

Administrative and managerial issues of tax reforms

Административно-управленческие проблемы налоговых реформ

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Original Paper

Pakistan: wither tax reforms – the case of large taxpayers' unit, Islamabad

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ABSTRACT

Pakistan tax system reforms carried out during 2001–2010, were overwhelming, expensive, and a failure. The reforms were financially afforded and technically assisted by World Bank. While both Government of Pakistan and World Bank agreed on the failure of tax reforms, each blamed the other for the failure. A consensus, however, does exist as regards the fact that the reform program left the tax system more gridlocked, retrofitted, and incapacitated than before to generate both sufficient and healthy revenues. The paper adopts case study approach to explore into the factors of failure of the reform program. The study is anchored in Large Taxpayers' Unit, Islamabad – a flagship taxing field formation established under the reform project. The data are produced from Large Taxpayers' Unit, Islamabad, to assess its jurisdictional, functional, and operational capacity and explain why its tax collection curve flattens after 2012. The insights so derived at micro-level are made to feed back into macro-canvas of the program and enhance our holistic understanding and see its failure in a different and closer-to-reality light. The analysis is extrapolated to the national level to argue that as soon as political ownership and donor oversight – the key drivers – were omitted from the equation, the resultant resource constraints were enough to frustrate and fail the entire reform program. The conclusions drawn are generalizable to most similarly-circumstanced developing countries and their rigidly underperforming tax systems.

KEYWORDS

Pakistan tax system; tax reforms; Large Taxpayers' Unit; World Bank reforms; Federal Board of Revenue; tax administration

JEL H1

HIGHLIGHTS

1. The evaluation of a tax reform program being essentially subjective could well be undertaken by adopting case study approach that generates empirics at micro-level, which get fed into the analytics at the macro-level
2. In order for the tax reform evaluation to stay comprehensively meaningful, it covers the micro locale being evaluated across its full spectrum i.e. jurisdictional, functional, and operational capacity
3. Continued political ownership and donor oversight are key variables of a tax reform program, and their elimination from the equation mid-stream potentially results in reversing and even perverting the entire reform agenda

УДК 336.225.2

Провал налоговых реформ в Пакистане: анализ деятельности подразделения по работе с крупными налогоплательщиками Исламабада

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АННОТАЦИЯ

Реформы налоговой системы Пакистана, проведенные в 2001–2010 гг., были масштабными, дорогостоящими и неудачными. Реформы финансово и организационно поддерживались Всемирным банком. Правительство Пакистана и Всемирный банк одинаково оценивают результат налоговых реформ как провал, но ответственность за него каждый возлагает на противоположную сторону. По общему мнению, проведенные реформы привели налоговую систему Пакистана в тупик, сделав ее более модернизированной, но недееспособной для достаточной и разумной мобилизации государственных доходов. В статье на основе анализа конкретных случаев, рассматриваются причины провала реформ. Исследование основано на анализе фактических данных о деятельности подразделения, работающего с крупными налогоплательщиками Исламабада, созданного в рамках налоговой реформы и являющегося лидером в работе с крупными налогоплательщиками Пакистана. Результаты исследования позволяют оценить юрисдикционный, функциональный и оперативный потенциал данного подразделения и объяснить, почему налоговые доходы остановились на уровне 2012 г. Выводы, полученные на микроуровне, позволяют понять ситуацию в целом и реально оценить последствия налоговых реформ. Анализ экстраполирован на национальный уровень, что позволило утверждать, что, как только политическая заинтересованность и контроль со стороны доноров — ключевые движущие силы программы реформ — были исключены из процесса, ограниченности внутренних ресурсов оказалось достаточно, чтобы сорвать и провалить всю программу налоговых реформ. Полученные результаты характерны для большинства развивающихся стран, со схожей экономической ситуацией и отсталыми налоговыми системами.

КЛЮЧЕВЫЕ СЛОВА

налоговая система Пакистана; налоговые реформы; подразделение по работе с крупными налогоплательщиками; реформы Всемирного банка; Федеральный совет по доходам, налоговая служба

ОСНОВНЫЕ ПОЛОЖЕНИЯ

1. Изучение конкретных случаев на микроуровне и их анализ на макроуровне позволяют проверить кажущиеся ошибочными субъективные оценки реализации программы налоговых реформ
2. Комплексная оценка налоговой реформы на микроуровне должна содержать данные о юрисдикционном, функциональном и оперативном аспектах потенциала налоговых служб
3. Политическая заинтересованность властей и контроль со стороны доноров являются ключевыми движущими силами налоговых реформ, их устранение из процесса может привести к прекращению или извращению всей программы реформ

Introduction

Pakistan tax system went through major reforms during the first decade of the present century. The tax reforms were charted out by the Task Force on Reform of Tax Administration, which was appointed by the government of Pakistan in June, 2000. The Task Force was headed by Syed Shahid Hussain, an economist by profession with extensive exposure at the international level¹. The World Bank chipped in with a grant sum of US \$500,000 for the preparation of the Task Force report², which was presented in May, 2001. The Government of Pakistan approved the Task Force report immediately with the directions to devise an implementation strategy in respect of the viable prescriptions. The report was shared and discussed with cross-sections of the society as well as Pakistan's donors with a view to seeking their inputs on various reform measures prescribed. On Government of Pakistan's request for input on Federal Board of Revenue's tax reform program, an International Monetary Fund Mission also visited Pakistan in August, 2001 [1]. The Task Force had been set extensive terms of reference³,

¹ The TFRTA also included Dr. Wasim Azhar, Dr. Altamash Kamal, Khawar Anwar Khawaja, Ahsan M. Saleem, Naem Akhtar Sheikh, Badar F. Vellani, Syed Shabbar Zaidi, and Syed Riaz Hussain Naqvi as its members; and Ahmad Khan as both a member and secretary.

² Ahmad Khan. Personal Interview – February 5. Islamabad, 2014

³ The TFRTA was tasked to review the: (i) existing management and policies of CBR and its subordinate organizations to evaluate their effectiveness; (ii) management of human resources, i.e. recruitment, training, promotion, evaluation of performance and discipline; (iii) the compensation system for its effectiveness in attracting and motivating qualified persons and ensuring integrity; (iv) the causes of corruption among staff and management of the tax administration and recommend measures to eliminate corruption; (v) system and processes, for the management of information as a key ingredient in improving the effectiveness of the tax machinery; (vi) the organization and structure of the tax administration in relation to the needs of cost minimization, speedy processing and decision-making, engendering a sense of service and responsibility; & (vii) legal and administrative status of CBR and its subordinate organizations.

but it claimed to have majorly “focused on human resources, business process and organization, corruption and information technology”⁴. At the implementation stage, the reform program, both financially and technically, was assisted by the World Bank through the Tax Administration Reform Project (TARP)⁵, which carried a total budgeted allocation of US\$ 149 million – disbursed between 2004 and 2011.

The reform program looked to percolate with the tax system in most areas, including but not limited to, the injection of information technology into the processes; workforce recruitment, training and remuneration; promulgation of new tax laws and rules; induction of professional members at the Federal Board of Revenue; large-scale procurement of work logistics; computing hard- and soft-wares; acquisition of short-term consultancy services in thematic deficiency areas; autonomization; and shifting of focus from hard revenue numbers to ancillary soft areas like grievance-redressal, speedy refund process, and taxpayers' facilitation etc. On business reengineering, the reforms helped roll back the entire network of field formations numbering 757 Circles, 139 Ranges, 32 Commissionerates (Zones), and 5 Regions⁶, vertically integrated [2], and spatially squeeze it into only 15 major cities in the name of functionalization⁷.

In fact, tax reforms have a long history in Pakistan and a large body of literature has been created on the subject by various tax reform commissions appointed

⁴ GOP, The Task Force on Reform of Tax Administration Report. Islamabad: Ministry of Finance, 2001. (ii).

⁵ The TARP was approved (and launched) on December 7, 2004, and closed on December 11, 2011.

⁶ The «Circle» being the basic unit of assessment was headed by Deputy Commissioner, «Range» by Additional Commissioner, «Zone» by Commissioner, and «Region» by Regional Commissioner – the highest IRS officer in the field – with all being vertically integrated into a pyramid.

