

## **ANNEX 2: TERMS OF REFERENCE FOR THE TECHNICAL ASSISTANCE WORK**

### **Terms of Reference**

#### **For a Review of Tax Administration in the Pakistan Federal Board of Revenue (FBR)**

##### **I. Background**

Pakistan's tax system has undergone significant reforms over the last two decades, leading to the modernization of direct and indirect taxes. More recent times have seen the rationalization of income tax rates, the introduction of self-assessment for filing income taxes, some expansion of consumption taxes, and the rationalization of the customs tariff structure with a reduction of tariff bands and maximum rates. Currently, the FBR is engaged in a comprehensive plan to re-structure and modernize the entire tax administration and customs operations. In addition, the FBR has taken a number of steps in the recent past to increase the number of taxpayers and broaden tax bases.

However, Pakistan's tax system continues to under-perform in some fundamental ways, in particular in its ability to raise adequate revenues, mainly because the bases of the most important taxes, personal and corporate income taxes and the General Sales Tax (GST), continue to be very narrow and the level of tax evasion remains quite high. In fact, the tax to GDP ratio has declined in recent times. On the other hand, most of the macroeconomic fiscal adjustment in recent years has been on the expenditure side of the budget. Some expenditure items such as defense spending tend to be higher in Pakistan than in other countries, but these are unlikely to change. At the same time, the country's needs for spending on social services, such as education and health, and capital infrastructure are likely to increase in the near future as the Government pursues a strategy of sustained economic growth.

In terms of tax effort, Pakistan's tax/GDP ratio (estimated 10.1% in 2007/08) is low by international standards. In addition, the statistical derivation of the long run buoyancy for tax revenues is 0.93. In this environment, it becomes imperative to analyze the recent performance of the tax administration to enhance its effectiveness.

The FBR plays the key role in assuring the Government of its revenue collection, and in promoting compliance with the country's revenue laws. In recent years, a critical tool for the FBR has been the Tax Administration and Reform Project (TARP) which was approved in 2005. This project includes both tax administration and customs administration. Joint WB/DFID supervision missions have concluded that implementation progress has been "moderately unsatisfactory".

Against this background, in May 2008 the Government of Pakistan requested a technical assistance mission to assess the current status of the tax administration in the FBR.

## **II. Objectives**

The mission will review the state of tax administration in the FBR. It will provide a diagnostic assessment of various aspects of tax administration operations, and identify where and why the FBR may be falling behind, and what remedies are available to bring about improvements. In addition, the mission will highlight the implications of its recommendations for TARP, and comment on how the various components of TARP might be improved. The mission will attempt to distinguish clearly between design and implementation issues in making its assessments.

## **III. Activities**

### ***1. Organization and management***

Evaluate and review the FBR organizational structure, including managerial, staffing, and governance arrangements for: (1) key compliance functions such as: collections, enforcement, audit, appeals, and taxpayer services; (2) support functions such as: information technology and human resources and training; and (3) tax administration reform project management.

Based on the review:

- Make recommendations to improve the effectiveness of the large, medium, and regional taxpayer offices in the key functional areas of collection, enforcement, audit, appeals and taxpayer services.
- Make recommendations for the allocation and management of resources across taxpayer segments. If possible, evaluate the extent to which the creation of the LTUs, MTUs and RTOs has led to improvements in enforcement programs (including initiatives for ensuring timely filing of tax returns and payment of taxes, arrears collection, and audit activity), taxpayer services, and governance.
- Identify initiatives aimed at establishing an integrated function-based tax administration, with strong headquarters and a network of operational offices with clearly defined roles and responsibilities.

### ***2. Processes and procedures***

Evaluate procedures for taxpayer registration, submission of tax returns and payments, control of stop filing, enforcement of arrears, audit (including procedures to combat VAT fraud, criteria for selecting taxpayers for audit, systems for cross checking information and administration of VAT refunds) and appeals.

Based on this review:

- Identify initiatives for implementation in the immediate term that would allow FBR to build on success they have already had in delivering early and visible progress, focused particularly on improved service to the taxpayer.
- Identify processes improvement to support the TARP that will allow FBR to become a modern, user-oriented tax administration.
- Propose solutions for areas such as registration, payment processing, accounting, collections, statement and notice production, management of client correspondence, case management<sup>1</sup>, support of client assistance, and support of internet-based services (such as electronic filing, account management, client information, electronic forms and guides).

### **3. *Planning and monitoring***

Evaluate current approaches and practices for planning and performance monitoring of FBR operations across key functional areas. This will include a review of annual plans and periodic reports to ascertain whether risk based approaches are being employed.

Based on this review:

- Assess the effectiveness of the management reporting system to monitor the results of the FBR's activities.
- Recommend key performance indicators for each function and process and determine what performance information is required by management and in what timeframe. In particular, recommend management information for monitoring timely filing of tax returns and payment of taxes, arrears collection, audit, and, taxpayer services, across respective taxpayer segments.

### **4. *Information systems***

Review the FBR's arrangements for implementing and maintaining its current information technology (IT) capabilities.

Based on this review:

- Determine the reasons for the lack of progress in pursuing the outsourcing objective to meet the IT needs of the tax administration reform programme.
- Assess the extent to which the FBR's current IT capability provides a suitable platform for the tax administration reform programme.

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<sup>1</sup> Case management systems are those that track a taxpayer issue, opening a case, client correspondence, notes of officers that have dealt with the client, referring the case to another officer, closing the case when complete.

- Identify options and recommend the preferred option for implementing the IT capability to meet the needs of the tax administration reform programme.
- Identify the major risks to successful project completion and recommend mitigation strategies.

#### **5. *Strategy for reform, priorities and action plan***

Review the various results of the mission’s work and other documents and activities related to reform and modernization.

Based on this review:

- propose a comprehensive strategy for improving the FBR’s effectiveness in the short and medium term. The strategy will include key components, major initiatives to be undertaken, other adjustments that may have to be made, and a high-level timetable.
- Identify reform priorities in the short term for key tax administration areas, that is: collection, audit, appeals, taxpayer services, information technology and administration of human resources (time permitting).

#### **6. *Implications for TARP***

Assess the implications of the above five activities for TARP:

- focus on the implications of the FBR Review—its assessment of various aspects of tax administration, detected failures and proposed solutions—onto TARP;
- prepare the corresponding section of the Review report on the findings and key recommendations for enhancing the effectiveness of TARP; and
- preparation a separate more detailed note on the options open for TARP restructuring to enhance its effectiveness and achievement of planned results.

### **IV. *Mission’s deliverables***

The mission shall provide by September 23, 2008:

- (i) A detailed report on its diagnostic review;
- (ii) A strategy and action plan consisting of:
  - a. An assessment of short-term improvements to support FBR objectives that could be implemented in the first 6 months following the mission;

- b. Recommendations as required to adjust longer term priorities;
  - c. Specific recommendations related to the IT objectives of the FBR;
  - d. Recommendations to enhance TARP and project management;
- (iii) Presentations and/or workshops for FBR (and possibly MoF) officials;
- (iv) A separate note on options for TARP restructuring to enhance its effectiveness and achievement of planned results.

After the mission, based on the comments from the Pakistan authorities, the mission team will finalize the report and strategy by October 10, 2008.

## **V. Timetable**

The mission will begin September 8, 2008 in Islamabad, and conclude on September 23.

## **VI. Consultants' deliverables**

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# **Technical Assistance Program to Support Pakistan Tax Administration Reform at the Federal Board of Revenue**

## **Terms of Reference**

### **I. Introduction**

Pakistan's tax system has undergone several reforms over the last two decades, aiming at the modernization of direct and indirect taxes. In addition, tax administration reform has been underway since 2003, when the original objectives for a specific tax administration reform program were articulated. The Tax Administration Reform Program (TARP) focused on changes at the Federal Board of Revenue (FBR) and, with the support of the World Bank and DFID, began its implementation in 2005. The World Bank/DFID participation is scheduled to conclude in December 2009. To date, progress has been observed in many critical areas of the tax administration, including the rationalization of income tax rates, the introduction of self-assessment for filing income taxes, extensive development of IT systems, the development of a strong taxpayer facilitation approach through a modern web site and Taxpayers Facilitation Centers, the implementation of the Large Taxpayers Units and Regional Taxpayers Offices with upgraded infrastructure. However, joint WB/DFID supervision missions have concluded that implementation progress has been "moderately unsatisfactory".

While positive developments have been identified, much remains to be done to significantly improve FBR's effectiveness and, consequently, tax revenue. Although some important goals of the reform have been achieved – such as office infrastructure, training, and taxpayer facilitation, other crucial elements like full organizational integration of sales and income taxes, integrated IT systems, business process re-engineering, and improved audit and enforcement, are yet to be fully

implemented. Therefore, the tax administration reform efforts need to be intensified to complete the next level of reforms as envisaged in TARP.

## **II. Recent developments**

At the request of the authorities of the Government of Pakistan, a technical assistance mission visited Islamabad, Karachi and Lahore during the period September 8 to 23, 2008 to review FBR operations. The mission report addressed in detail several problems and offered a number of recommendations to improve FBR effectiveness and taxpayers' compliance within a relatively short time-frame. The recommendations cover tax legislation, organization and management, compliance management, revenue leakage prevention, information technology, and TARP implementation. The recommendations form an integrated approach to enhance the tax administration reform process.

Since then, the authorities have reached an agreement with the World Bank on a new series of Poverty Reduction Support Credits (PRSC) and with the IMF on a Stand-By Arrangement. For both programs improving effectiveness of tax administration is considered vital for success. The areas supported by this technical assistance program are consistent with PRSC.

At a conference to examine the tax reform agenda for Pakistan, held in Lahore in December 2008, participants highlighted the importance of completing the tax administration reforms to facilitate the full implementation of a tax policy framework. This was endorsed by the Adviser to the Prime Minister as well as the action plan for the way forward. In January 2009, the Prime Minister approved the proposal to fully integrate the operations of FBR.

## **III. Objectives**

The objective of the technical assistance (TA) will be to help FBR carry out its tax administration reform program and, in particular, to implement the recommendations included in the September 2008 FBR Review. Government approved a time-bound action plan for tax reform in January 2009, with specific milestones for each reform initiative. FBR will need support to effectively implement this plan to meet the agreed milestones.

FBR has established different committees to move forward the reform agenda. This TA will support the work of these committees

## **IV. Technical Assistance Activities**

TA will be provided in the following six areas:

### **A. Tax Legislation**

The September 2008 mission found that there were weaknesses and inconsistencies in the design of the basic income and sales tax legislation that hinder effective administration. These issues have recently been reviewed by experts. Some issues that need to be addressed include: the abundance of income tax exemptions and tax credits; application of tax brackets (partially addressed); treatment and definition of small business; sales tax definitions (e.g. place and time of supply); sales tax exemptions and zero-ratings; and the treatment of services under the sales tax which is poorly designed.

In addition, tax procedures have not been harmonized across the major tax-types--i.e. income tax and sales tax--and these two laws contain outmoded delegation references dealing with specific

organizational titles and positions. This impedes the full integration of the sales tax and income tax organizations.

***TA support to be provided for implementing the following recommendations:***

- Implementing a comprehensive review of the sales tax and income tax laws to remove aspects that hinder effective tax administration.
- Harmonizing tax procedures for all domestic taxes, and modernize the delegation framework for the revenue laws.
- Moving strategic tax policy functions from FBR to the Ministry of Finance, FBR would continue to have policy input, and a major role in revenue analysis.

The ongoing work on the VAT tax legislation will be extended as part of this TA program. This will involve further work on legislation to ensure the harmonization of tax processes and procedures to be implemented as part of the 2009/10 budget.

**B. Organization and Management**

A major objective of the tax administration reform is to create an organizational structure for FBR based on functions rather than tax-type lines. This ultimately involves the full merger of the sales tax and income tax organizations into a single organization. Only the first preliminary step of co-location had been achieved by January 2009. The Prime Minister approved the new organizational structure on a functional-basis for FBR in January 2009, and the related top management changes in FBR were implemented. However, the process of implementation has only started and needs to be rolled out through the operating Large Taxpayers Units (LTUs) and Regional Tax Offices (RTOs).

In addition, all of FBR's tax administration processes will need to be subject to formal business process re-engineering. The existing processes are not consistent with the new organizational structure and the IT system developed.

