

# ANNUAL REPORT 2019 - 2020

Towards Self Reliance



Government  
Khyber Pakhtunkhwa

Sponsored By:



# Table of Contents

Chief Minister Message	1
Finance Minister Message	2
Secretary Finance Message	3
Director General KPR Message	5
<b>CHAPTER 1: TAX REGIME RATIONALIZATION</b>	<b>6</b>
<b>CHAPTER 2: REVENUE ANALYTICS</b>	<b>11</b>
Sectorwise Collection Comparison Report 2018-19 & 2019-20	12
Breakup of Collection Made During FY 2019-20	13
<b>CHAPTER 3: ADMINISTRATION AND ALLIED MATTERS</b>	<b>17</b>
Purchase of Physical Assets During FY 2019	19
<b>CHAPTER 4: ENFORCEMENT, AUDIT &amp; SUPPORT FUNCTIONS</b>	<b>27</b>
Region Wise Details of Audit Reports	29
<b>CHAPTER 5: BUDGET AND ACCOUNTS (EXPENDITURE)</b>	<b>34</b>
Budget Statement 2019-20	35
Object-wise Details	35
KPR Expenditure 2013-20	36
Statement of Financial Position	37
Statement of Receipts and Expenditures	38
Statement of Comparison of Budget and Actual Expenditures	39
<b>CHAPTER 6: WAY FORWARD</b>	<b>41</b>
<b>HIGHLIGHTS OF KPR EVENTS</b>	<b>45</b>

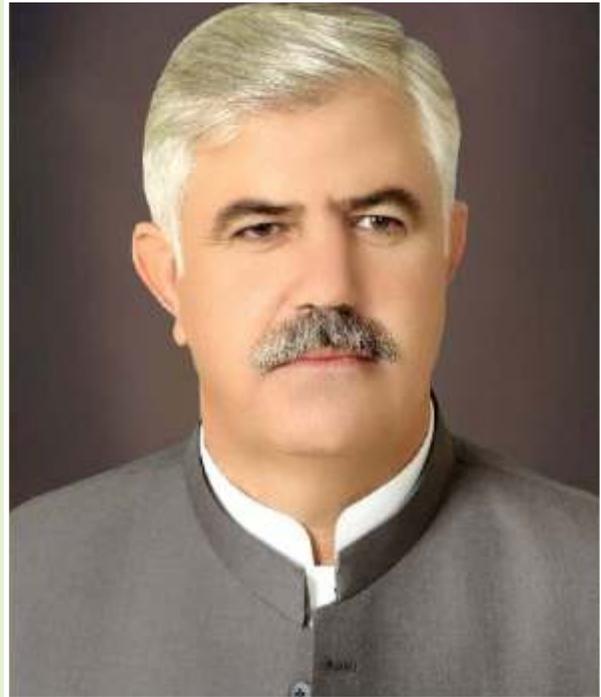


## Chief Minister Message

The perusal of the KPR's Annual Report for the year 2019 – 20 has given me an immense pleasure to know that how, despite the serious adverse impact of COVID19 in the last five months of the year, KPR has continued its dedicated efforts to maximize tax collections. Its revenue growth reached historic height of 66%. KPR is a leading tax collecting organization of the KP Government and is now contributing more than 54% of the provincial own revenue earnings.

There are several measures taken by KPR during 2019 – 20 which deserve appreciation and applaud. It expanded its physical outreach by opening offices at Bannu and Mardan besides strengthening its Abbottabad's regional office. It harmonized its tax rates on several such services as were historically hesitant or feeling it difficult to comply with tax laws. Reduced rates not only created attraction towards tax compliance but also made compliance easier without the involvement of any complex documentary responsibilities for backward and forward linkages. KPR proactively capitalized on such market response and tax receipts increased despite reeducation in tax rates.

KPR's tax collection system does not involve manual interventions from its officers and officials. Modern IT-based system takes care of all processes from registration to payment. Only audit or adjudication work is generally done out of the system. KPR has already developed a restaurant invoice monitoring system (RIMS) extendable to other categories of services also. KPR is on the way to soon have its own tax policy research unit which will in due course be able to undertake multi-tax research assignments and thereby contribute to other tax domains of the province. I record my all appreciation and good wishes for KPR and hope that it will continue its professional devotion and dedicated efforts achieving landmark results in time to come.