⁷ See, for a full range of tax reform initiatives, GOP.

over the past 70 years⁸. It has been argued that not only that all of the reform initiatives failed but also that they left the system more gridlocked and retrofitted than before on their completion [3], with TARP-driven reforms not proving to be any different. In fact, TARP were rated a failure, *inter alia*, since “no focus could be given to building departmental capacity to give quantum jump to revenue collection; rent-seeking remained rife, morale of the Service dropped down to abysmal levels, and tax delinquents had a hay-day” [3, p. 403]. Interestingly, while both the Government of Pakistan and the World Bank agreed that the reform program had failed to achieve its avowed objectives, at least, up to a desired level, they counter-blamed each other for the failure. Measuring “World Bank’s performance as highly unsatisfactory” Federal Board of Revenue took the position that the reforms “failed to produce desired results due to weak supervision of the World Bank”, which was “strong at the beginning of the project but overtime became weaker”, and because of the fact that “requests for clearances took longer, leading to many procurement delays” [4].

The World Bank, on the other hand, reckoned Federal Board of Revenue’s performance as “unsatisfactory,” arguing that the “quality at entry was affected by major shortcomings, such as insufficient

identification of critical risk factors and mitigation measures, inadequate technical support on key reform areas, and misclassification of environmental category”, and “criticized the government of Pakistan for inconsistent commitment to tax administration reform agenda, which affected project’s implementation” [4]. At the closure of the reform program, it was remarked that “simple average of the ‘tax to gross domestic product (GDP)’ ratio in Bangladesh, India, Nepal, and Sri Lanka, countries with similar tax policies and administration, is systematically higher than in Pakistan, and (that) the gap increased during this decade” [5, p. 549]. Additional evidence to the fact that the tax reforms failed miserably comes from the fact that yet another tax reform commission was established as soon as Pakistan Muslim League-Nawaz government took office in 2013 – and well before curtains had fallen on many of TARP-propelled reform initiatives⁹.

Against the backdrop of an across-the-board generalized battering of the TARP-driven tax reform program’s hopeless failure, this paper is an attempt to explore into the specifics of how did the reforms actually come by, and then how did they fail? The required empirics are generated by reducing the focus from the overall tax reforms to just one strand, namely, establishment of Large Taxpayers’ Units (LTUs), and then by developing a case study in respect of LTU-Islamabad. The paper consists of seven sections – excluding introduction and conclusion. After a brief literature review in section 1, section 2 sets the national tax reform in context by covering its various dimensions. Section 3 seminally treats the process of establishment of LTUs as LTU-ization in Pakistan’s context by accentuating its preponderant weightage within the overall reform package, and its percolation impact on the state’s revenue function. The next three sections i.e. section 4, 5, and 6, deal with jurisdictional, functional and

⁸ See, for instance, The Sales Tax Committee Report (1950); The Taxation Enquiry Committee Report (Vol. 1–2) (1960); The Sales Tax Committee Report (1960); The Commission on Taxation and Tariff (First Report) (1965); The Commission on Taxation and Tariff (Second Report) (1966); The Commission on Taxation and Tariff (Third Report) (1967); The Commission on Taxation and Tariff (Fourth Report) (1967); The Commission on Taxation and Tariff (Fifth Report) (1967); The Taxation Commission Report (Vol. 1–2) (1974); The National Taxation Reform Commission Report (Part 1–3) (1986); The Committee on Tax Reforms Report (1991); Study of Direct Taxation (1989); The Resource Mobilization and Tax Reforms Commission Report (1994); The Task Force on Fiscal Reforms Report (1996); The Commission on Tax Reforms Report (1998); The Committee to Revise Income Tax (Policy and Law Report, 2001 (2001); The Task Force on Reform of Tax Administration Report; Tax Reform Commission Report (2016).

⁹ The Tax Reform Commission was established vide FBR’s Notification No. 6(5)Co-ord/2014, dated September 25, 2014, captioned as «Constitution of Tax Reforms Commission».

operational capacities of LTU-Islamabad as an institution – drawing out critical deficiencies, which negatively tell on the revenue operations. The Conclusion sums up the debate by drawing insights from the case study and feeding them back into the overall tax reforms so as to infer that the reforms failed because of the drying up of three key input ingredients i.e. governmental ownership, donor oversight and adequate resource supply to sustain the reforms in post-donor withdrawal phase. The summations so derived could then be generalized to other developing countries with struggling tax systems.

1. Literature review

The term “tax reforms” as used in literature, refers to the process of changing the way government manages taxes and administers its tax machinery. The objectives of tax reforms may vary in differing spatial and temporal zones. But in a given situation, a typical tax reform may be driven by any or any subset of a broad set of tax reform objectives, including but not limited to reducing the level of taxation on all or some persons; rendering the tax system more or less progressive; simplifying the tax system to increase compliance; making the tax administration more transparent, corruption-free, and accountable; and bringing efficiency to the tax system so as to enable it to decrease externalities and increase production. Thus, the design of any tax reform would predominantly depend upon what it is intended to achieve, but in reality, there could be apparent and not-so-apparent objectives of a given tax reform process.

Grossman and Helpman argue that the process of state-formation is strongly associated with its capacity to tax as political organizations play a key role towards developing a tax-culture in a society. They identify political economy strains, colonial overhang, and administrative constrictions in fiscally struggling economies as impacting their extractive effort [6]. Bird argues that any meaningful initiative launched to reform a tax system must look to address the problems like understaffing, inadequate skill-set, logistical

shortages, complexity in tax codes, lack of punitive and prosecutive action, inappropriate 3rd party information collection and collation, and risk-profiling that are generally associated with fiscally struggling economies [7]. Gordon and Li hold corruption and red-tape as responsible factors for the poor performance of tax systems in developing countries, which need to be arrested, if the extractive effort is to be enhanced [8].

After comprehensively appraising various theories of taxation, Ahmad and Stern go onto prescribed a general theory of reforms, which makes use of the concept of welfare loss associated with an increase in i^{th} tax sufficient to raise Rs. 1 in revenue, and discounts a differentiation of the structure given distributional, incentive and revenue concerns by a judicious balancing of tax instruments such as a single or dual rate value added tax (VAT) together with systems of excises [9]. Ahmed and Stern’s theory of tax reforms further prescribes that it can, at times, be misleading to look at one set of tax tools in isolation of what is happening elsewhere in the tax system¹⁰; that, the focus of indirect taxation should be final consumption implying that intermediate goods should not be taxed unless there is difficulty in taxing final goods¹¹; that given a natural trade-off between efficiency and equity with well-functioning schemes for income support generally absenting, there is no prescription for uniformity of the indirect system and that, in principle, the economic rationale, for corporate income tax, as distinct from personal income tax, lies in taxing foreign incomes and monopoly rents [9].

¹⁰ For instance, redistribution should not be allocated to income taxes and revenue raising to indirect taxes. Both taxes affect distribution and resources allocation and raise revenue. In particular, the desirability of the differentiation in commodity taxes on distributional grounds is closely related to other policies towards distribution. The stronger the other tools, the smaller the redistributive role for commodity taxes.

¹¹ It must be recognized that the elimination of tariffs except for protection is a long term goal which for revenue reasons cannot be achieved in the short or medium term in countries with very few tax handles.

This is quite apparent that there are no monolithic models of an “ideal” tax system and societies try to approach and conceive their “ideal” tax system as per their own needs and aspirations. The characteristics of an “ideal” tax system for a developing country, as generally prescribed by Bretton Woods institutional framework, include: (a) heavy reliance on a broadly-based sales tax e.g. VAT, preferably with a single rate and least exemptions, and excise taxes on petroleum products, alcohol, tobacco and perhaps a few luxury items; (b) zero reliance on export duties, except possibly as a proxy for income tax for hard-to-tax sectors such as agriculture; (c) reliance on import duties for protective purposes only – since the domestic sales tax is assigned the revenue-raising function – with a low average rate and a limited dispersion of rates to minimize effective rates of protection; (d) an administratively simple form of personal income tax, with exemptions limited, if possible, to personal dependents’ allowances, a moderate top marginal rate, an exemption limit large enough to exclude persons with modest incomes, and a substantial reliance on withholding; and (e) a corporate income tax levied at only one moderate-to-low rate, with depreciation and other non-cash expenditure provisions uniform across sectors and minimal recourse to incentive schemes for new ventures [10].