There will need to be planning and monitoring of FBR operations (in addition to revenue targets) at the HQ functional level. The plans would also have to be rolled out to the FBR-level, creating a platform for a strategic business plan against which FBR and its management team could be held accountable.

***TA support to be provided for implementing the following recommendations:***

- Implementing a top-level organizational structure with the following key features.
- Elimination of Direct Tax and Indirect Tax Wings.
- Functional organization and integration of the administration of different taxes, with clear lines of reporting for LTUs and RTOs.
- Full integration of the administration of different taxes in LTUs and RTOs
- Development of a comprehensive business process re-engineering (BPR) strategy.
- Development of a modern planning and monitoring system based on key performance indicators in each major functional area.

### **C. Compliance Management**

Effective compliance management is vital for the next phase of reform. Recent efforts to facilitate taxpayer compliance through education and assistance must be augmented with a strengthened enforcement program to detect and deter non compliance.

#### ***TA support to be provided for implementing the following recommendations:***

- Establishing dedicated task forces to pursue: (1) unregistered entities; (2) non filers and stop filers.
- Introducing systematic cross-checking of a range of external databases, for example, property transactions and utility accounts, against the taxpayer register.
- Increasing risk-based audit activity by boosting audit coverage to 30 percent of the large taxpayer sector and 3 to 5 percent of small and medium business sector.
- Developing comprehensive risk based compliance strategies with specific targets to focus functional line activities on improving the levels of: (1) registration (increase registration of business entities by 20 percent); (2) filing (reduce sales tax and income tax stop filers by 50 percent in RTOs); (3) record keeping; (4) accurate reporting; and (5) payments (reduce arrears by 20 percent).
- Consistently applying penalties to non-compliant taxpayers and prosecute cases of serious fraud and evasion.

### **D. Preventing Revenue Leakage**

Given the weak state of enforcement activity, it is necessary to take measures to induce taxpayers to be part of the tax system, make it difficult for them to circumvent the payment of tax, and where possible bring payments forward.

#### ***TA support to be provided for implementing the following recommendations:***

- Broadening the current restriction on claims for input tax credits to apply to any entity that has not fulfilled its obligations to register, file, or respond to notices under the relevant tax laws; and apply a similar provision to expenses claimed as a deduction for income tax, with a threshold of Rs 25,000 applying to input tax credit claims and expenditure deductions.
- Precluding clearance of imports and exports made by non compliant taxpayers, i.e., taxpayers failing to register, file, and respond to notices under the relevant tax laws.
- Revising the advance payment tax for corporate taxpayers (beginning with LTUs taxpayers) by: (1) requiring monthly advance payments; and (2) amending the formula for the computation of advance tax payments to be based on the tax to turnover ratio of the previous year applied to monthly turnover of the current year.
- Increasing the Large Taxpayer Units (LTU) population by approximately 20 percent.
- Expanding Sales Tax withholding beyond the Government sector by requiring all LTU taxpayers to withhold one percent from payments to suppliers in transactions exceeding Rs 25,000.
- Increase the additional tax on late payments by linking the rate to the Central Bank rate with a five percent uplift factor.



## **E. Information Technology**

The technology being employed and the systems that are being developed to create the new Integrated Tax System (System 2009) should meet the needs of FBR. Additional TA will be needed to ensure this.

### *TA support to be provided for implementing the following recommendations:*

- Establishing the current suite of systems being developed by FBR as the core of the new Integrated Tax System. Development work on any competing systems should be stopped at this stage.
- Selecting an LTU or RTO to be the testing ground for the new Integrated Tax System. The new system should be delivered and tested in the following order: registration, filing, income tax, sales tax, taxpayer account. Once functionality is confirmed, release for deployment throughout FBR.
- Ensuring that the HQ functional areas are involved in BPR and in the determination of business requirements for the IT specialists.
- At the end of the year, the performance of the IT system should be established and a judgment taken as to the suitability of moving to an off-the-shelf solution for 2010 and beyond.

## **F. Tax Administration Reform Program (TARP)**

TARP will need to be restructured to better support the new FBR organization and procedures when they are being rolled out. Adjustments should be made in the project to implement recommendations in the areas listed above and TARP resources reallocated accordingly.

### *TA support to be provided for implementing the following recommendations:*

- Re-aligning the component 1 (Management and Institutional Development) of TARP to support key recommendations related to re-organization, the full integration of sales and income tax, and business process re-engineering on an integrated basis.
- Updating the 2003 Project Implementation Plan to reflect the above recommendations.
- Strengthening the Project Management Unit (PMU), and engage technical assistance experts to deliver revised initiatives.
- Establishing a calendar for critical milestones for the implementation of organizational, procedural and information technology reforms.
- Revising the TARP budget accordingly, and extend the date of final disbursement for World Bank project funds beyond December 2009, if required.
- Assigning responsibility to the TP&R wing for preparing a plan and monitoring the implementation of the recommendations once approved.

## **V. Technical Assistance Team**

This TA will be carried out by a team of international experts in the relevant areas. The team will be led by [xxx], who will identify and mobilize the other needed consultants. To the extent possible, the experts who carried out the September 2008 FBR review mission will be used to ensure continuity.

## **VI. Timetable**

This TA program will cover the period February 2009 to June 2010. During this period, at least four missions—that is, roughly on a quarterly basis—will be fielded. The first mission will be conducted in March 2009, for which the preparatory work will start from Washington, DC in February 2009. Each mission will review progress of reforms and produce a report summarizing its conclusions and a timetable for the implementation of pending actions.

## **VII. Deliverables of Each Mission**

Each mission will produce:

- A detailed progress report on the implementation of recommendations, and challenges that may jeopardize their successful implementation.
- An updated detailed implementation timetable.
- Recommendations to enhance TARP and project management.
- Presentations and/or workshops for FBR (and possibly MoF) officials as needed.
- Any other deliverables as agreed.

## **VIII. Budget**

The budget for the technical assistance program will be \$xxx. A detailed budget is attached.

**ANNEX 3: TAX ADMINISTRATION REFORM:  
AMENDED SUMMARY OF AGREEMENTS REACHED**

July 10, 2009

1. This memo summarizes the agreements reached between the Ministry of Finance, Federal Board of Revenue (FBR), and the World Bank on FBR reorganization.<sup>1</sup>

2. **FBR organizational structure:** The new organizational structure of FBR was agreed (see Annex I). The following groups of Members will report to the FBR Chairman:

- *Support Members* (Strategic Planning (TARP) and Research & Statistics; Legal; and Finance and Administration);
- *Functional Members* (Facilitation and Taxpayer Education; Enforcement and Accounting; and Taxpayers Audit);
- *Operational Members* (Customs; Domestic Operations North; Domestic Operations South);
- *Policy Members* (Direct Taxes; Indirect Taxes; and Customs).

3. In addition, Director Generals (DGs) of Internal Audit, Information Management Systems (IMS), and Human Resources will report to the Chairman. .

4. Members of Domestic Operations North and South will supervise corresponding Regional Taxpayer Offices (RTOs) and Large Taxpayer Units (LTUs), whose Heads will report directly and solely to them. Similarly, the Member of Customs supervises Chief Collectors of Customs North and South. Attached Annex II summarizes the functions and responsibilities of each Member.

5. *Timeline:* The Chairman of FBR issued a notification to implement this structure on *June 30, 2009* and the Members and DGs, except DG Human Resources, have been appointed or re-confirmed.

6. **RTO and LTU Structure:** To integrate field operations, RTO and LTU organizational structures will also be amended. In each RTU/LTU, there will be three core functions: enforcement; audit and legal. These units will be established and implemented through an Order issued by the FBR immediately after establishment of a new occupational group(s). In the meantime, the current RTO and LTU structures continue operating without changes.

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<sup>1</sup> The agreements reached during June on FBR reorganization were revisited during the continuation of consultations of the second review of the IMF-supported Stand-By Arrangement (SBA) in Istanbul during July 3-10, 2009. Satu Kahkonen (Lead Economist) and Carlos Silvani (Consultant) participated in policy discussions. Prior to Istanbul discussions, at the request of the Government of Pakistan, a World Bank mission visited Islamabad during June 9-12, 2009. The mission comprised of Satu Kahkonen (Lead Economist), Carlos Silvani (Consultant), Hanid Mukhtar (Senior Economist) and Anjum Ahmad (Senior Private Sector Specialist). During its visit, the mission held extensive discussions with groups representing the interests of income tax officials and customs and sales tax officials. The latter has filed a case in the Islamabad High Court against the Government of Pakistan, claiming that recent reforms have adversely affected their career prospects and that appropriate procedures were not followed in the process of integrating functions of income tax, sales tax and federal excises during January-March 2009. The agreements reached during that mission were summarized in memo dated June 12, 2009.

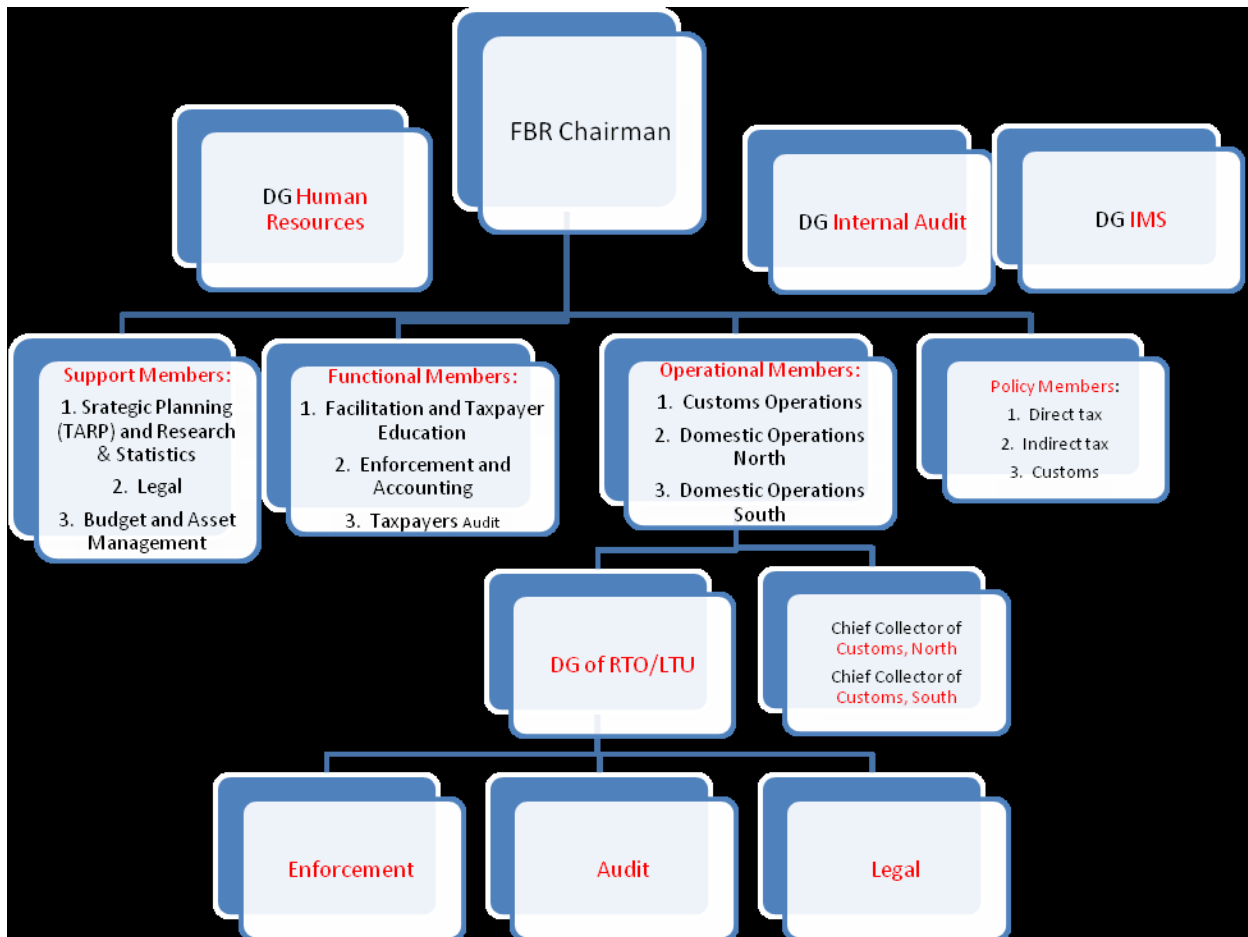
7. **Establishment of a new occupational group(s):** In order to implement the new integrated RTO and LTU structure described above, the Government of Pakistan will establish one or two new occupational groups: Pakistan Revenue Service and Customs.<sup>2</sup> The staff working in the Pakistan Revenue Service group will cover income tax, sales tax, excises, and eventually VAT. All new recruitment from year 2009 will be done to this/these new group(s). The FBR staff belonging currently to either income tax or customs and excise cadres will opt by a date to be specified to either remain in their current occupational group or join the appropriate new one. This decision will be irreversible. The staff choosing to stay in the current occupational groups will be assigned tasks according to their skills.