**Mahmood Khan**

Chief Minister, Khyber Pakhtunkhwa  
Chairman, Policy Making Council, KPR



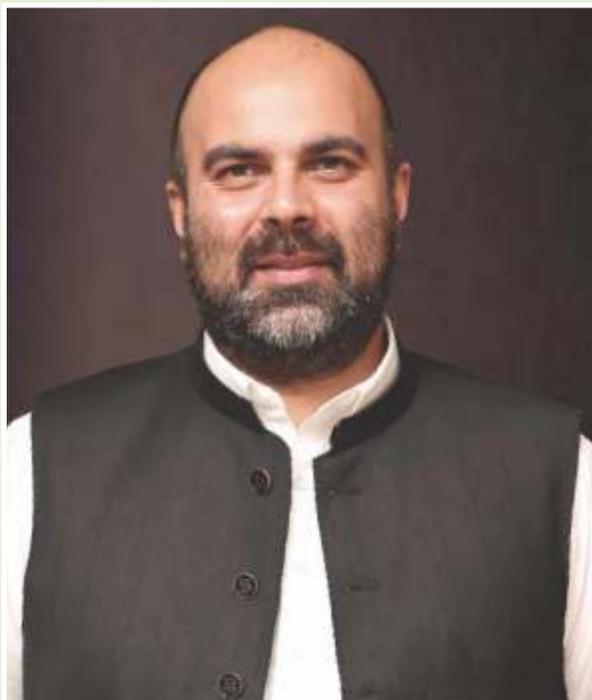
## Finance Minister Message

It gives me a great pleasure to read the Annual Report of KPR for 2019 – 20. The year 2019 – 20 saw a paradigm shift in the tax policy domain of KPR. Tax policy was made inclusive by taking almost all the relevant business associations on board. Bold reforms were initiated for the rationalization of KP sales tax rates on service generally provided by small and medium enterprises. Tax rates were reduced on twenty-nine categories of services to stimulate voluntary compliance especially in regimes where tax enforcement has remained a problem due to multifarious socio-cultural factors. Tax rate rationalization scheme of KPR worked so well that historic growth was recorded during 2019 – 20 despite huge revenue dip or shortage resulting from a long span lock down and market closures of COVID19.

It goes without saying that despite limited resources, KPR tried to achieve ends. The year 2019 – 20 is a landmark year in the history of KPR. It happened first time that a transparent performance-based incentive system (PBIS) was introduced with measurable key performance indicators (KPIs) for each important activity. The financial compensation of KPR's manpower was linked with the achievement of the KPIs. A system was put in place whereunder progress on each of the KPIs was regularly monitored and reviewed on monthly basis.

National economies in the world are recovering from the trauma of COVID19. Pakistan is not exception to it. But fortunately, Pakistan is primarily a resilient society it has immense tolerance and endurance. Its economy is recovering faster than many other comparable state economies. Hard time is however, not over yet. During economic recovery periods, the challenges of tax administrations increased manifold. It is very heartening to learn that KPR has readjusted its overall tax administration strategy characterized with intensive taxpayers' persuasive facilitation, declaration-based monitoring, soft enforcement measures, focused parametric tax audit, efficient settlement of tax disputes and consistent liaison with the trade bodies using their platform to motivate the businesses toward conformity of KP sales tax obligations.

KPR deserves full acknowledgement and appreciation for its achievements and forwarded looking efforts to entrench widespread proliferation of services' sales tax system in the province on sustainable visionary lines. My heartiest felicitations to KPR.



**Taimur Saleem Khan Jhagra**  
Finance Minister, Khyber Pakhtunkhwa  
Member, Policy Making Council, KPR



## Secretary Finance Message

It gives me a great pleasure to learn the Khyber Pakhtunkhwa Revenue Authority (KPR) has blessedly composed its self-contained annual report for the year 2019-20 with objective narration of its institutional activities in different professional and technical fields of sales tax on services in the Province of Khyber Pakhtunkhwa. KPR is now a major ontributor to the tax income of the province. During the last two years, the Government has taken multiple important decisions to make KPR a more effective and modern tax collecting organization. Its administrative control has been shifted to the Finance Department. It has been tasked to make the KP sales tax on services system consonant and conducive to the ground realities of the provincial market enhancing the acceptability of this modern consumption tax by the businesses as well as by the public at large. It has also been facilitated to extend its physical outreach in hitherto uncharted regions of the province. Its deficiencies in human resource and material resources have been substantially overcome. As expected, in consequence of all such pro-future measures, impressive improvement has been observed and experienced in the overall institutional performance and output of KPR.