The prescription traces its origins in the neo-economic liberalism as enshrined in the so-called Washington Consensus [11]. Over the past couple of decades, international financial institutions (IFIs) across the globe, have been advising their client countries to extricate themselves from the welfare function, try to balance their budgets, and fall back upon international frameworks only for balance of payments purposes. Accordingly, fundamental focus on role of taxation appears to have shifted of late, when both academicians and IFIs started to assign much narrower a role to the tax system that it “should focus on raising revenues” [12, p. 1]. It has also been exhorted, “that taxation creates distortions and the main object of tax policy is to design a system that raises enough

revenue to meet a Government’s revenue target while minimizing the level of associated distortions” [13]. It follows that the main purpose of taxation is to raise resources to finance government expenditure, and therefore, a tax system ought to be designed and reformed in a manner which is administratively and politically feasible and which promotes equity and efficiency as far as possible. The IFIs-sponsored prescriptions targeted at raising revenues – that too VAT-propelled revenues – have been widely challenged at the intellectual plain, but the countries facing BOP constrains had no alternative but to walk into implementing the recommended design of the tax system, and Pakistan has been no exception.

To Robina and Mark, revenue effort in Pakistan’s particular case is seriously hampered by shortage of human resource, inadequate skill-set, logistical insufficiency, legal complexities, lax enforcement of penal and prosecutive regimes, ineffectual identification system of taxpayers, below par tax collection by sub-national governments, and that a comprehensive reform program must look to address both policy and administrative side inadequacies [14]. Pasha believes what a country can achieve by launching a process of tax reforms is squarely determined by its overall governance capacity. He contextually defines ‘governance’ as “the capacity of the state to organize the tax system according to some basic and universal principles, and to enforce compliance with rules... (and) implies a minimum degree of autonomy from pressure of special interests in the formulation of policy” [15]. In turn, political will and ability of the ruling elites to articulate the need for reform within an integrated economic and social vision, cohesion and co-ordination among government agencies, success in putting together support coalitions and mechanisms for compensation of losers (if necessary), and presence of capable bureaucratic cadres committed to the proposed reforms, are the vital ingredients of a given state’s governance capacity [15]. Islam holds that a structured framework for working out the benefits of corporate tax reform is not yet

available and, at present, guiding principles should be simplicity, practicality and neutrality [16, p. 7]. Thirsk undertakes a comprehensive analysis of all major taxes i.e. income tax, sales tax, federal excise, wealth tax, and customs revenue from imports, and the way those are levied on individuals, association of persons (AOPs), corporates, and proposes measures for improvement in all areas [17].

Wahid and Wallace focus on the distribution and effective tax rate of all current major taxes in Pakistan to provide a detailed analysis of the incidence of the tax burden by type of tax, and suggest options for tax reform to rectify distortions [18]. Michielse looks at the international dimension of Pakistan tax system in detail, identifies areas needing improvement and recommends policy interventions [19].

2. Research context

The paper argues that, in overall terms, TARP-led tax reforms reflected a fortuitous coincidence of wants on part of Government of Pakistan and World Bank. The Musharraf regime, in the post-9/11 period, had seamlessly aligned itself with US in the global war on terror. This politically correct alignment in the temporal context not only helped trigger the economy, but also propelled the bilateral and multilateral donors to scramble to Pakistan and handhold it in many key development and governance areas. The mutual urge both on part of Pakistan and World Bank was a key factor of the tax reform program, which, in turn, was nested in the international system. At the turn of the decade, however, Pakistan saw its relevance and role in war on terror nosedive. This, coupled with Musharraf regime's end and the dawn of a new democratic dispensation in Pakistan resulted in almost complete dissipation of ownership of the tax reforms program which was still in a phase of implementational infancy. Periodic monitoring of the reform program by the World Bank also seized in December 2011 when TARP was formally closed down.

This way the change of government in Islamabad and closure of TARP took

out two key dynamics and drivers of the reform program, that is, political ownership and donor oversight. This not only meant virtual abandonment of the tax reforms mid-stream, but also a sudden squeeze on resource allocation that were, in fact, needed to continue implementation of various reform measures. The bureaucratic leadership having a sense of fiscal imperatives also vanished with the change of political leadership giving the tax reform initiative a critical blow. It goes without saying that tax reforms have always been hard to conceive, harder to implement, and hardest to sustain. Once implemented, tax reforms require on-going supply of political will, administrative leadership, and investment of resources both in terms of men and means to sustain them over rather a longish period of time to have them seeped into and become part of the main system. This did not occur in Pakistan's context.

At the beginning of 2010, a slackening economy, sky-rocketing oil prices in the international market, launch of the operation *Zerb-e-Azab* in Federally Administered Tribal Areas to root out terrorism, and below par revenue effort, resulted in an exploding fiscal deficit, which, in turn, led to an increased demand on the tax administration for ever more revenues pushing it into a brute number-chasing machine. This is how the TARP-driven tax reform program was never implemented full-length with some of the measures that had been completed getting rolled back; others never getting close to the finish line; and still others still being in an embryonic stage when the orphanage struck it in 2011. Resultantly, the reversions on part of the tax administration to pre-reform mores started to take place under the hammer of steep revenue targets, which not only went steeper by the year but also that their periodicity turned evermore frequent – from annual to quarterly, from quarterly to monthly, from monthly to weekly, and of late, from weekly to daily. Finance Minister Ishaq Dar had repeatedly claimed to have fixed tough targets for the revenue administration so that it stretched itself a bit and was always on its toes. No doubt,

he appears to be completely oblivious of implications of fixing irrationally steep targets, which were completely divorced from the operating economic fundamentals, potential, and realities. The top revenue mandarins having no orientation of the economy in holistic terms then get unleashed on the taxpayer to hunt down the targets madly pursuing them on “beg, borrow, or steal” basis. It has been argued that in pursuance of brute revenue targets, the entire tax system has been withholdin-gized, which is generating not only insufficient but also unhealthy revenues with serious fall outs for the system, economy and the society [20]. The tax administration, it is posited, has become a tail-eating snake in that the greater the amount of revenue it generates, the more harm it causes to the economy [20].

It is against the backdrop of this botched tax reform program that LTU-Islamabad is being put to a comprehensive micro-level institutionalist analysis with a view to drawing empirically-based insights to validate macro-level summations. The question that the paper looks to answer is if the absence of continued political will on part of the government and sustained monitoring on part of the donor causes failure, reversal, or even perversion of a tax reform program? A subsidiary thematic thread that seams the study together is how come, absent both of the critical ingredients, a state as hungry for revenues as Pakistan, could afford to be so casually oblivious of its own fiscal imperatives – as evidenced by flagrant refusal to invest in the revenue administration.

3. LTU-ization of the tax system

The TARP’s flag-ship initiative was the creation of three LTUs in Karachi, Lahore, and Islamabad¹². This essentially meant establishment of highly specialized taxing organizations in metropolitan centers with earmarked catchment areas. The LTUs were designed to exercise jurisdiction over all cases having high revenue-yielding potential located in their

respective catchment areas; be adequately staffed with well-trained and qualitatively superior human resource; and get allocation of funds good enough to conveniently undertake revenue operations. At some level, the creation of LTUs also implied that the remainder of the field formations would operate primarily as a breeding ground for new cases, officers, and officials to be fed annually to these frontline revenue-spinning behemoths in a dynamic manner, that is, simultaneously taking deadwood out of LTUs. The *stated* objectives of the establishment of LTUs were to provide one-window facilitation to the taxpayers with revenue contribution above a definite threshold, extend better service to major taxpayers, improve tax collector-taxpayer relationship in qualitative terms, ensure transparency, mitigate risks in the handling of major revenue-yielding cases, reduce compliance costs by speeding up the dispute resolution mechanisms, and inject standardization in the implementation of tax laws across sectors and regions. The *pursued* objectives of creation of LTUs, however, were to target revenues full-throttle where they actually lay through realignment of resources in a forceful and focused manner.