8. *Timeline:* It was agreed that the functional reorganization of tax administration, including formation of new occupational group(s), the necessary changes in all relevant laws and rules, revision of RTO and LTU structure, notification of staff and manning of the structure will be fully completed and implemented *no later than September 30, 2009*. As part of this process, the Revenue Division will move the Establishment Division to prepare a proposal for the creation of these two new occupational groups. The Establishment Division will then take the necessary actions and/or seek approvals and issue notifications. After this, the Revenue Division and/or FBR will seek changes of all the necessary related laws and rules, and the organizational structures of RTOs and LTUs will be amended. Finally, the staff will be given a two-week period to decide whether to be transferred to a new occupational group(s), and the staff will be shifted accordingly.

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<sup>2</sup> At least one new occupational group—Pakistan Revenue Service—will be established to deal with domestic taxes. The current Customs and Excise occupational group will be transformed to deal only with customs services. Alternatively a new occupational group will be formed to deal with customs matters. The authorities will select the option with least risk of further lawsuits by FBR staff.

## Annex I: New FBR Organizational Chart



- Notes:*
- 1) RTOs/LTUs may have more than one enforcement and audit units.
  - 2) RTOs/LTUs may have separate units for Human Resources, Budget and Asset Management, and FATE.
  - 3) Member Budget and Asset Management will be titled as Member Finance and Administration

## **Annex II. Member Functions and Responsibilities**

### ***Support Members***

- *Strategic Planning and Research & Statistic*: Current responsibilities of member Research & Statistics. In addition, responsible for formulation and follow up of revenue targets and strategic planning. Member will also be a Project Director of TARP, and of any new upcoming donor projects. Budget preparations and amendments of laws will be the responsibility of the Secretary Revenue with FBR support.
- *Legal*: Current responsibilities and preparation of legal brief of tax-evasion prosecutions.
- *Finance and Administration*: Current responsibilities, without posting or transfers.

### ***Functional Members***

- *Facilitation and Taxpayer Education (FATE)*: Current responsibilities.
- *Enforcement and Accounting*: Responsible for planning, designing procedures and evaluating enforcement activities for all domestic taxes. Specifically regarding: 1) tax returns/payments processing and taxpayers' accounts; 2) registration; 3) control of unregistered taxpayers; 4) control of registered taxpayers who do not file on time (non-filers); and 5) collection of arrears .
- *Taxpayers Audit*: Responsible for planning, designing procedures and evaluating tax audits across all tax types. Also responsible for implementing a National Audit Plan, to extend audit coverage, and designing case selection criteria and audit methodology to assure audit quality. Initiating proposal to legal branch on prosecution of tax evasion.

### ***Operational Members***

- *Customs Operations*: Responsible for supervising all customs operations. Chief Collectors North and South will report directly to Customs Operations Member.
- *Domestic Taxes Operations North*: Responsible for supervising domestic taxes operations of North field offices. North RTOs and LTUs will report directly to this member. These two Members will have the following new DG-level positions to assist them: Enforcement & Accounting, Audit, Legal, and IMS.
- *Domestic Taxes Operations South*: Idem, for South LTUs and RTOs.

### ***Policy Members***

- *Direct Taxes*: Responsible for the interpretation of all direct taxes. Member Direct Taxes will also monitor the correct (and equal) application and interpretation of tax laws across all tax offices. However, a policy member will have no direct line of authority over field offices. Instructions to field offices will always be done through Members Operations North and South. Information/feedback can, however, be obtained directly from field offices.
- *Indirect Taxes*: Idem for indirect taxes (sales tax, excises, and eventually VAT).
- *Customs*: Idem for customs duties. Instructions to customs field offices will always be done through Member Customs Operations.

ANNEX 4: LAHORE JUDGMENT SHEETS OF JANUARY 7 AND 27, 2010

# JUDGMENT SHEET

LAHORE HIGH COURT, LAHORE

Rawalpindi Bench, Rawalpindi

JUDICIAL DEPARTMENT

W.P.No. 2577 of 2009.

Ms. Ayesha Bashir Wani etc Vs. Govt. of Pakistan etc.

Date of hearing 12.11.2009

Petitioner By: Mr. Zafar Ullah Khan, Advocate (in W.P. No.2577/09)

Mr. Gohar Ali Khan, Advocate (in W.P.No.2875/09)

Eyed Masroor Shah, Adv. (in W.P.No.s 2576/09, 2816/09 & 2664/09)

Respondent By: M/s Abdul Hafeez Pirzada, Saeed Ahmad Zaidi, Dr. G.S. Khan,  
Advocates.

Mr. Muhammad Aqil Usman, Member Legal, FBR.

**ASAD MUNIR, J:-** By this single judgment, I propose to dispose of writ petitions Nos. 2577 of 2009, 2576 of 2009, 2664 of 2009, 2816/09 and 2875 of 2009, all of whom involve common issues of law and fact. The petitioners, who are civil servants belonging to the Customs & Excise Group, are aggrieved by the Office Memorandum No.F.6/2/2009-CP-II, dated 12.9.2009, issued by Establishment Division, Cabinet Secretariat, Government of Pakistan ("Office Memorandum") whereby all the business concerning Income Tax, Sales Tax and Federal Excise has been transferred from the officers and staff of the Income Tax Group and Customs & Excise Group to a newly created occupational service called Inland

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Revenue Service and each officer and staff of the existing Customs & Excise Group and Income Tax Group has been called upon to exercise an irrevocable option for inclusion or otherwise into the new Inland Revenue Service. A perusal of impugned Office Memorandum shows that it aims to bring about a merger of the two occupational groups i.e Income Tax Group and Customs & Excise Group as well as their services pertaining to income tax, sales tax, federal excise and customs by introducing a new service called Pakistan Revenue Service. However, each officer of the said occupational groups has the option but not the obligation to join the new service. All officers of the two groups upon joining the new service are to be given the seniority according to the dates of joining in their respective group. In case the required options are not received from the Customs & Excise group, the new service will be called Inland Revenue Service which will deal with income tax, sales tax and federal excise only. In such a case, as visualized by the impugned Office Memorandum, the Customs and Excise Group will remain intact but will be called the Customs Group and will comprise all those in the group who have not exercised their options in favour of joining the new service.

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2. The petitioners seek a declaration that the impugned Office Memorandum, which creates a new civil service by abolishing the existing one, is unlawful and without lawful authority as it adversely affects the terms and conditions of their service as to the appointment, seniority and promotion in violation of the fundamental rights of the petitioners as well as Articles 240 and 268 of the Constitution, sections 3(2) and 23 of the Civil Servants Act, 1973, Rule 6(4) of the Civil Servants Confirmation Rules, 1993, Rules 7, 8 and 21(1) of the Civil Servants (Appointment, Promotion and Transfer) Rules, 1973, Rule 3(c) of the Civil Servants (Seniority) Rules, 1993. According to the petitioners, the impugned Office Memorandum is also against the principle of promissory estoppel and legitimate expectation as the creation of Inland Revenue Service would mean abolition of many posts for the Customs & Excise Group resulting in fewer posts available to them for promotion.

3. On the other hand, the respondents have raised a preliminary objection to the maintainability of the writ petition on the ground that the jurisdiction of this Court is barred under Article 212 of the Constitution as the grievance of the petitioners relates to the terms and conditions of their service. The respondents have also contended

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that the writ petition has no merit as the petitioners are not being forced to join the new Inland Revenue Service which has been lawfully created in terms of S.no.10.2.(i) of Schedule II of the Rules of Business, 1973.

4. According to Mr. Abdul Hafeez Pirzada, Senior Advocate and learned counsel for the respondents, the grievance of the petitioner is admittedly in respect of the terms and conditions of their service which is indicated by paras 8, 9, 11a, 11b, 11e, 11g, 11h and 11v of the writ petition No. 2577/2009, paras 7, 8B, 8C, 8E, 8G, 8H and 8T of writ petition nos. 2816 and 2664 of 2009 and 2576 of 2009 and paras 8D, 8E, 8F, 8H and 8K of writ petition No. 2875 of 2009, wherein it has been alleged that the creation of the new Inland Revenue Service is bound to adversely affect the terms and conditions of service of the petitioners.

It is urged that this Court is barred from exercising any jurisdiction in view of Article 212 of the Constitution whereunder jurisdiction exclusively belongs to the Federal Services Tribunal. In support of his objection, reliance has been placed on Khalid Mehmood v Collector of Customs, Lahore (1999 SCMR 1881).

5. Undoubtedly, the writ petition is barred under Article 212 of the Constitution if the grievance of the petitioners relates to or arises out of their

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terms and conditions of service which appears to be the case in view of the petitioners' unambiguous and repeated stand in the writ petition that the impugned Office Memorandum affects their terms and conditions of service. Faced with the respondents' objection to the maintainability of the writ petition, the petitioners have during arguments done a volte face to contend that their grievance has nothing to do with the terms and conditions of their service but it is only in respect of their prospects of promotion. I must say that the petitioners cannot be allowed to approbate and reprobate and orally plead a case altogether and entirely different from what they have so clearly stated in their pleadings.

6. This calls for a reference to para Nos. 8 and 9 of the writ petition No. 2577 and the relevant paras of the other writ petitions where it has been stated in unequivocal terms that the impugned Office Memorandum affects the terms and conditions of service as well as the seniority and lien of the petitioners. According to grounds 11a and 11b in writ petition No. 2577, the impugned Office Memorandum is illegal for being in contradiction with Articles 240 and 268 of the Constitution and of no effect to bring about a change in the terms and conditions of the Pakistan Customs and Excise Service to which the petitioners belong. Grounds 11e

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 Section 9, High Court  
 Rawalpindi Bench

and 11f also assail the impugned Office Memorandum for being in clear violation of section 3(2) and section 23 of the Civil Servants Act, 1973, by adversely changing the terms and conditions of service which include appointment, confirmation, seniority, promotion et cetera. Similar is the position taken in grounds 11g and 11h wherein the impugned Office Memorandum has been called in question as being violative of the Civil Servants (Confirmation) Rules, 1973 read with Civil Servants (Appointment, Promotion and Transfer) Rules, 1973 for failing to allow lien to the petitioners by asking them to exercise an irrevocable option. Again in ground 11v, an exception is taken to the impugned Office Memorandum on the ground that it has been issued with the approval of the Prime Minister whereas it is only the President who has authority to determine the terms and conditions of the civil servants.

7. It is obvious from the above narration that the petitioners are aggrieved by the Impugned Office Memorandum only because it adversely affects their terms and conditions of service in violation of Articles 240 and 268 of the Constitution as well as the Civil Services Act, 1973 and the Rules framed thereunder. As such, the petitioners cannot invoke the constitutional jurisdiction of this Court as

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they can challenge the legality or vires of the impugned Office Memorandum before the Federal Services Tribunal upon whom exclusive jurisdiction has been conferred, under Article 212 of the Constitution, to adjudicate upon a grievance in respect of the terms and conditions of service. It would be of benefit to refer here to two judgments of the Honourable Supreme Court. In Iqan Ahmed Khurram Vs. Government of Pakistan and others (PLD 1980 SC 153), it was held that the remedy of an civil servant aggrieved in respect of his terms and conditions of service is barred before the High Court but is available before the Services Tribunal even if it involves the vires of a Rule or notification. Following PLD 1980 SC 153, it was observed in I. A. Sharwani v Government of Pakistan (1991 SCMR 1041) at page 1063 that " a civil servant cannot bypass the jurisdiction of the Services Tribunal by adding a ground of violation of the Fundamental Rights. The Service Tribunal will have jurisdiction in a case which is founded on the terms and conditions of the service even if it involves the question of violation of the Fundamental Rights". I may also refer to Muhammad Ahmed v Pakistan (1990 PLC Service 185), where the Sindh High Court, in view of Article 212 of the Constitution, declined to exercise its

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constitutional jurisdiction when an existing cadre of civil servants was split into two cadres with officers of only one of them entitled to be considered for promotion. Another case of relevance is Rana Muhammad Sarwar v Government of Punjab (1990 SCMR 999) wherein it was held that question of abolition of post relates to terms and conditions of service and must be raised before the Services Tribunal.

