal space to finance external imbalances and much needed investments in infrastructure and human development of the country.

Restructuring Timeline:

	Milestones	3 to 6 months	6 to 12 months	12 to 18 months	18 to 24 months
Stage 1	Independence of policy Board				
	Independence of IT				
	Upgradation of PRAL				
	Establishment of single online platform				
	Establishment of FTAA				
	Establishment of FTLA				
	Online audit assessments				
	Appointments under FPSC				
	BTB under NADRA				
Stage 2	Merger of Administration, FATE, HRM				
	Merger of SPR&S, Policy				
Stage 3	Overhauling of FBR				