The establishment of LTUs having been a key component of most World Bank, IMF and other multilateral and bilateral donor-sponsored tax reform programs, was not unique to Pakistan. In Pakistan’s case, however, it proved to be a lot more than mere establishment of a few LTUs; it bordered on LTU-ization of the entire tax system in that not only that the LTUs were designed to harvest a bulk of the state revenues upto around 75 percent, but also that a major portion of the tax machinery was rolled back from the length and breadth of the country and concentrated into 15 major urban centers, and whatever little was left was assigned a tertiary role of taxpayers’ facilitation, survey of new tax cases, monitoring of withholding taxes, and raising of deterrence against evasion through sparse audit and detection. Moreover, since geographic spread of the tax administration was massively curtailed greatly limiting its footprint and

¹² In 2016, another LTU, Karachi-II was established reinforcing confidence in the LTU-ization of the tax administration.

capacity to leverage itself for proper revenue generation mass withholdingization of the system compulsively took place [20]. The intensity of LTU-ization of the tax system can be gauged from the fact that within years of their establishment the total tax collection by the LTUs rose up to be above 65 percent of the total internal taxes as also plotted in Figure 1.

What the data shows is that the LTUs' contribution to total inland taxes conservatively hovering around 43 percent in 2008 touched the peak point of 65.4 percent by 2012. In fact, the LTUs' contribution touched the 60 percent mark in 2009 and for the next four years stayed above it, before slipping down in 2014, and falling down to 55.5 percent in 2016; slightly recovering in 2017 to 58.5 percent. This is a vivid evidence of the fact that not only that reforms were not implemented with full thrust and integrity but also that they lost the momentum well before attaining the required trajectory intended and required. A dissection of LTUs' performance in ab-

solute numbers vis-à-vis total inland revenues collected as plotted in Figure gives more revealing insights.

It would be seen that LTUs' revenue curve starts to pick up around 2008, when their contribution reached 279 billion out of the total inland tax collection of Rs. 647 billion. The LTUs' revenue curve attains the highest water mark in 2012 when its contribution at Rs. 802 billion constitutes 65.4 percent of the total inland taxes to the tune of Rs. 1227 billion. Then on not only that LTUs' revenue curve tends to flatten out but also that the gap between total inland taxes and LTUs' contribution curves starts to widen incessantly. It is interesting to note that while the (exponential) trend-line of the total inland taxes curve broadly follows the actual numbers, that of the LTUs' contribution curve first lags behind between 2008 and 2013, and then 2014 onwards overtakes the actual number line. A simple arithmetic calculation results in a minimum loss of Rs. 148 billion if worked out on the mutual ratios attained in 2012.

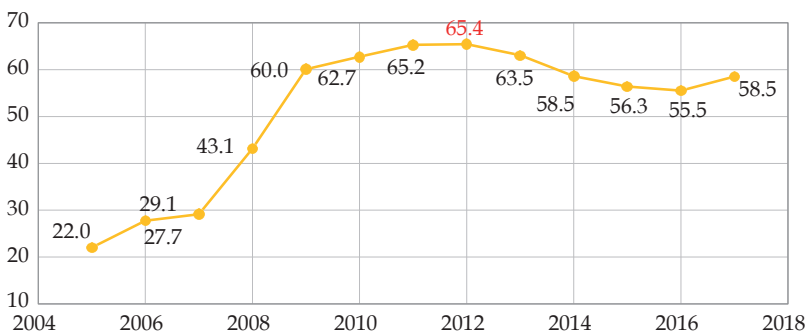


Figure 1. LTUs' Contribution as % of Total Revenue

Source: FBR – DRS Year Books

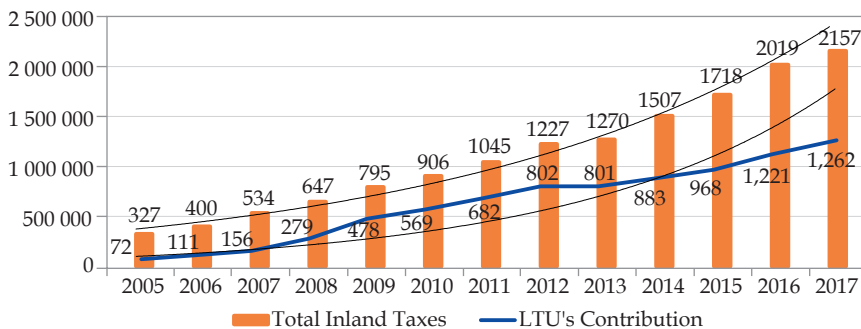


Figure 2. Total Revenue vis-à-vis LTUs' Contribution, Rs. in billion

Source: FBR – DRS Year Book

This is the result of a botched, failed, and half-way abandoned tax reforms.

4. LTU-Islamabad

If measured purely in terms of revenue numbers, establishment of LTUs fully justified itself as the revenue growth rate of the three LTUs remained greater than the national revenue growth rate until, of course, 2012; where-after it plummeted. In sharp contrast to LTU-Karachi, and LTU-Lahore, it is generally argued that LTU-Islamabad, has not performed even closer to its real potential. This insinuation is not all that misplaced when analyzed against the backdrop of LTU-Islamabad’s performance over the past decade. The comparative revenue growth trajectories of all four LTUs are plotted in Figure 3.

It would be seen that all three LTUs exhibit positive trends in revenue generation though at varying rates. It is in-

triguingly evident that LTU-Islamabad’s revenue curve rises in leaps between 2008 and 2012, but then the line gets straightened and stubbornly starts to move range-bound around the figure of Rs. 350 billion. This certainly is an abnormality when compared with the revenue curves of LTU-Karachi and LTU-Lahore, which continue to rise unabated. The paradox gets further complicated when the three LTUs’ performance is compared on the basis of the simple efficiency-output criterion i.e. total revenue generated per case per annum. On this rather a simple yardstick, LTU-Islamabad’s performance turns out the best as per the data presented in Figure 4.

It is evident that LTU-Islamabad’s performance defined in terms of revenue generated per case at Rs. 901 million followed by that of LTU-Lahore at Rs. 380 million, LTU-Karachi at Rs. 325 million, and LTU-

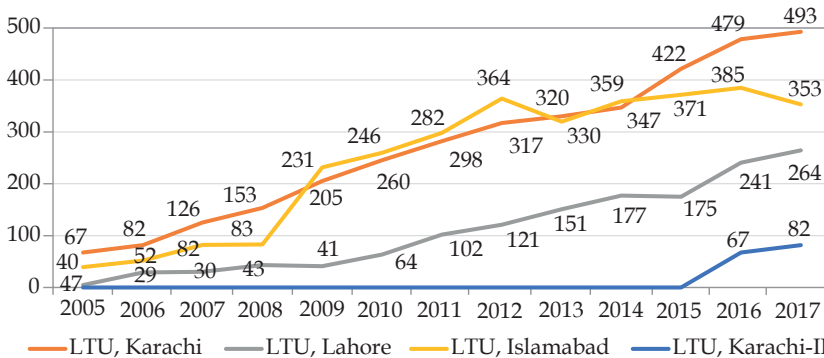


Figure 3. LTU Karachi, Lahore, Islamabad, & Karachi-II – Revenue Contribution, Rs. in billion

Source: FBR – DRS Year Book

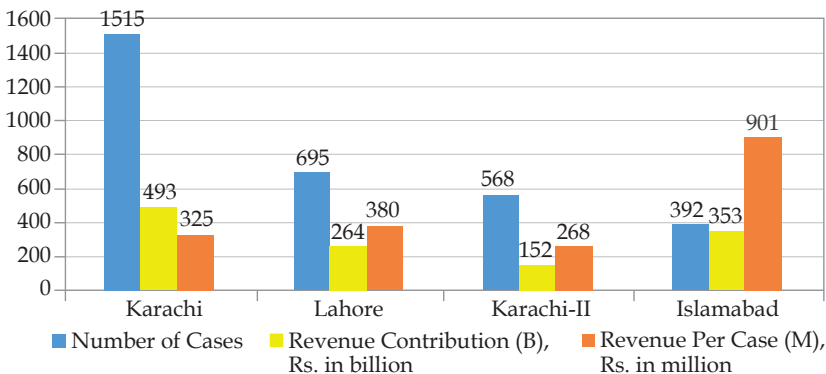


Figure 4. Revenue Generation per Case – T/Y 2017

Source: FBR – DRS Year Book

Karachi-II at Rs. 268 million far stands out and outperforms its closest competitor LTU-Lahore, by a staggering revenue differential of Rs. 521 million per case. Thus, the paradox that – despite LTU-Islamabad’s ability to extract far greater revenue per case in comparison with other LTUs, it is not being able to keep and sustain an upward trajectory of its revenue curve – warrants serious and comprehensive analysis. It is premised that the straightening of LTU-Islamabad’s revenue curve in Figure 3 – notwithstanding its higher per case yield as in Figure 4 – is due to abandoning of the foundational caveats of the reform program whereby the outfit was flagrantly denied adequate financing, feeding of fresh case portfolio, and staffing on an annual basis.