8. Contrary to their pleadings, the petitioners have argued that their grievance is only in respect of their prospects of promotion which do not form part of the terms and conditions of service. Reliance has been placed on Government of West Pakistan vs Fida Muhammad Khan (PLD 1960 SC 45), Government of West Pakistan vs Fateh Ullah Khan (PLD 1960 SC 105) and Muhammad Arshad Saeed vs Pakistan and others (1986 SCMR 1953) in support of the proposition that terms and conditions of service do not include the prospects of promotion. It may be noted that the first two cases were decided at a time when there were no Service Tribunals nor was any constitutional bar akin to Article 212 of the Constitution in place. These cases arose in 1956 after one unit was created and the interpretation of proviso to section 8(3) of Establishment of West Pakistan Act, 1955, was called for to examine if a

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civil servant upon joining the service of the Government of West Pakistan was given less favourable terms and conditions of service than those admissible to him when he was serving in the province. The grievance of the petitioners in both the cases was that they got less favourable terms and conditions because their prospects of promotion were much brighter if they had remained in the provinces where their seniority was much higher. However, the Honourable Supreme Court rejected their plea on the ground that prospects of promotion, being far-fetched, could not be included in the terms and conditions of service admissible to them at the time they were serving in the provinces. The third case, 1986 SCMR 1953, decided in appeal under Article 212(3) of the Constitution, follows the two earlier decisions of the Honourable Supreme Court. I think the first two cases are also authority for the proposition that consequent upon re-organisation or restructuring of services the prospects of promotion, being far-fetched, cannot be raised as a grievance in constitutional jurisdiction whereas the third case is of no help to the petitioners as it does not hold that a civil servant can be an aggrieved person in respect of his prospects of promotion.

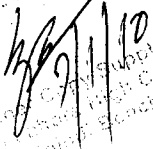
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9. In my view, the petitioners are against joining the new service as they apprehend that their seniority in the new service will affect their prospects of promotion. Thus, the primary grievance of the petitioners arises out of the question of their seniority which is no doubt included in the terms and conditions of their service. It is thus an over-simplification to say that the prospects of promotion of the petitioners will be affected when obviously the promotion is dependant upon or is the direct result of their seniority as may be fixed if and when they join the Inland Revenue Service. It would also be relevant to refer to Muhammad Aslam Khokhar and 24 others Vs Federation of Pakistan and others (2006 SCMR 1240) where the Auditor General through a circular varied the conditions with regard to the promotion of the members of the Accounts Group. The said circular was declared to be without lawful authority by the Federal Service Tribunal whose judgment was affirmed by the Honourable Supreme Court in appeal. The said case is an illustration of the Federal Services Tribunal exercising its exclusive jurisdiction by declaring a circular unlawful even though the matter in issue pertained to the conditions of promotion of the aggrieved civil servants.

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10. Another grievance raised by the petitioners is that sales tax has been transferred from their sphere of responsibility and placed in the care and control of the newly-constituted Inland Revenue Service. According to the petitioners, this would reduce their scope of work which would mean fewer posts available for the Customs & Excise Group thereby affecting their promotion prospects. However, the petitioners did not put forward any convincing argument to support their right to retain the sales tax business. According to the respondents, the Federal Government has the absolute right to review the arrangement from time to time as may be in the interest of sales tax which was originally and until 1981 administered and collected by the Income Tax Group. I think the grievance here about the promotion prospects is far-fetched as it is unknown at this stage if all the officers in the Customs & Excise Group will not join the Inland Revenue Service.

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11. In support of their stand that their grievance does not relate to their terms and conditions of service, the petitioners have also relied upon Syed Junaid Arshad vs Government of Pakistan (2006 PLC (CS) 131) and Fakhar-uz-Zaman Ali Cheema vs Government of Pakistan (2001 CLC 1277) where the

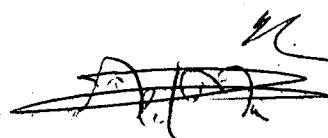
High Court did not let the bar of Article 212 come in its way but exercised its constitutional jurisdiction to order re-allocation of the petitioners from one occupational group to another. I am afraid both the cases are distinguishable on their facts. In 2006 PLC (CS) 131, the High Court implemented the orders of the Prime Minister who had directed the re-allocation of a civil servant from one occupational group to another on the ground that the civil servant was being denied equality of treatment when similar orders for others were being implemented. In 2001 CLC 1277, a person selected in the Accounts Group, who was undergoing training at the Civil Services Academy, was found entitled to be re-allocated to the Income Tax Group by the High Court when a person selected for the Income Tax Group failed to join the Civil Services Academy. In the present case, no question of re-allocation is involved as neither the petitioners are seeking reallocation to another service nor are the respondents forcing the petitioners to join another service but are only giving them the option to do so which they are free to accept or reject.

12. The petitioners have also tried to justify the maintainability of the writ petition by pleading that the bar of Article 212 of the Constitution is not applicable as they are only seeking a writ of

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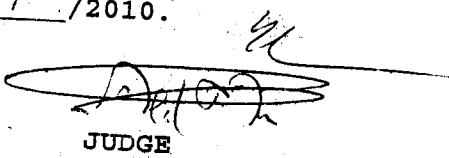
quo warranto by questioning the induction of other persons in the newly constituted Inland Revenue Service. Again, such a plea has not been taken by them in their detailed writ petition. In any case, such a plea runs counter to their writ petition wherein they only allege the adverse effects of the new service over their terms and conditions without challenging the inclusion of others in the Inland Revenue Service.

13. In view of the foregoing discussion, I have no option but to conclude that the grievance of the petitioners, by their own admission and even otherwise, relates to the terms and conditions of their service. In view thereof, the writ petition, being barred under Article 212 of the Constitution, is not maintainable. Accordingly, it is dismissed with no order as to costs.



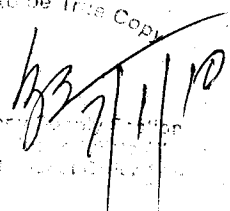
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**JUDGMENT SHEET**  
**LAHORE HIGH COURT, LAHORE.**  
JUDICIAL DEPARTMENT

W.P.No.24410/2009  
SYED ALI ABBAS GARDEZI, ETC.

Versus

GOVT. OF PAKISTAN, ETC

AND

W.P.No.24451/2009  
NISAR AHMAD

Versus

FEDERATION OF PAKISTAN, ETC.

Date of hearing:  
Petitioners by:

27.01.2010.

Hafiz Tariq Nasim and Mr. Muhammad Nawaz Cheema, Advocates for writ petitioners in W.P.No.24410/2009.

Mr. Zafarullah Khan, Advocate for petitioner in W.P.No.24451/2009.

Respondents by:

M/s. Muhammad Ilyas Khan and Saeed Ahmad Zaidi, Shamshad Ullah Cheema, Tariq Naseem and Ibrar Ahmad, Advocate for respondents No.4 and 12.

Raja Muhammad Irshad, Sardar Muhammad Ghazi and Mr. Ibrar Ahmad, Advocates for respondents No.2 to 3.

✓ Mr. Muhammad Nawaz Waseer, Standing Counsel for Federation of Pakistan.

Mr. Mushtaq Ahmad Qazi Commissioner and Syed Nadir Hussain, Deputy Director FPSC.

IJAZ AHMAD CHAUDHRY, J.: This single judgment shall deal with two writ petitions i.e. W.P.No.24410/2009 "SYED ALI ABBAS GARDEZI, ETC. versus GOVT. OF PAKISTAN, ETC" and W.P.No.24451/2009 "NISAR AHMAD versus FEDERATION OF PAKISTAN, ETC." as both carry similar questions of facts and law.

2. Precisely the facts are that petitioners in both the writ petitions who are employees of Customs and Excise Group, mainly challenge the vires of Office Memorandum No.F.6/2/2009-CP-II dated 12.09.2009 (along with corresponding letters) as also the issuance of Finance (Amendment) Ordinance, 2009, whereby options were called from the officers of Customs & Excise and Income Tax Groups for inclusion or otherwise in the new Inland Revenue Service.

3. Hafiz Tariq Nasim, Advocate representing petitioners in W.P.No.24410/2009 opened the case and by initiating arguments about the maintainability of these writ petitions, contended that *stricto-senso* the terms and conditions of petitioners' services were not being infringed, as such, the jurisdiction of this Court was not barred within the meaning of Article 212 of the Constitution of Islamic Republic of Pakistan, 1973. However, it was contended that by means of impugned Office Memorandum, service structure as well as future prospects of the petitioners would be affected seriously endangering their seniority and other allied matters. The learned counsel next argued that impugned Office Memorandum and office letters were departure from the law laid down in "GARTON (INDUSTRIES LTD. VS. GOVT. OF PAKISTAN, ETC." (1999 SCMR 1072), as by creation of new Inland Revenue Service Group vested rights of the petitioners were put under jeopardy. Further with reference to the case law reported in 1998 S.C.M.R 91 contended that if the action impugned is malafide and coram non-judice, the jurisdiction of the superior courts is wide enough to cater the situation. Lastly, it was argued by the learned counsel that the persons like the petitioners were very skillful and qualified employees having lot of experience at their back, thus, creation or merger of three wings i.e. Sales Tax,

W.P.No.24410/2009  
W.P.No.24451/2009.

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Income Tax and Federal Excise in one proposed unit i.e. Inland Revenue Service was a malafide attempt on the part of the Federal Board of Revenue to accommodate specific group, to the detriment of the others like the petitioners, and also, according to the learned counsel, the proposed action tantamount to causing huge financial loss to the national exchequer, as the Inland Revenue Service will never be in a position to collect the revenue as was/is being collected through old scheme. The learned counsel closed his arguments on the point that since Rawalpindi Bench of this Court has already dismissed similar kind of petitions, the matter being of wider national importance may be referred to a larger Bench, in the light of case reported in PLD 1995 SC 423.

4. Mr. Muhammad Nawaz Cheema, Advocate while adopting the above arguments, contended that issuance of Office Memorandum was in violation of Article 4 of the Constitution of Islamic Republic of Pakistan; that by means of impugned Office Memorandum, the Customs Department has been made to last longer, whereas, Sales Tax Department is being abolished. Further that by creation of Inland Revenue Service, future prospects of petitioners' service would be badly affected, as there will hardly be any space left for their promotion, because of lack of vacancies in the Customs Department. Lastly, it was argued that impugned Office Memorandum would not benefit the tax payees, rather would add to their miseries.

5. Mr. Zafarullah Khan, Advocate representing writ petitioner in W.P.No.24451/09 by adopting the above arguments added that all the matters involving terms and conditions of civil servants are not immune from constitutional jurisdiction of this Court and that proposed induction of the writ petitioner in Inland Revenue Service strictly speaking does not affect the terms and conditions of his service, this writ petition is maintainable. Learned counsel placed reliance on the case reported in 2006 PLC (CS) 131. On merits, the learned counsel endorsed the above arguments of Hafiz Nasim Tariq, Advocate, learned counsel in the connected writ petition.

6. On the other, Mr. Mushtaq Ahmad, Commissioner Inland Revenue Service, while refuting the above assertions, contended that by creation of Inland Revenue Service, only intention is to bring the Federal Excise, Sales Tax and the Income Tax collection mechanism under one roof; that so far as contention with regard to disturbance of seniority of the employees of Sales Tax or Customs Excise Group, was concerned, it was only apprehension with no basis thereto, as even after the creation of Inland Revenue Service, the employees opting for Inland Revenue Service maintain their actual original inter-se seniority; that even future promotion mechanism has been taken note off in the Office Memorandum and the Promotion Policy as in vogue at the present, would remain the same as is being adopted for other occupational groups and there would be no separate policy after creation of the Inland Revenue Service; that future service prospects have also been safeguarded by constituting a Committee for settling the in-service disputes; and that this all exercise was being done just to make the tax collection exercise centralized for the betterment and facilitation of the public, with no other ulterior motives.