The required testation of the hypothesis is undertaken from the triple-perspective of jurisdictional, functional, and operational capacity as constrained by a lack of political ownership, manifesting in non-allocation of adequate number of tax cases, adequate funds, logistics, and suitable human resource. The paper also takes an intermittent cursory view of the national dynamics, which, directly or indirectly, affect LTU-Islamabad’s performance.

5. Jurisdictional capacity

Presently there are a total of 392 tax cases that have been assigned to LTU-Islamabad, out of which 293 are corporate case, 50 are firms, and remaining 53 are individual taxpayers’ cases¹³. Recently, however, the jurisdiction of the directors of all corporations whose tax jurisdiction lies with LTU-Islamabad was also reposed therein, whereby an approximate tally of 1500 individual cases of indeterminable value have also been added¹⁴. However, in practical terms the case records of only 150 cases were got actually transmitted, leaving the status of the remaining 1300

cases of varying revenue potential uncertain. It will not be out of place to mention that as per the original scheme of reforms, LTUs were to have jurisdiction over large revenue-yielding corporate cases only. It is premised that LTU-Islamabad’s revenue curve in Figure 3 has flattened majorly because the case portfolio that was required to be assigned to it dynamically on an annual basis was not assigned. This plausibly could have happened on four counts.

5.1. Non-operationalization of “catchment area” concept

The underlying purpose of establishing LTUs at geographically dispersed locations was to earmark their catchment areas with the understanding that all major cases above a prescribed threshold in that entire region would fall in some LTU – Karachi, Lahore or Islamabad. Thus, while LTU-Karachi’s catchment area was supposedly entire provinces of Sindh, and Baluchistan, and LTU-Lahore’s entire central and south Punjab, LTU-Islamabad’s catchment area was restrictively defined in terms of Islamabad Capital Territory, and Rawalpindi Division – although, initially Khyber Pakhtunkhwa was also taken to have been earmarked as LTU-Islamabad’s catchment area. This meant that all “large” cases located in Khyber Pakhtunkhwa fell out of the nexus of any LTU, and were consequently peacefully perched in Regional Tax Office, Peshawar and Regional Tax Office, Abbottabad¹⁵. This happened in complete derogation to the very concept, *raison d’être*, and the purpose of LTU-ization. Going by the tax declarations filed for T/Y 2017, there were a total of 80 cases in Khyber Pakhtunkhwa with a turnover in excess of Rs. 1,000 million – the qualifying condition for a case to be assigned to an LTU. Accordingly, all those 80 cases legitimately belonging to LTU-Islamabad are currently lying in Regional Tax Office, Peshawar and Regional Tax Office, Abbottabad. In tax terms, the jurisdictional locale of a case can have

¹³ This was done vide FBR’s Order F. No. 5(26)Jurisdiction/2016/91894-R, dated July 13, 2016.

¹⁴ The tax jurisdiction of directors’ individual cases was transferred to LTU, Islamabad, vide FBR’s Notification No. 5(26)Jurisdiction/2016/91894, dated July 13, 2016.

¹⁵ Jurisdictionally, the entire KP is divided between RTO, Peshawar and RTO, Abbottabad.

concrete consequences — both for the taxpayer as well as for the exchequer, which means that given LTU-Islamabad's ability to generate relatively greater revenues, these cases would have been put to a harder audit squeeze resulting in substantial additional contribution.

5.2. Erosion of LTU-Islamabad's tax jurisdiction

Since re-energization of LTU-Islamabad's jurisdiction did not take place at regular intervals, the bulk of its cases have lost their vibrancy, vitality, and revenue potential. Resultantly, LTU-Islamabad, is currently left with only 138 cases above Rs. 1,000 million threshold. It will not be out of place to mention that out of these 392 cases 119 did not even file their tax returns for T/Y 2017. Another factor that may have contributed to the erosion of LTU-Islamabad's jurisdiction is that due to intense oversight of the cases, most of the major taxpayers have established their subsidiaries in close-by Regional Tax Offices to divert revenues and get assessed. This particular issue, though recent in nature, yet highly detrimental to the cause of revenue collection, has yet to be systematically analyzed and arrested through proper administrative and legal interventions.

5.3. LTU-Islamabad's cases in regional tax offices, Rawalpindi & Islamabad

A substantial number of cases that otherwise qualify on the basis of Rs. 1,000 million to be in LTU-Islamabad, are conveniently operating well below the departmental radar in Regional Tax Office, Rawalpindi and Regional Tax Office, Islamabad. The number of such cases on the basis of T/Y 2017 is 24 and 51, respectively. The abandoning of the cardinal principles of reforms led to steep fixation of revenue targets for Regional Tax Offices as well that bred a perverse tendency in the management of the Regional Tax Offices to protect those cases under their jurisdiction, and since the arrangement also suits those taxpayers, it is quite easier for those cases to stay out of LTU-Islamabad.

5.4. Jurisdictional manipulation

Then there are tax cases which, purely on the basis of their potential to contribute to the national exchequer, should be in LTU-Islamabad. However, due to deft manipulation, they manage their declarations so as to keep themselves out of LTU-Islamabad's jurisdiction, and resultantly an enhanced focus, oversight, and audit squeeze. In fact, such cases require greater administrative focus, tracking and adequate response.

Thus, going by the set threshold of turnover of Rs. 1 billion, there are currently more cases at 144 that lie outside LTU-Islamabad than inside at 138, and this is happening right in the face of LTU-Islamabad's unparalleled performance on per case basis and an equally flat revenue curve. Likewise, the eroding jurisdictional capacity of LTU-Islamabad on account of fragmentation of corporations and manipulation of account can be construed to have a lowering impact on its revenue curve as plotted in Figure 3, could be substantial.

6. Functional capacity

One of the key thematic pillars of tax reform initiatives under TARP, and by implication of the LTUization was the reconfiguration of tax field formations i.e. LTUs and Regional Tax Offices on functional lines under which specialized stand-alone Commissionerates for audit, enforcement, prosecution, information processing, taxpayers' facilitation, and human resource management were to be established. The functional system remained in place until around 2013, and then at different occasions it was rigged and reversed sans any legwork and due diligence, and the archaic pre-reform configuration was reintroduced whereunder everybody would do everything. The support Commissionerates went redundant as the roles assigned to them were essentially monopolized by Chief Commissioner's office having been vested with little or no legal powers under the taxing statutes. These heretic deviations from the tax reforms cardinal principles had their implications for both the revenue and the revenue system. With

these perversions in the backdrop, LTU-Islamabad’s functional capacity can be analyzed from the perspective of its two critical constituents – the Commissionerates and the Functional Units.

6.1. Commissionerates

Functionally, LTU-Islamabad is configured into four revenue Commissionerates, with each Commissionerate consisting of two Additional Commissionerates and six Functional Units headed by Deputy Commissioner, Inland Revenue Service. Figure 5 depicts the deployment of Deputy Commissioners in each Commissionerate as of December 31, 2017.

It can be noted that LTU-Islamabad is currently operating at only 50% of its prescribed strength as far as the critically important tier of Deputy Commissioner is concerned. Resultantly, out of 24 Functional Units, 12 are being manned on ad-hoc basis by assigning additional charge to other incumbents. Deputy Commissioners being over-worked are unable to make qualitative difference at the time

of making assessment of tax liability in large cases. They feel alienated from the organizational goals – a key input in the context of any target-oriented enforcement outfit.