7. Raja Muhammad Irshad, Advocate representing the respondent/ department, in addition to the arguments advanced by the Commissioner, contended that he would squarely rely upon the earlier judgment of this Court rendered at Rawalpindi Bench; that by means of creation of Inland Revenue Service none of the occupational Groups was about to be disturbed; that through the Office Memorandum, impugned herein, the option was always with the employees, either to avail or not and even if they did not opt, their service structure was not to be adversely affected and similarly the employees who opt, they would also retain their actual inter-se seniority; that for settlement of the disputes amongst the employees, Anomaly Committee had been constituted, which was equally efficacious and inexpensive remedy, therefore, the employees, if at all aggrieved, could avail that forum alone. It was lastly argued that subsequently the Finance (Amendment) Ordinance, 2009 has taken over the effect of Office Memorandum, whereas, nothing has been said during the course of arguments on behalf of the petitioners as to how the above Ordinance could not be promulgated or that it was in any way defective or illegal. Mr. Muhammad Ilyas Khan, Advocate added that petitioners are not aggrieved persons as even if they do not opt, their service mechanism would remain the same and furthermore, the option was not compulsory.

W.P.No.24410/2009  
W.P.No.24451/2009.

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8. I have heard the arguments of learned counsel for the parties at considerable length and perused the available record with their able assistance.

9. After the above categorical statement of Mr. Mushtaq Ahmad, Commissioner Inland Revenue Service, a high rank representative of the respondents/ department, to the effect that in any eventuality, the option under the impugned Office Memorandum was not at all compulsory for the petitioners or others. Either they opt or abstain, their future service was not at all being affected by mere creation of Inland Revenue Service and even the persons giving their option, would retain their actual *inter-se* seniority. In this view of the matter, hardly any grievance is left with the petitioners, if at all they ever had. A similar and categorical statement was made by the same officer in other similar writ petitions before this Court today, which statement is to the following effect:-

*"At the very outset, Mr. Mushtaq Ahmad, Commissioner Inland Revenue Services, submitted that the officials of the Customs Group who would not opt as required by O.M dated 12.9.2009, would remain in the same Customs Group and their seniority will not be affected anyway."*

It was pursuant to the above statement that other almost similar writ petitions were disposed of. Further, as positively submitted by the above representative of the department that by creation of Inland Revenue Service Group the future promotion prospects of the petitioners or other similarly placed employees would not be affected and it was specifically argued by him that for future promotion mechanism/Promotion Policy as in vogue at the present, would remain the same as is being adopted for other occupational groups and there would be no separate policy after creation of the Inland Revenue Service. Even afterwards for any service dispute arising amongst the employees of the Inland Revenue Service, the Office Memorandum and subsequently promulgated Ordinance take note of such a situation and for the settlement of such future disputes, a high profile committee has been constituted. Thus, so far as above contentions of learned counsel for the petitioners with regard to change in their service mechanism or disturbance of seniority or allied matters including alleged violation of their vested rights are concerned, the same have sufficiently been protected by the respondents in writing as well as by their statement before this Court, therefore, firstly the petitioners' had no such enforceable vested rights and further, if at all they have, in view of the above explicit statement the same were not being infringed through the impugned Office Memorandum or office orders.

8. Although in Writ Petition No.24451/2009 the petitioner had also challenged the Finance (Amendment) Ordinance, 2009, but during the course of arguments not a single word was uttered on this point to challenge the competence of the authority for issuance of said Ordinance or any illegality in the vires thereof.

9. Apart from the above position, it is visibly reflected from the very wording of the Office Memorandum, impugned herein, and as argued by learned counsel for the respondents/ department that by this process only the shattered tax collection process was intended to be centralized under one roof. So far as, contention of learned counsel for the petitioners on the other hand that since the petitioners and others were having quite sufficient length of service and were experienced in the field of collecting Sales Tax, etc. by merger of Sales Tax department along with Federal Excise and Income Tax would result in destruction of collection process and that a valuable source of income for the national exchequer would be destroyed, is concerned, suffice it to say that no doubt Income Tax, Sales Tax or the Federal Excise are all three main organs, fetching and generating valuable funds for the Government, but at the same time it cannot be said that only the present petitioners were competent to generate or collect such taxes. If the petitioners have brought these petitions bonafidely under genuine feelings that by creation of Inland Revenue Service and by merger of above three wings, in one, would result in narrowing the tax net, they undoubtedly being the well wishers of the state, can very well opt to become members under the Inland Revenue Service and by doing so, they would not only retain their original seniority but would also be rendering their expert services for the betterment of the national exchequer. However, as discussed above, the option was always available to them, and it was never compulsory for them to really opt, they could maintain their present group and also retain their seniorities.

10. Irrespective of all above, to maintain a department, create a new one or merge any department into some other, was/is always a policy matter to be taken by the executive or the legislature, keeping in view the surrounding circumstances, as after all it is their primary function, rather duty, to make the Government effectively run and in doing so they definitely are within their right to

W.P.No.24410/2009  
W.P.No.24451/2009.

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make equilibrium amongst the departments. Any action by the courts disturbing the policy matters in such like affairs would be excessive use of jurisdiction, if not beyond jurisdiction. Use of such a jurisdiction would also frustrate the tracheotomy of powers delicately balanced in the Constitution of Islamic Republic of Pakistan, 1973 as it grants powers to each organ to decide the matters in its allotted sphere. Reliance in this respect can be placed on the case "Col. SUBAH SADIQ versus M. ASHIQ and others" 2006 SCMR 276.

11. Even otherwise, the merger of Sales Tax, Federal Excise or the Income Tax into one group i.e. Inland Revenue Service, does not in any way reflect anything contrary to the fundamental rights of the petitioners or derogatory to the settled principles in that respect. The only visible impression behind such exercise appears to bring different organs of tax collecting agencies into one, which exercise apparently would benefit the tax payers and would ultimately result in widening of the tax net.

12. The contention of learned counsel for the petitioners that by creation of Inland Revenue Service and merger of the other wings in this new group would adversely affect the tax collection, is merely an apprehension with no basis thereto and furthermore there is also no cavil to the proposition that no writ can be issued on mere apprehensions or to block future eventualities.

13. For what has been discussed above, the petitioners have not been able to make out a case of infringement of any of their fundamental right to maintain these petitions, nor any illegality or defect could be pointed out in the impugned Office Memorandum or the Ordinance and as such both these petitions are dismissed.

Sd/-  
(IJAZ AHMED CHAUDHRY)  
JUDGE.

Javed\*



## ANNEX 5

### FBR TAX REVENUES

Pakistan's tax collection has failed to improve since the late 1990s. Federal tax collection<sup>1</sup> that constitutes almost ninety percent of total tax revenue is collected by the Federal Board of Revenue (FBR) and the growth of FBR revenues over the last decade or so has been sporadic. The FBR tax-to-GDP ratio, which at the start of the decade stood at 9.1 percent of GDP, declined to 8.8 percent of GDP in 2008/09 (see Table 1). Some of the underlying factors behind this weak revenue mobilization are structural, such as a narrow tax base, tax evasion, distrust of taxpayer vis-à-vis public institutions, low compliance rate and administrative weaknesses<sup>2</sup>.

Table 1: Pakistan Selective Revenue Indicators										
		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Revenue receipts</b>	<i>Rs billions</i>	553	624.1	720.8	793.7	900.014	1076.6	1297.957	1499.381	1851
	<i>% growth</i>		12.9%	15.5%	10.1%	13.4%	19.6%	20.6%	15.5%	23.5%
<b>Tax revenues</b>	<i>Rs billions</i>	441.6	478.1	555.8	611	659.41	803.7	889.685	1086	1331
	<i>% growth</i>		8.3%	16.3%	9.9%	7.9%	21.9%	10.7%	22.1%	22.6%
<b>of which FBR</b>	<i>Rs billions</i>	392.3	403.9	460.6	518.8	588.4	713.4	847.2	1007	1157
	<i>% growth</i>		3.0%	14.0%	12.6%	13.4%	21.2%	18.8%	18.9%	14.9%
<b>as percent of GDP</b>										
<i>Revenue receipts</i>		13.1	14.0	14.8	14.1	13.8	14.1	15.0	14.6	14.1
<i>Tax revenues</i>		10.5	10.7	11.4	10.8	10.1	10.5	10.3	10.6	10.2
<i>of which FBR</i>		9.3	9.1	9.4	9.2	9.1	9.4	9.8	9.8	8.8

Source: Economic Survey of Pakistan

**Tax structure:** FBR relies on four major tax sources: the income tax, general sales tax (GST), excises and custom duties. In the last ten years, direct taxes and GST have remained *the* most important revenue sources (see Table 2). For example, the share of GST in total FBR collection in 2004/05—the fiscal year the Tax Administration Reform Project (TARP) was launched—stood at 40 percent, followed by direct taxes at 31 percent, and custom duties and excises at 20 and 9 percent, respectively. In 2008/09, GST share in FBR revenues stood at 39 percent, direct taxes at 38, and the balance is picked up by customs and excises at 12.8 and 10.0 percent, respectively.

**Table 2 : Components of Tax Collection**

in billion Pakistan rupees, share in net collection in percentage

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Direct tax</b>	124.6	142.5	151.9	165.1	183.4	225.0	333.7	388.0	440.0
	32%	35%	33%	32%	31%	32%	39%	39%	38%
<b>Custom</b>	65.0	47.8	68.8	91.0	115.4	138.4	132.3	150.7	148.0
	17%	12%	15%	17%	20%	19%	16%	15%	13%
<b>Federal Excise</b>	49.1	47.2	44.8	45.6	53.1	55.3	71.8	84.0	116.0
	13%	12%	10%	9%	9%	8%	8%	8%	10%
<b>Sales tax</b>	153.6	166.6	195.1	219.2	238.5	294.8	309.4	385.0	452.0
	39%	41%	42%	42%	40%	41%	37%	38%	39%
<b>Total</b>	<b>392.3</b>	<b>404.1</b>	<b>460.6</b>	<b>520.9</b>	<b>590.4</b>	<b>713.4</b>	<b>847.2</b>	<b>1,007.7</b>	<b>1,156.0</b>

<sup>1</sup> This excludes surcharges.

<sup>2</sup> For instance see World Bank's, Pakistan Tax Policy Report, Tapping Tax Bases for Development, Report no. 50078-PK.

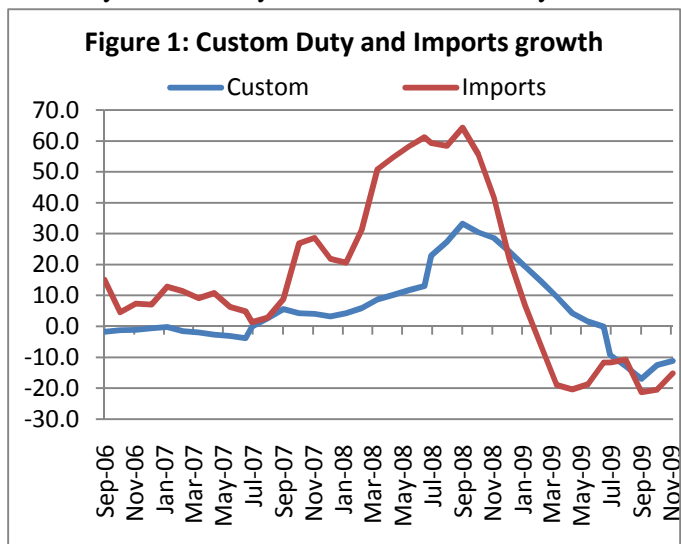
A noteworthy development is the steady decline in custom duties and a rise of direct taxes since 2004/05. The decline in customs duties can be partly explained by the wave of trade liberalization in the past decade. The government of Pakistan has substantially cut import tariff across all sectors and simplified the tariff structure by reducing the number of tariff bands. For example, the simple average tariff rates fell from over 20 percent in 1999 to 14.6 percent in 2007/08. Moreover, the weighted average tariff average tariffs have come down from over 50 percent in 1995/96 to 10.8 percent in 2007/08. By contrast, the collection of direct taxes improved sharply after 2006/07 owing to the doubling of nominal tax collection from financial sector, and solid performance of public oil and gas as well as foreign companies. At the same time, the share of revenues from GST and excise taxes remained broadly constant.

*In short, the combined share of collection of customs duties, GST and excises in total FBR revenues has declined from 69 percent in 2004/05 to 62 percent in 2008/09. At the same time, the share of income taxes (direct taxes) has increased from 31 percent in 2004/05 to 38 percent in 2008/09.*

**Tax performance by type in 2009/10:** The growth in FBR revenues in Rs terms slowed down in 2008/09 and during the first six months of 2009/10, and contracted as a share of GDP. FBR revenues during the first six months of 2009/10 stood at Rs 576 billion, growing by only 4 percent compared to same period last year.

This slowdown in tax revenues is explained by a sharp overall slowdown in economic activity and trade as a result of Pakistan’s domestic economic crisis and global financial crisis. Specifically, the sharp contraction of the large scale manufacturing sector (the single most important driver of tax revenues), which has led to a decline in corporate sector earnings and a sharp deceleration of imports, have translated into reduced tax collection. Real GDP growth slowed to 2.0 percent in 2008/09 and projected to achieve 3.0 percent in 2009/10. This coupled with declining inflation has resulted in slowed nominal GDP growth, which forms the base for direct tax collection. Further, during the first four months of 2009/10, the large scale manufacturing sector--which is the relevant tax base for domestic GST and excise taxes<sup>3</sup>--grew only by 0.7 percent as the sector was adversely affected by the domestic security situation, economic slow-down, a tight money market, as well as shortages in electricity and gas. Finally, custom duty collection bears a strong relationship with the rupee value of imports in Pakistan. Figure 1 highlights that the growth in customs duties mirrors the growth of imports.<sup>4</sup> Merchandize f.o.b imports during the first four months of 2009/10 contracted by about 24 percent. Thus, in light of import growth deceleration during the past year, a slowdown in customs collection is expected.

Table 3 shows that the projected FBR tax collection based on changes in GDP, import and large-scale manufacturing growth is



<sup>3</sup> CBR Quarterly Review, Federal Board of Revenue, Table 15, pp. 31, vol.4, no.4, April-June 2005.

<sup>4</sup> For instance, the correlation coefficient between both is estimated to be 70 percent over the last three and half years.

consistent with actual FBR collections during the first half of 2009/10.<sup>5</sup> GST and custom collections are in-line with expectations. The Rs 49 billion discrepancy between the projected tax revenue and actual collections is primarily a result of short-fall in the collection of direct taxes and excise duties. The shortfall in direct taxes is due to the extension of the tax return filing deadline from the first quarter of FY to the second half of 2009/10.

Table 3: Baseline projected growth in tax revenues without any tax measures							
		2008/09		2009/10			
For	Tax base is	Actual (Rs billions)	Growth factor	Projected Growth (Rs billions)	Half Year Proj (Rs billions)	Half Year actual (Rs billions)	surplus/ shortfall (%)
<b>Direct taxes</b>	<i>Nominal GDP growth</i>	440	0.14	502	251	208	-17%
<b>Sales Tax (ST)</b>		452		476	238	242	2%
<i>ST (import) 45%</i>	<i>Nominal import growth</i>	203	-0.03	198	99	109	10%
<i>ST (domestic) 55%</i>	<i>Large Scale Manufacturing growth (nominal)</i>	249	0.12	278	139	132	-5%
<b>Customs</b>	<i>Import growth (nominal)</i>	148	-0.03	144	72	71	-1%
<b>Excises</b>	<i>Large Scale Manufacturing growth (nominal)</i>	116	11.67	130	65	55	-15%
		<b>Total</b>		<b>1251</b>	<b>626</b>	<b>577</b>	<b>49</b>
	<b>Assumptions:</b>						
		<b>2008/09</b>	<b>2009/10</b>				
	Real GDP Growth	2.0	3.0				
	Inflation (E.o.P)	13.1	11				
	GDP nominal Growth	15.1	14				
	LSM Growth*	-7.7	0.67				
	Merchandise Import growth US\$, % change	-10.3	-2.5				
	* for 2009/10 it is based on actual July-oct growth.						

*In short, the sharply slowed economic activity (and thus reduced buoyancy of tax bases) and the contraction in imports explain the decline in FBR tax revenues in the past several months.*

<sup>5</sup> The base line assumes no further policy measures are taken. Different tax bases are linked to the GDP, import and large-scale manufacturing sector growth as follows: direct tax--nominal GDP growth; sales tax on imports--nominal import growth; sales tax on domestic goods--large manufacturing growth; customs duties-- imports growth; and excise taxes—large-scale manufacturing growth.

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Pre-Appraisal Mission August 4 - 23, 2003

**Bank Team:** Task Team Members

<b>Date</b>	<b>Time</b>	<b>Officer</b>	<b>Department/City</b>
4-Aug-03	11:00 AM	Member (TP&R)	CBR, Islamabad
	3:00 PM	Member (HRM)	CBR, Islamabad
5-Aug-03	9:30 AM	Chief of Mission	IMF, Islamabad
	11:00 AM	Project Manager	Maxwell Stamp Plc, Islamabad
	3:00 PM	Chairman	CBR, Islamabad
6-Aug-03	9:30 AM	Member (IMS)	CBR, Islamabad
11-Aug-03	2:00 PM	Member (TP&R)	CBR, Islamabad
	3:30 PM	Project Manager	Maxwell Stamp Plc, Islamabad
12-Aug-03	11:30 AM	Member (Income Tax)	CBR, Islamabad
	2:00 PM	Member (Sales Tax)	CBR, Islamabad
	3:00 PM	Member (Central Excise)	CBR, Islamabad
	4:00 PM	Member (Customs)	CBR, Islamabad
13-Aug-03	Day Long	Follow up Meetings (detail not available)	CBR, Islamabad
15-Aug-03	9:30 AM	Chairman	CBR, Islamabad
	10:30 AM	Secretary	Ministry of Finance, Islamabad
16-Aug-03	Day Long	Visit to Medium Taxpayers Unit, Lahore, and meeting with various officials (details not available)	MTU, Lahore
19-Aug-03	Day Long	Visit to Karachi	CBR, Karachi
20-Aug-03	Day Long	Follow up Meetings (detail not available)	CBR, Karachi

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Supervision Mission (September 20 - 30, 2005)

**Bank Team:** Task Team Members

**DFID Team:** Representatives

Date	Time	Officer	Department/City
		Additional Secretary	Ministry of Finance, Islamabad
		Chairman	CBR, Islamabad
		Member TP&R	CBR, Islamabad
		Member Sales Tax & Central Excise	CBR, Islamabad
		Income Tax & Adjudication	CBR, Islamabad
		Member Audit	CBR, Islamabad
		Regional Commission (Northern)	CBR, Islamabad
		Commissioner	MTU, Rawalpindi
		Member/PD	MTU, Rawalpindi
		Member IT/MIS	CBR, Islamabad
		Member Taxpayer Facilitation	CBR, Islamabad
		Chief HRM	CBR, Islamabad
		Member Customs	CBR, Islamabad
		Director General	LTU, Lahore
		Collector	Customs Collectorate, Lahore
		Regional Commissioner (Income Tax)	CBR, Lahore
		Commissioner	MTU, Lahore
		Tax Official	MTU, Lahore
		Collector	Customs Collectorate, Karachi
		Director General	LTU, Karachi
		Commissioner (Income Tax)	LTU, Karachi
		Commissioner	MTU, Karachi
		Collector Preventive	Customs Collectorate, Karachi
		Collector (Exports)	Customs Collectorate, Karachi

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Supervision Mission (March 8 - 16, 2006)

**Bank Team:** Task Team Members

**DFID Team:** Representatives

Date	Time	Officer	Department/City
		Chairman	CBR, Islamabad
		Member (TP&R)	CBR, Islamabad
		Member (Customs)	CBR, Islamabad
		Member TMS/ITMS)	CBR, Islamabad
		Member (IMS)	CBR, Islamabad
		Member (FATE)	CBR, Islamabad
		Member Direct Tax & Adjudication	CBR, Islamabad
		Member HRM	CBR, Islamabad
		Member Sales Tax & Central Excise	CBR, Islamabad
		Member IT/MIS	CBR, Islamabad
		Member Audit	CBR, Islamabad
		Member Taxpayer Facilitation	CBR, Islamabad
		Director General	LTU, Karachi
		Commissioner Income Tax	LTU, Karachi
		The President	Federation of Pakistan Chambers of Commerce and Industry, Karachi
		Collector	Custom Collectorate, Karachi
		Collector	Custom Collectorate, Lahore
		The President	Lahore Chamber of Commerce & Industry, Lahore
		Director General	LTU, Lahore
		Regional Commissioner (Income Tax) Eastern	CBR, Lahore
		Advisor to PM on Finance	Ministry of Finance, Islamabad
		Secretary	Ministry of Finance, Islamabad
		Additional Secretary	Ministry of Finance, Islamabad

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Supervision Mission (November 27 - December 04, 2006)

**Bank Team:** Task Team Members

**DFID Team:** Representatives

Date	Time	Officer	Department/City
27-Nov-06	10:00 AM	Additional Secretary (Banks)	EAD, Islamabad
	12:15 PM	Chairman	CBR, Islamabad
	2:00 PM	Member TP&R & FATE	CBR, Islamabad
	2:00 PM	Chief (TP&R)	CBR, Islamabad
	2:00 PM	Chief (FR&S)	CBR, Islamabad
	4:00 PM	Member Sales Tax & Central Excise	CBR, Islamabad
	4:00 PM	Advisor on Finance	CBR, Islamabad
	4:00 PM	Procurement Specialist	CBR, Islamabad
	6:00 PM	Advisor to PM on Finance	Ministry of Finance, Islamabad
28-Nov-06	9:00 AM	Member Direct Taxes	CBR, Islamabad
	10:30 AM	Member IT/IMS	CBR, Islamabad
	12:00 Noon	Member Legal	CBR, Islamabad
	1:00 PM	Member Admin	CBR, Islamabad
	2:00 PM	Member HRM	CBR, Islamabad
	3:30 PM	Member Customs	CBR, Islamabad
29-Nov-06	9:30 AM	Collector	MCC, Karachi
	2:00 PM	PD (CARE)	MCC, Karachi
29-Nov-06	9:00 AM	Member HRM	CBR, Islamabad
	11:00 AM	International Audit Consultant & Audit Team	CBR, Islamabad
	12:30 PM	Chief (FR&S) & Team	CBR, Islamabad
	2:00 PM	Director General Intelligence & Investigation (Custom & Excise)	CBR, Islamabad
	4:00 PM	Director General, Inspection & Audit (Income Tax)	CBR, Islamabad
30-Nov-06	9:30 AM	Member IT/IMS	CBR, Islamabad
	12:00 Noon	Chairman	CBR, Islamabad
	1:30 PM	Member Customs	CBR, Islamabad
	2:00 PM	Director General, Inspection and Audit (Customs)	CBR, Islamabad
	2:00 PM	Commissioner Income Tax	MTU, Rawalpindi
1-Dec-06	9:30 AM	Director General	RTO, Abbotabad
2-Dec-06	9:30 AM	Additional Commissioner	RTO, Abbotabad
	9:30 AM	Member TP&R & FATE	CBR, Islamabad
	9:30 AM	Chief (TP&R)	CBR, Islamabad
	9:30 AM	Chief (FR&S)	CBR, Islamabad
	9:30 AM	Member Admin	CBR, Islamabad
	2:30 PM	PD (PIFRA)	CBR, Islamabad
	2:30 PM	Member TP&R & FATE	CBR, Islamabad
	2:30 PM	Member IT/IMS	CBR, Islamabad
	2:30 PM	Member HRM	CBR, Islamabad
4-Dec-06	9:00 AM	Chairman	CBR, Islamabad
	3:00 PM	Advisor to PM on Finance	Ministry of Finance, Islamabad
	4:00 PM	Additional Secretary (Banks)	EAD, Islamabad