6.2. Functional units

Likewise, the capacity of Functional Units is further sapped and becomes questionable when viewed from the perspective of deployment of proper workforce in there. The workforce deputed in each Functional Unit of each Commissionerate is plotted in Figure 6.

The revenue administration may not have yet prescribed the standard (and adequate) size of a Functional Unit having a critical mass and functionality¹⁶, yet the deployment of both *professional* and *support* staff in each Functional Unit is alarmingly scanty. The non-availability

¹⁶ This, in itself, may be an evidence of the fact that the tax reforms remained truncated and the work on apparently insignificant but critically important issues was not carried out or completed.

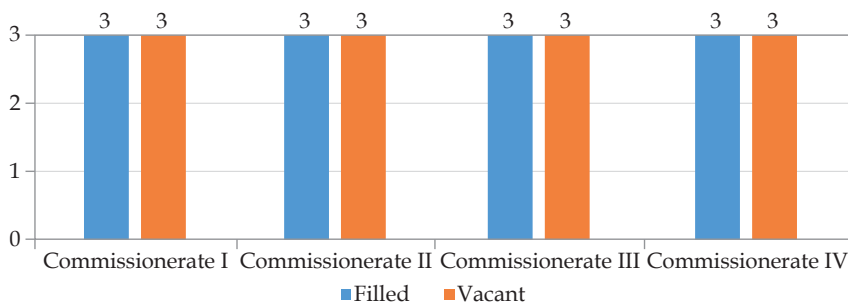


Figure 5. Functional unit occupancy

Source: LTU-Islamabad

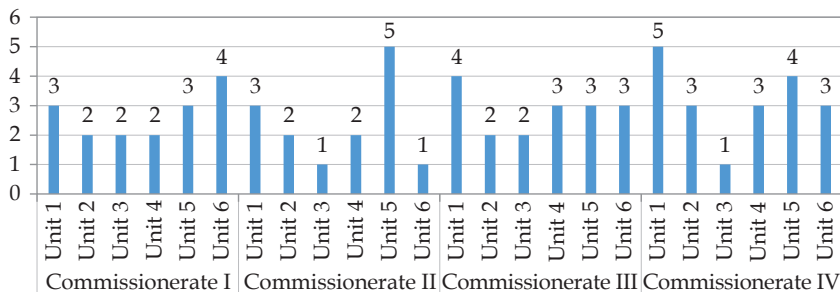


Figure 6. Functional unit – workforce gap

Source: LTU-Islamabad

of qualitatively superior and motivated workforce appears to have operated as a key pull-back factor on LTU-Islamabad’s revenue effort over the past decade. LTU-Islamabad’s four revenue Commissionerates, which currently are operating at exactly 50 percent of their sanctioned strength, cannot reasonably be expected to achieve the assigned targets in a healthy and wholesome manner and give required growth in revenues, and if they continue to do so under duress, LTU-Islamabad’s revenue curve in Figure 3 might soon even start to nose-dive from the current descending trend. The Functional Units – the very lynchpin of the taxation system – are operating with scant or no professional support with some of them being headed by Deputy Commissioner as one-man army, and would, therefore, be unfair to expect of them any quantum jump in revenue, which LTU-Islamabad desperately needs to resurrect its declining revenue curve.

7. Operational capacity

LTU-Islamabad’s operational capacity can be analyzed in terms of cost of collection (CoC), workforce insufficiency, and logistical deficiencies defined in terms of transportation, system hard and software, and office space availability.

7.1. Cost of collection

One of the key ingredients of any organization’s performance is as to how much it has in overhead cost allocations. LTU-Islamabad’s CoC in absolute terms alongside total revenue collected over the past one decade or so is plotted in Figure 7.

It is intriguing to note that during LTU-ization’s first phase i.e. 2008-2012, the revenue curve and the CoC curve rise in tandem, but then around 2012-13, CoC curve starts to lag behind though both lines maintain their respective trajectories. In overall terms the gap between the curves continues to widen slowly but steadily. It appears that the stress on the CoC curve starts to impact the revenue curve around 2017, when both lines begin to take a downward trend. The standard yardstick of CoC as percentage of total revenue collected when inducted into the analysis can sharpen our understanding of the issue. LTU-Islamabad’s CoC as percentage of revenue collection is plotted in Figure 8.

Against the world average of around 1.5 percent in CoC, and Pakistan’s overall CoC of 0.7 percent, LTU-Islamabad’s CoC is currently embarrassingly below 0.1 percent meaning thereby that it does not even have a Paisa¹⁷ to spend to collect Rs. 100 in revenue. During the first half of LTU-Islamabad’s life, CoC was above 1 Paisa but then it drops below 1 Paisa. The oppressive implication of lower CoC gets

¹⁷ Pakistan rupee is divisible into 100 paisas; over time, the devaluation of currency due to inflation, the Central Bank (State Bank of Pakistan) has stopped producing coins denominated in paisa, but rupee continues to be consisting of 100 paisas notionally.

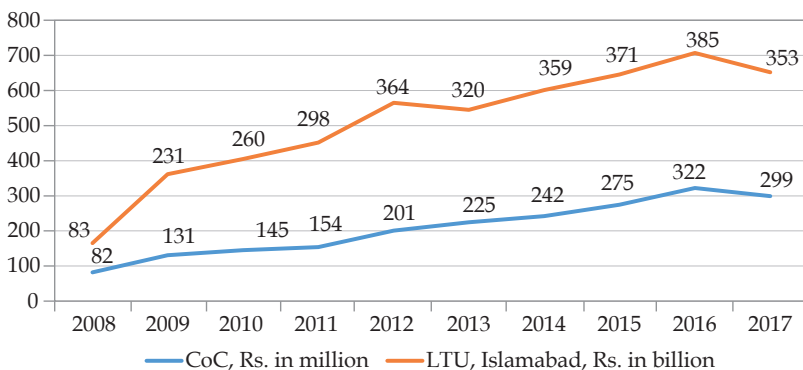


Figure 7. Revenue collection & CoC comparative trajectories

Source: LTU-Islamabad

more pronounced in cases where wages (and other fixed costs) constitute a bigger portion of the total CoC. Figure 9 bifurcates LTU-Islamabad’s CoC between wages and residual resources available to the management to undertake revenue operations.

It is observed that currently the portion of CoC going into salaries and wages is as high as 80 percent. Higher salaries add to the welfare of the workforce but conversely it means availability of less resources for actual revenue operations. The ratio of residual CoC to wages was 34 percent in 2009, which went down to 19 percent in 2013, rose to 28 percent in 2016, but again has dropped to 20 percent, with both lines taking divergent trends. The drop in wage bill is attributable to increasingly scantier workforce deployed at the LTU-Islamabad, and not due to any excess allocations in operational costs. In reality, things come to such a pass that no

funds are reported to fuel the transportation fleet and process other routine matters. At one stage, the officers even had to contribute from their own pocket to file urgent suits in the Supreme Court to protect revenue from going down the drain since no funds in the relevant account head were available.

7.2. Workforce gap

LTU-Islamabad, much like LTU-Karachi and LTU-Lahore, was supposed to be a flagship Inland Revenue Service filed formation with quality human resource in sufficient quantity to process top revenue-yielding cases. At least, in quantitative terms, this premise held its ground at the onset when the workforce deployed slightly exceeded the workforce assigned. However, soon thereafter the deployment of human resource started to lag behind even the sanctioned workforce as plotted in Figure 10.

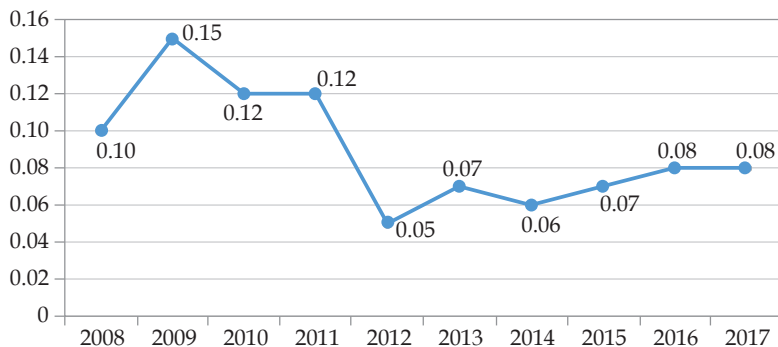


Figure 8. CoC as % of revenue collected

Source: LTU-Islamabad

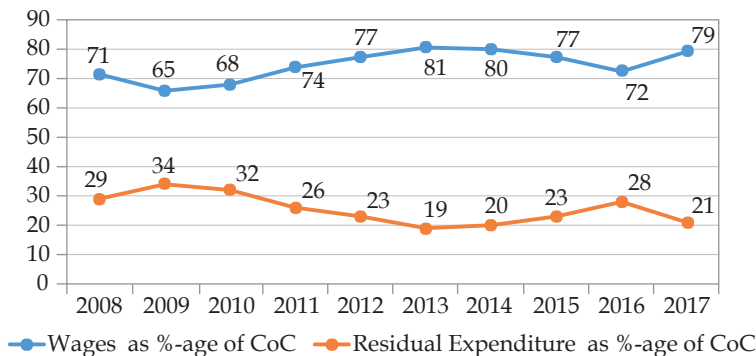


Figure 9. CoC – wages & residual

Source: LTU-Islamabad

The data reveals that not only that workforce deployment has been less than the required levels but also that the former has come down from its highest mark of 381 in 2009 to 242 in 2017. In this respect, a concomitant serious issue confronting LTU-Islamabad is that of workforce ageing, which currently turns out about 50 on the average. The ageing factor attains further significance in view that it is even higher in professional cadres – Inspectors and Auditors. The cadre-wise ageing pattern at the workforce level is plotted in Figure 11.

The data presented in Figure 11 vividly reveals that average age in the professional cadres like Inspectors and Auditors etc. is 47 and 50, respectively. It goes without saying that ageing adversely impacts output and performance of the employees, and by implication, of the organization. The cumulative effect of the foregoing factors renders LTU-Islamabad, stressful and unpleasant place where few are willing to work, and give their best. This, of course, could not have been one of the desired outcomes of the reforms, in general, and LTUization, in particular.

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7.3. Logistical deficiencies

Logistical deficiencies confronting LTU-Islamabad, are being analyzed in terms of transportation facilities, the quality of computing hard- and software, and office-space available to carry out revenue operations.

7.3.1. Transportation

The total existing CC capacity of LTU-Islamabad’s transportation fleet consisting of 30 vehicles comes to CC 31,000 as of December 31, 2017, which is extremely meagre vis-à-vis its revenue contribution. The transportation fleet by year of make/ model is plotted in Figure 12.

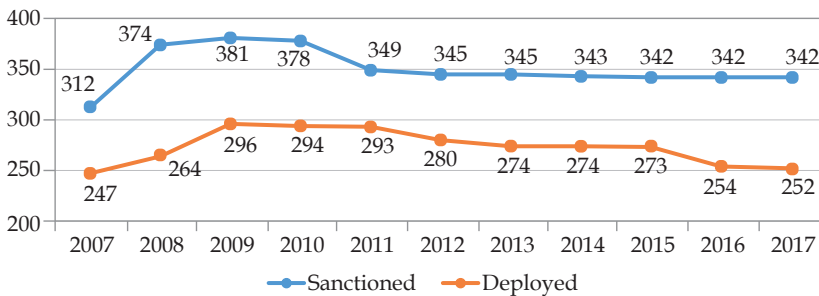


Figure 10. Sanctioned & deployed workforce gap

Source: LTU-Islamabad

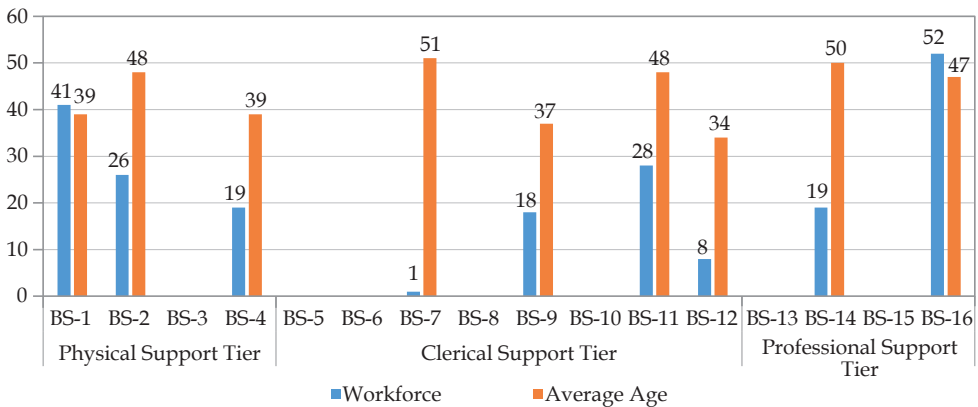


Figure 11. Workforce aging pattern

Source: LTU-Islamabad

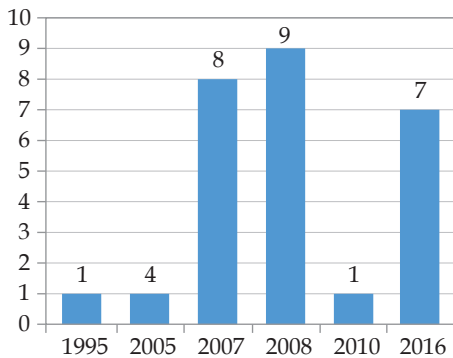


Figure 12. Transport fleet by model (year)

Source: LTU-Islamabad

Out of the total fleet of 30 vehicles only 7 are of recent make and, therefore, less operational cost-intensive. Going by the government's own rules which allows depreciation @ rate of 20 percent, the remainder of the entire fleet of LTU-Islamabad, has already been depreciated; hence outdated. Its compulsive retention by the management eats into the financial allocations on account of fuel and operational maintenance at a rapid pace, which then do not get replenished resulting in stress on revenue operations.

7.3.2. Computing hard & software

Contrary to Government of Pakistan rules stipulating that no pirated software could be used at any of its properties, LTU-Islamabad is compelled to use software which does not necessarily conform to the standard of propriety and lawfulness in its fullest sense. The situation is equally grim when it comes to hardware facilities. Both hard and soft-wares being used by LTU-Islamabad are risk-prone, hazardous and relatively deficient in reliability and robustness. Quite often the systems get stalled, crashed, broken down brining revenue operations to a grinding halt.

7.3.3. Workspace availability

LTU-Islamabad is one of those sparsely lucky public sector organizations that are housed in their own premises. A Plan-

ning Commission 1 (PC1)¹⁸ was prepared in 2004 for a total projected cost of Rs. 29.450 million to be spent over the next two years. Originally, it meant to be the office building for the Regional Commissioner, Income Tax/Wealth Tax (Northern Region), Islamabad. It was noted that the "building is of paramount importance to achieve the objectives of projecting the image of the organization", and, therefore, an effort was "made to produce a structure where the real amenities and aesthetics of the building are shared and enjoyed by the users and visitors alike"¹⁹. The economic life the building was estimated to be 60 years at a recurring cost of Rs. 0.790 million per annum. The project was approved in the Departmental Development Working Party meeting held on April 28, 2004, by observing that "this building meant for Regional Commissioner Income Tax's office would also be utilized for "Large Taxpayers' Unit" to provide quality services to the taxpayers at single access point under the tax administration reform project"²⁰. The project having gone into time overrun for a couple of years was completed in 2008. Interestingly, only a gray structure was completed and then handed over leaving the entire premises to be partitioned on open-floor basis. At the long last, LTU-Islamabad moved to its present premises in late 2008.

At the outset, gross office space available was 105 square yards per employee; it came down to 98, and then 87 square yards in 2009, and 2010, respectively. Nevertheless, still in the spirit of the reforms and LTU-ization, all amenities like cafeteria, potable water, mosque and parking lot were conveniently made available. Suddenly, however, in 2011, the space available per employee nosedives down to 29 square yards as also depicted in Figure 13.

¹⁸ "PC1" stands for Planning Commission 1 and means the basic blueprint of a project to be funded under Public Sector Development Programme (PSDP).