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Mid Term Review Mission (August 20 - September 14, 2007)

**Bank Team:** Task Team Members

**DFID Team:** Representatives

Date	Time	Officer	Department/City
20-Aug-07	10:00 AM	Chairman	CBR, Islamabad
	12:00 Noon	Member TP&R	CBR, Islamabad
	12:00 Noon	Chief (TP&R)	CBR, Islamabad
	12:00 Noon	Project Manager (TARP)	CBR, Islamabad
21-Aug-07	3:00 PM	Member Direct Taxes	CBR, Islamabad
	9:00 AM	Member IT/IMS	CBR, Islamabad
	11:00 AM	Member Legal	CBR, Islamabad
	1:00 PM	Member Admin	CBR, Islamabad
	3:30 PM	Member HRM	CBR, Islamabad
	9:00 AM	CEO, PRAL	PRAL, Islamabad
	11:00 AM	Member Audit/FATE	CBR, Islamabad
	11:00 AM	International Audit Consultant & Audit Team	CBR, Islamabad
	1:00 PM	Member Sales Tax & Central Excise	CBR, Islamabad
	23-Aug-07	11:00 AM	Member Customs
11:00 AM		Member TP&R	MCC, Karachi
11:00 AM		Chief (TP&R)	MCC, Karachi
11:00 AM		Chief Collector Customs (South)	MCC, Karachi
11:00 AM		Acting Customs Collector	MCC, Karachi
11:00 AM		Project Director (CARE)	MCC, Karachi
11:00 AM		Secretary Customs-TP&R	MCC, Karachi
4:00 PM		Visit to KICT	KICT, Karachi
24-Aug-07	AM	Director General	LTU, Karachi
	PM	Director General	RTO, Karachi
25-Aug-07	9:30 AM	Visit to Passenger Facilitation Center at Wahga Border	Customs Office, Wahga Border, Lahore
27-Aug-07	11:00 AM	Director General, Inspection & Audit (Income Tax)	CBR, Islamabad
	12:00 Noon	Director General, Inspection and Audit (Customs)	CBR, Islamabad
	PM	Director General	RTO, Rawalpindi
28-Aug-07	9:00 AM	Member (FRS)	CBR, Islamabad
	11:00 AM	Member Customs	CBR, Islamabad
	11:00 AM	Project Director (CARE)	CBR, Islamabad
29-Aug-07	9:00 AM	Presentation by PRAL	CBR, Islamabad
	10:30 AM	Chairman	CBR, Islamabad
	12:00 PM	Member IT/IMS	CBR, Islamabad
	2:30 PM	Member TP&R	CBR, Islamabad
	3:00 PM	PCA Presentation by Collector Customs and PRAL	CBR, Islamabad



<b>Date</b>	<b>Time</b>	<b>Officer</b>	<b>Department/City</b>
30-Aug-07	11:30 AM	Data Warehouse/NEXUS Presentation	CBR, Islamabad
	1:00 PM	Director General Intelligence & Investigation (Custom & Excise)	CBR, Islamabad
	3:00 PM	Member IT/IMS	CBR, Islamabad
	3:00 PM	Procurement Specialist	CBR, Islamabad
	3:00 PM	Second Secretary Project - TR	CBR, Islamabad
3-Sep-07	10:00 AM	Member Admin	CBR, Islamabad
	11:00 AM	Member Sales Tax & Central Excise	CBR, Islamabad
	1:00 PM	Member Legal	CBR, Islamabad
	2:00 PM	Member Direct Taxes	CBR, Islamabad
4-Sep-07	9:00 AM	Member HRM	CBR, Islamabad
	11:00 AM	Member (FRS)	CBR, Islamabad
	12:00 PM	Member Customs	CBR, Islamabad
5-Sep-07	10:00 AM	Project Manager (TARP)	CBR, Islamabad
6-Sep-07	11:30 AM	Country Rep	DFID, Islamabad
	11:30 AM	Program Manager	DFID, Islamabad
	3:00 PM	Member HRM	CBR, Islamabad
		Director General, Customs Training Institute	CBR, Islamabad
13-Sep-07	9:00 AM	Chairman	CBR, Islamabad
	2:00 PM	Secretary	Ministry of Finance, Islamabad
14-Sep-07	11:30 AM	Additional Secretary	EAD, Islamabad

## Annex 6: Consolidated List of Mission Meetings--Tax Administration Reforms Project (TARP)

**Mission:** Supervision Mission (March 30 - April 10, 2009)

**Bank Team:** Task Team Members

**DFID Team:** Representatives

Date	Time	Officer	Department/City
30-Mar-09	10:00 AM	Chairman	FBR, Islamabad
	12:00 PM	Secretary	Ministry of Finance, Islamabad
	2:00 AM	PD/Member TP&R	FBR, Islamabad
	2:00 AM	Director PMU	FBR, Islamabad
31-Mar-09	9:00 AM	Member In-Land Revenue	FBR, Islamabad
	10:30 AM	Member IMS	FBR, Islamabad
	10:30 AM	CEO	PRAL, Islamabad
	1:00 PM	Member FATE	FBR, Islamabad
	2:30 PM	Procurement Team	FBR, Islamabad
	3:00 PM	Financial Management Team	FBR, Islamabad
	4:00 PM	Member Custom	FBR, Islamabad
	4:00 PM	Disbursement Team	FBR, Islamabad
1-Apr-09	9:00 AM	Member audit	FBR, Islamabad
	11:00 AM	Member Legal	FBR, Islamabad
	2:00 PM	Chief (HRM)	FBR, Islamabad
	4:00 PM	Member Admin	FBR, Islamabad
2-Apr-09	9:00 AM	Director General, Inspection and Audit (Income Tax)	FBR, Islamabad
	10:30 AM	Director General, Inspection and Internal Audit (Custom)	FBR, Islamabad
	10:30 AM	Director, Internal Audit (Custom)	FBR, Islamabad
	12:30 PM	Director General, Intelligence & Investigation	FBR, Islamabad
3-Apr-09		Director General	RTO, Faisalabad
		Commissioner Income Tax	RTO, Faisalabad
		Collector Sales Tax	RTO, Faisalabad
		Dy. Collector, HQ	MCC, Faisalabad
		Additional Collector Customs	MCC, Faisalabad
		Assitant Collector Import	MCC, Faisalabad
4-Apr-09	4:30 PM	Consultant	Tax Admin. TA Team (WB)
		Consultant	Tax Admin. TA Team (WB)
		Consultant	Tax Admin. TA Team (WB)
		Consultant	Tax Admin. TA Team (WB)
7-Apr-09	12:30 PM	Member In-Land Revenue	FBR, Islamabad
	2:30 PM	Member IMS & team	FBR, Islamabad
8-Apr-09	4:00 PM	Chairman & Board-in-Council (TARP & TA)	FBR, Islamabad
9-Apr-09	9:30 AM	Chairman & Board-in-Council (TARP & TA)	FBR, Islamabad
	2:30 PM	Secretary	EAD, Islamabad

## Annex 7: Consolidated List of Mission Meetings - Tax Administration Technical Assistance (TA)

Mission September, 2008

Date	Time	Meeting's Participants	Department/City
10-Sep-08	9:00 AM	Chairman	FBR, Islamabad
11-Sep-08	9:00 AM	Member (TP&R) & Project Management Unit Team	FBR, Islamabad
	11:30 AM	Member Audit	FBR, Islamabad
12-Sep-08	9:00 AM	Member, Sales Tax	
	11:30 AM	Member, Customs	FBR, Islamabad
13-Sep-08	9:00 AM	Member, Direct Taxes & his team	FBR, Islamabad
	11:30 AM	Member (FATE)	FBR, Islamabad
15-Sep-08	9:00 AM	Member (IMS)	FBR, Islamabad
	9:00 AM	Director General	RTO, Karachi
	11:00 AM	Director General, LTU	RTO, Karachi
	11:00 AM	CEO	PRAL, Islamabad
16-Sep-08	9:00 AM	Director General	RTO, Rawalpindi
	11:30 AM	IMS team members	PRAL, Islamabad
	11:30 AM	Private Sector and other stakeholders	
17-Sep-08	9:00 AM	Member, Legal	FBR, Islamabad
	9:00 AM	PRAL Team Members	PRAL, Islamabad
	10:30 AM	Member, Fiscal Research & Statistics	FBR, Islamabad
18-Sep-08	9:00 AM	Member, Admin	FBR, Islamabad
	10:30 AM	Member, HRM	FBR, Islamabad
	12:00 AM	Director General, Intelligence and Investigation	FBR, Islamabad
19-Sep-08	9:00 AM	Director General	RTO, Lahore
	11:00 AM	Director General, LTU	RTO, Lahore,
23-Sep-08	9:00 AM	Chairman FBR, FBR Management	FBR, Islamabad.

## Annex 7: Consolidated List of Mission Meetings--Tax Administration Technical Assistance (TA)

Mission March - April 2009

Date	Time	Meeting's Participants	Department/City
24-Mar-09	PM	Member (TP&R) & Project Management Unit Team	FBR, Islamabad
25-Mar-09	9:00 AM	Chairman	FBR, Islamabad.
	AM	Member Enforcement and Accounting and Member IMS	FBR, Islamabad.
	PM	WB Task Team TARP	WBO, Islamabad
	PM	Member IMS and PRAL Team	FBR, Islamabad.
26-Mar-09	AM	Managers IMS Wing, PM (TARP) and PRAL Team	FBR, Islamabad.
	PM	Member, Admin	FBR, Islamabad.
	PM	Head of BPR Special Group	FBR, Islamabad.
27-Mar-09	Full Day	Member , Inland Revenue	FBR, Islamabad.
28-Mar-09	9:00 AM	Managers IMS Wing, PM (TARP) and PRAL Team	FBR, Islamabad.
	PM	Member, Legal, FBR	FBR, Islamabad.
30-Mar-09	11:30 AM	Field Visit	LTU Islamabad
31-Mar-09	AM	Director General	RTO, Karachi
1-Apr-09	AM	Director General,	RTO, Lahore
2-Apr-09	AM	Member Audit Wing and Managers	FBR, Islamabad.
3-Apr-09	10:30 AM	Member, HRM, FBR	FBR, Islamabad.
7-Apr-09	9:00 AM	Chairman FBR, FBR Management and World Bank Team	FBR, Islamabad

## Annex 7: Consolidated List of Mission Meetings--Tax Administration Technical Assistance (TA)

Mission July, 2009

Date	Time	Meeting's Participants	Department/City
2-Jul-09	1:30 PM	Project Director (TARP)	FBR, Islamabad
	3:00 PM	Member (Direct Taxes), Chief (Sales Tax) in charge of supervision of LTUs and RTOs & Project Director (TARP)	FBR, Islamabad
3-Jul-10	9:00 AM	Chairman and all Members	FBR, Islamabad
	11:00 AM	Member Legal	FBR, Islamabad
	2:00 PM	Meeting with Project Director (TARP), Member (Direct Taxes), Chief (Sales Tax) on Enforcement and Accounting	FBR, Islamabad
	2:00 PM	Member Admin and Member (Special Initiatives) and their teams	FBR, Islamabad
4-Jul-10	10:00 AM	Member	FBR, Islamabad
	11:00 AM	DG IMS Wing and PRAL	FBR, Islamabad
	12:00 PM	Member Admin and Member (Special Initiatives) and their teams	FBR, Islamabad
6-Jul-10	9:30 AM	Director General and LTU Staff	LTU Islamabad
	1:30 PM	Director General and RTO Staff	RTO Islamabad
7-Jul-10	All day	CEO PRAL, management and technical staff	PRAL Offices, Islamabad
8-Jul-10	9:30 AM	Director General and LTU, Staff	LTU Lahore
9-Jul-10	All day	Seminar on best practices in revenue administration and on the FBR 2009-10 audit plan for FBR Members and D.Gs of LTU Karachi, Lahore, Islamabad and DGs of RTO Karachi, Lahore, Islamabad, RWP & Peshawar	FBR, Islamabad
10-Jul-10	9:30 AM	WB Task Team TARP	World Bank Office, Islamabad
	9:30 AM	Director General (IMS), PRAL Management and Technical Staff	PRAL Office, Islamabad
13-Jul-10	9:00 AM	Chairman FBR, all Members and WB Team	FBR, Islamabad
	12:30 PM	Advisor to Prime Minister on Finance, Chairman FBR and WB Team	Ministry of Finance, Islamabad.