¹⁹ PC1 of the project titled «Construction of Office Building for Regional Commissioner Income Tax/Wealth Tax (Northern Region), Islamabad».

²⁰ Minutes of the Departmental Development Working Party Meeting held on April 28, 2008, in CBR (HQs), Islamabad.

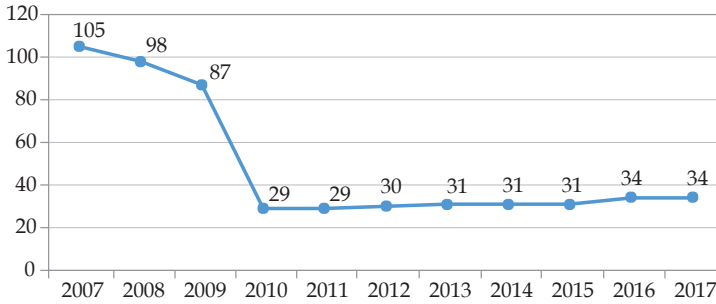


Figure 13. Office space available per person

Source: LTU-Islamabad

In fact, FBR had written in 2009, enquiring of LTU-Islamabad, “to intimate whether Regional Tax Office, Islamabad, can be adjusted in the newly constructed Income Tax House”²¹. LTU-Islamabad, promptly responded by stating that “for the proper functioning, LTU-Islamabad, requires all of the 2nd, 3rd, and 4th floors in the LTU Complex to accommodate its sanctioned strength, record (Income Tax & Sales Tax), miscellaneous storage, staff cafeteria etc.” and therefore, “it may not be possible to accommodate/adjust Regional Tax Office, Islamabad, in LTU, Complex”²². However, in late 2010, FBR bulldozed Regional Tax Office, Islamabad’s placement in the LTU-Islamabad’s premises, sending the entire reform-compatible inner lay-out in a total disarray. The office space available also hit the rock-bottom at 29 square yards in 2010, but then slightly improved to 34 square yards per person in 2017, which, in fact, is not due to any increase in the office-space available but due to reduction in the manpower available on account of transfer and superannuation.

At some level, workforce attrition may have been induced by workplace reduction. Quite contrary to the original designs, LTU-Islamabad, on a closer look, paints a run-down, untidy and stuffy place with water-leaking in facility areas, choking power systems, and insufficient

cramped service areas. People eat at their desk or in clusters, and offer prayers at the retrofitted mosque established in the parking area externalizing vehicles and bikes parking. The basement level which was originally supposed to be a parking lot, now caters to more than half of LTU-Islamabad’s workforce, and since it lacked built-in design features for such usage, it is eternally stuffy, less airy, dark and unpleasant creating health hazards for large number of employees housed there. It may, therefore, not be astonishing that LTU-Islamabad’s medical bill has exponentially gone up over the past half-decade, unfunded at any given point in time. In the process, the biometric system installed at the entrance has also been rendered redundant as people are moving in and out at multiple times during the day for multiple legitimate purposes.

Thus, the stress on LTU-Islamabad’s revenue curve in Figure 3 can be explained in terms of the stress on its CoC curve as plotted in Figure 7 and Figure 8. Workforce deficiency consistently running one-fourth of the prescribed strength, in combine with other related variables like workforce training and motivation – coercively imping on LTU-Islamabad’s revenue operations as a substantive constraining factor. Logistical deficiencies of grave nature as gleaned not only undermine the very rationale of LTU-ization of the tax administration, but also adversely affect the taxpayer perception – a key element for any tax administration.

²¹ FBR’s Memorandum No. 7(1)CBR/Es-tate/07, dated July 14, 2009.

²² LTU-Islamabad’s Memorandum No. DG/LTU/2009/321, dated August 5, 2009.

Conclusion

It can thus be summarized that LTU-Islamabad's consistently static performance for the past five years stubbornly staying below Rs. 400 billion mark is explainable in terms of its triple-deficiency of jurisdictional, functional, and operational capacity constraints. These constraints directly stem from the polity's jettisoning of the tax reforms well before the finish-line. Astonishingly, LTU-Islamabad's uncanny ability to generate far more revenue per case as compared to other LTUs has either never been propagated or heard by the decision-making structures. The "catchment area" concept being the cornerstone of the LTU-ization process has paid off through relatively high-trajectory revenue-generation over the past one decade or so elsewhere but the same conveniently got hushed up with reference to LTU-Islamabad; it certainly had a definite price-tag in terms of revenues foregone. It has also convincingly been brought out that LTU-Islamabad's jurisdiction stands undermined to such a level that currently it may not only be insufficient to lift up the revenue curve but also that it may not even be able to maintain its current trajectory – until, of course, tax revenues pertaining to future periods are pulled up as is the vogue presently. The continued non-assignment of LTU-worthy cases to LTU-Islamabad may have its consequences not only because of the potential additional revenues being squandered on this count but also because its existing portfolio may be losing its vitality through attrition. It is not astonishing that in the wake of non-rule-based assignment of cases to LTU-Islamabad, some of the existing taxpayers may have wriggled out of it to softer taxing organizations e.g. any of the Regional Tax Offices.

One of the most critical blow that the TARP-pushed tax reform program received before some of its key interventions adequately gelatinized was the polity's complete shift of focus from *reform* to *revenue* towards the onset of Pakistan Muslim League-Nawaz government in 2013. Finance Minister Dar systematically

applied a reset button on the tax reforms by appointing a brand new tax reform commission summarily abandoning the still ongoing reforms. Fixation of monthly targets and their frantic chasing on "beg, borrow, steal" basis crept in partly due to mounting fiscal stress, partly due to the merger of income tax and sales tax departments, and partly due to wanton ways of dealing with the state's revenue function. This way the traditional culture of making proper assessments, and defending them at appellate fora became almost extinct over the past one half decade. Monthly target fixation led to monthly accountability of failures – which took the entire workforce into a frenzied mode of taxation whereby holding back of refunds and pulling forward of tax on future earnings has become the new normal – changing the very DNA of the tax machinery and reversing the role of FBR from that of revenue-generator to part debt-creator a la Ministry of Finance, Economic Affairs Division, National Savings Organization, and even the State Bank of Pakistan. It was remarked that now the only difference between money printed by State Bank of Pakistan and taxes collected by FBR was that the latter was cheaper, as during F/Y 2016 State Bank of Pakistan had spent Rs. 9.1 billion on printing money [21], while FBR had spent far less. Alm and Khan survey Pakistan's tax policy effects on business incentives, evaluate its corporate taxation, compare it with worldwide trends in the taxation of corporates, and suggest ways and means to reforming the system of business taxation in Pakistan [22].

The analysis carried out in the paper divulges a few key take-homes, which carry robust potential of generalizability to other similarly-circumstanced developing countries, their tax systems, and the World Bank and IMF-driven tax reform programs. Firstly, the tax reforms have no chance of making to success levels if political ownership dissipates mid-stream as happened with the process of LTU-ization in Pakistan. At some level, mere political ownership may not be enough, but an overarching consensus across the political divide may be required to ensure con-

tinued political sanction of the reforms to hedge against the hazards of government changes. Secondly, donor-driven reforms do require continued donor-ownership, oversight and monitoring particularly if it involves behemoths like IMF and World Bank. The inclusion of TARP-type tax reforms as an agenda item in International Monetary Fund's Article IV consultations even after the closure of project on part of the World Bank, could have made a difference. This is because political elites of the developing countries, as soon as they get a chance, choose to have a go at the tax system. It has been argued that monopolization of the tax system is of utmost importance if the ruling elites have to protect their riches and further enhance the extant status quo [23]. Lastly, it is evi-

dently in developing countries' interest to allocate adequate resources to their tax systems enabling them to constantly upgrade themselves as well as undertake their routine operations without any financial constraints simply because eventually it is their own tax systems that can generate the most cost-effective revenues needed to maintain the routine state functions as well as implement programs for the much-needed economic development. Alternatively, if adequate investments are not made in the tax machinery as in LTU-Islamabad's case, in particular, and post-TARP national tax reforms, in general, developing countries would have to compulsively opt for debt-creating resource-generation with all its multifaceted inimical implications.

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