## Annex 7: Consolidated List of Mission Meetings--Tax Administration Technical Assistance (TA)

**Mission**            September - October 2009

<b>Date</b>	<b>Time</b>	<b>Meeting's Participants</b>	<b>Department/City</b>
2-Sep-09	9:00 AM	Meeting with FBR chairman on the FBR integration	FBR, Islamabad
	11:00 AM	Meeting with Member SP&S	FBR, Islamabad
	2:00 PM	FBR Members	FBR, Islamabad
3-Sep-10	9:00 AM	Internal meetings	Serena Hotel
	6:00 PM	Internal meetings	Serena Hotel
4-Sep-10	9:00 AM	Internal meetings	Serena Hotel
5-Sep-10	10:00 AM	Internal meetings	Serena Hotel
7-Sep-10	9:00 AM	FBR staff	FBR, Islamabad
8-Sep-10	3:00 AM	FBR members and the Tax Council members	FBR, Islamabad
Mission left early due to security situation in the country and resumed later			
28-Sep-09	All day	DG HRM and team	FBR, Islamabad
29-Sep-10	All day	DG HRM and team	FBR, Islamabad
30-Sep-10	PM	Internal meetings	WB Office
1-Oct-10	AM	Chairman	FBR, Islamabad
	AM	Project Director TARP.	FBR, Islamabad
	PM	Heads of operational Wings in-charge of supervision of LTUs and RTOs	FBR, Islamabad
2-Oct-10	10:30 AM	Member Legal	FBR, Islamabad
	2:30 PM	Member Enforcement and Accounting	FBR, Islamabad
	2:30 PM	Member Admin, Director General HRM and their teams	FBR, Islamabad
3-Oct-10	9:00 AM	Member Taxpayers Audit	FBR, Islamabad
	11:00 AM	DG IMS Wing and PRAL Team	FBR, Islamabad
	AM	Member Admin and DG HRM along with their teams	FBR, Islamabad
	PM	Project Manager	FBR, Islamabad
5-Oct-10	AM	LTU Staff	LTU Islamabad
	AM	Director General and LTU/RTO Staff	LTU Islamabad
	PM	RTO Rawalpindi	RTO Rawalpindi
6-Oct-10	All day	PRAL Management and Technical Staff	PRAL, Islamabad
	9:00 AM	Project Director TARP, Member Admin & DG HRM along with their teams	FBR, Islamabad
7-Oct-10	All day	Consultations and Luncheon with FBR members	FBR, Islamabad
Oct 8-17		Conclusion of mission in Washington DC	WB Team

## Annex 7: Consolidated List of Mission Meetings--Tax Administration Technical Assistance (TA)

Mission December, 2009

Date	Time	Meeting's Participants	Department/City
3-Dec-09	9:00 AM	Member (SP&S) and team	FBR, Islamabad
	11:00 AM	Member (Legal)	FBR, Islamabad
	2:00 PM	CEO and GM PRAL,	FBR, Islamabad
4-Dec-10	9:00 AM	Chief (Sales Tax),	FBR, Islamabad
	11:00 AM	Director General (HRM) and team	FBR, Islamabad
	2:00 PM	Member (Operations)	FBR, Islamabad
5-Dec-10	9:00 AM	Chief (Sales Tax), Director, DRS, CEO and GM PRAL	FBR, Islamabad
	11:00 AM	Director General, LTU Islamabad and Director General RTO Lahore	FBR, Islamabad
8-Dec-10	9:00 AM	Member (Direct Tax Policy)	FBR, Islamabad
9-Dec-10	9:00 AM	Wrap-up Meeting with Chairman, FBR	FBR, Islamabad

*Note: Due to the security situation in Pakistan, the meetings of December 2009 were held in Dubai.*

**ANNEX 8: JUNE 2009 CONSULTATION: REPRESENTATIVES OF THE  
CUSTOMS AND EXCISE AND INCOME TAX ASSOCIATIONS**

**SERENA HOTEL, ISLAMABAD**

**Representatives of Income Tax Association:**

1. Retired member FBR and Member Income Tax officers Association
2. Retired member FBR and Member Income Tax officers Association
3. Member FBR, Executive Vice President Income Tax Officers Association
4. Member FBR, Member Executive Committee, Income Tax Officers Association
5. Commissioner of Income Tax, Member Executive Committee, Income Tax Officers Association
6. Vice President Income Tax Officers Association
7. Additional Commissioner of Income Tax
8. Member Income Tax Officers Association
9. Commissioner of Income Tax, Member Executive Committee, Income Tax Officers Association
10. Additional Commissioner of Income Tax, Member Executive Committee, Income Tax Officers Association
11. Member Executive Committee, Income Tax Officers Association

**Representatives of Customs and Excise Association:**

1. Member FBR (President of Customs' Officers Association)
2. Collector Customs Lahore (Vice President of Customs' Officers Association)
3. Collector
4. Additional Collector (General Secretary of Customs' Officers Association)
5. Additional Collector (Joint Secretary of Customs' Officers Association)



## ANNEX 9

### LIST OF FORMAL MEETINGS/CONSULTATIONS HELD BY FBR CHAIRMAN WITH OFFICERS OF INCOME TAX GROUP AND CUSTOMS AND EXCISE GROUP

Date	Meeting / Consultation with Officers of Income Tax Group	Place
20.07.09	Address to the Officers Regarding Tax Administration Reforms – Followed by Q & A Session	Lahore
21.07.09	Address Regarding Tax Administration Reforms Followed by Q & A Session	Karachi
29.07.08	Address to the Customs & Income Tax Officers (BS-17 & above)	National Library Islamabad
16.09.09	Integrated Service, Inland Revenue Service Introduction Two Way Communication, Suggestions for the way forward	LTU Islamabad
09.01.10	Address to Officers of Income Tax Group at RTO Karachi	Karachi
	<b>Meeting / Consultation with Officers of Customs and Excise Tax Group</b>	
21.05.09	Officers of Customs Association	Islamabad
	Joint Meeting with Minister Finance & Secretary Revenue Division of Delegation of Customs Officers Association	Islamabad
03.06.09	Officers of Customs Association	Islamabad
16.07.09	Delegation Customs Association	Islamabad
20.07.09	Address to the Officers of Customs Group – Tax Administration Reforms – Followed by Q & A Session	Lahore
21.07.09	Address to the Officers of Customs Group – Tax Administration Reforms – Followed by Q & A Session	Karachi
29.07.08	Address to the Customs & Income Tax Officers (BS-17 & above)	National Library Islamabad
22.11.09	Meeting with Senior Officers of Customs Including Member (Customs) and Customs Association	Islamabad
26.12.09	Meeting with Senior Officers of Customs	Karachi
13.01.10	Delegation Customs Association along with Senior Customs Officers	Islamabad

## **ANNEX 10: LETTERS OF THE WORLD BANK COUNTRY DIRECTOR TO MINISTRY OF FINANCE**

Note: The attachment to the letter of July 27, 2009, “Tax Administration Reform: Amended Summary of Agreements Reached – July 10, 2009” is found in Annex 3 to this report and is therefore not repeated here.

## The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

### Islamabad Office

20-A, Shahrah-e-Jamhuriat  
Sector G-5/1, Islamabad, Pakistan

Telephone: (92 51) 2279641-6

Facsimile: (92 51) 2279648

July 27, 2009

Mr. Farrakh Qayyum  
Secretary  
Economic Affairs Division  
Government of Pakistan  
Islamabad

Dear Mr. Qayyum:

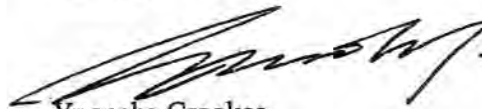
***Re: Tax Administration Reform Project (TARP)  
IDA Credit 4007 and IBRD Loan 7264***

Please refer to your letter dated June 22, 2009, requesting the Bank for cancellation of \$24.817 million from IDA Credit and \$24.4 million from IBRD Loan, and extension in the Project Closing Date (PCD) by two years.

We are processing the cancellation letter which will be sent to you after necessary Bank clearances. However, we wish to bring to your notice that the request for extension in the PCD will be processed only after FBR confirms that the agreements reached on July 10, 2009 between the Ministry of Finance, Federal Board of Revenue (FBR), and the World Bank on FBR reorganization, have been fully implemented to the satisfaction of the Bank. A copy of the "Tax Administration Reform: Amended Summary of Agreements Reached – July 10, 2009" is attached for your information and record.

With best regards,

Sincerely yours,



Yusupha Crookes  
Country Director  
Pakistan

Attachment: a/s

cc: Mr. Salman Siddique, Secretary, Finance & Revenue, Islamabad  
Mr. Sohail Ahmad, Chairman, Federal Board of Revenue, Islamabad

# The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

## Islamabad Office

20-A, Shahrah-e-Jamhuriat  
Sector G-5/1, Islamabad, Pakistan

Telephone: (92 51) 2279641-8

Facsimile: (92 51) 2279648

September 16, 2009

Mr. Salman Siddique  
Secretary  
Finance and Revenue Divisions  
Islamabad

Dear Mr. Siddique:

***Re: Tax Administration Reform Project (TARP)  
IDA Credit 4007 and IBRD Loan 7264***

This is further to our letter of July 27, 2009, addressed to Secretary Economic Affairs Division and copied to you and Chairman FBR (please see attached).

We are pleased to note that a new occupational group, the Inland Revenue Service, has been created and FBR officers have been asked to give their options by September 28, 2009 on which service group they wish to choose. We would also like to bring to your attention that, as part of our agreement dated July 10, 2009, the amendment of all relevant laws and issuance to reflect the restructuring and notification of the changed structure in LTUs and RTOs are also critical components for the completion of the FBR restructuring process.

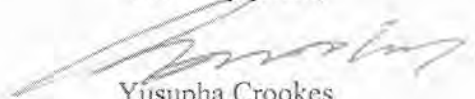
Given the importance of these reforms to improving the performance of the FBR, we believe that the continued effectiveness of the TARP project and consideration of the further extension of this project are dependent on the completion of these measures. Therefore, we would be prepared to proceed with consideration of the possible extension of the TARP Project Closing Date once the measures stated above have been fully met as reflected in our July 10, 2009 agreement.

As the current project closing date of TARP is December 31, 2009, we are obligated to begin several actions in anticipation of the closure of the project as per standard procedures for all World Bank-funded projects. Some of those actions have already begun, such as recovery of initial advances from payments being made to FBR against withdrawal applications. Hence, quick completion of the above mentioned remaining restructuring measures would ensure the continued smooth implementation of the project.

We would appreciate an update of the status of these outstanding restructuring measures agreed in July and their expected completion by the end of September so that the Bank can pursue further consideration of the extension of TARP, a decision which must be approved by the Regional Vice President well in advance of the closing date. Thank you for your attention to this matter.

With best regards,

Sincerely yours,



Yusupha Crookes  
Country Director  
Pakistan

Attachment: a/s

cc: Mr. Shaukat Tarin, Minister for Finance, Economic Affairs, Revenue & Statistics, Islamabad  
Mr. Farrakh Qayyum, Secretary, Economic Affairs Division, Islamabad  
Mr. Sohail Ahmad, Chairman, Federal Board of Revenue, Islamabad

November 5, 2009

Mr. Salman Siddique  
Secretary  
Ministry of Finance  
Pakistan Secretariat  
Islamabad

Dear Mr. Siddique:

***Re: Pakistan – Follow up on Tax Administration Reform***

I refer to your letter dated November 3, 2009.

Thank you for the update on the progress that the Government of Pakistan is making on its Tax Administration Reforms. We acknowledge the commitment of the Government to the implementation of these reforms, as clearly demonstrated by the actions it has taken over recent months.

With respect to the regrettable phrase in reference to parliamentary procedures in the report of the Bank mission, we unreservedly withdraw the implications in this language. I would like to emphasize our highest regard and respect for Pakistan's democratic processes, constitutional arrangements and the sovereignty of Parliament and independence of the judiciary.

With my best regards,

Yours sincerely,



Yusupha Crookes  
Country Director  
Pakistan