**Atif Rehman**  
**Secretary Finance Department**  
**Khyber Pakhtunkhwa**

Its revenue collections have entered into a steady and buoyant growth phase. Constancy in the frequency of KPR's interaction with the Government and political leadership of the province has tremendously improved, smoothened and stabilized giving it more opportunities to follow the trail of the overall economic policy and development efforts of the Government. KPR's reporting system has much improved in the hierarchical structure of the Government. With the unprecedented rationalization of its tariff featured with recodification of the description of taxable services and well-thought reductions in tax rates, the KP sales tax collections have shown historic growth during 2019-20 and it is expected that such growth trends will continue in future as well. In consequence of expansion in its physical outreach (which will continue to further expand in time to come), new channels of sales tax collections have emerged and it is anticipated that further mobilization of such new channels will continue to stay as a permanent feature of KP sales tax proliferation in the province. The efforts made and still being made by KPR in intensifying its public awareness and taxpayers' facilitation have germinated a fresh seed for the promotion of voluntary tax compliance in the province. Several tax experts and trade bodies in the country have



in several tax webinars specifically applauded all these reformative acts and achievements of KPRA.

KPRA has in the recent past very dedicatedly sparkled its professional façade and increased its technical capacity and working strengths as visible from the salience of its role in the efforts being made by the national and subnational governments to fulfil the long overdue dream of harmonization of GST in the country. Now KPRA is trusted upon as a proactive and futuristic contributor to the resolution of GST harmonization issues at national level. I fully hope and believe that KPRA will not only continue its reforms-based efforts for optimization of KP sales tax earnings but will also play a very strong patriotic role to help creating utmost coherence in the GST system of the country. Being firmly hopeful for such a bright professional future, I record my heartiest appreciation for KPRA and assure full encouragement, cooperation and support from the Finance Department for its endeavors to achieve optimum long-lasting excellence in the performance and delivery of its functions, which are no doubt very important for and vital to the socio-economic future of Khyber Pakhtunkhwa.



## Director General (KPR) Message

It is a source of great pleasure and honor for me to present the first Annual Report of KPR for the year 2019 – 20 during my ongoing tenure as its Director General. Immediately on my joining in the eighth month of the year, I faced a big challenge to maintain the revenue collection tempo of KPR because impact of COVID19 had by that time started foreclosing revenue flow from several streams. Concerted efforts were however, commenced to convert this challenge into an opportunity.

Although KPR was already following a somewhat pre-defined course of activities aimed at broadening the tax base, still several areas were identified where it needed a fresh kick-start. Consequently, several new measures were initiated including efficient compliance-aimed handling of non, late or short filers, selection of food outlets for the purpose of installation of RIMS, dialogue with the hospitality associations to introduce some plausible pro-tourism packages for different hill stations in the KP province, rationalization of regional jurisdictions, equitable distribution of work, shuffling of human resources

observing “the right man for the right job” principal, expansion in registration base by using available third party data, formalization of audit plan and monitoring of its implementation, expeditious liquidation of pending adjudications, rigorous pursuit of appeals and court cases, recovery of arrears and above all more intensive use of information technologies and application of pro-active taxpayers' facilitation methods mostly through electronic means.

KPR's Annual Report for the year 2019 – 20 speaks of the progress and achievements in different fields of KP sales tax. Revenue growth of 2019 – 20 was historic and phenomenal. KPR will carry forward its tax reforms into subsequent years with a hope that market response to reformed tax system and administration will further strongly become pro-compliance realizing that importance of tax in the overall socio-economic development and prosperity of the province.

I wish to record my hitherto gained experience in KPR confirming that KPR is not only a name of a fast modernizing futuristic tax organization, it is also an epithet of dedicated team of sincere, professional and industrious workforce. I believe that such professional enthusiasm will live long into future (InshAllah).



**Fayyaz Ali Shah**  
Director General,  
Khyber Pakhtunkhwa Revenue Authority



## CHAPTER-1

# TAX REGIME RATIONALIZATION

- 1.** Khyber Pakhtunkhwa Revenue Authority (KPR) is an outcome of the 18th Constitutional Amendment whereunder sales tax on services was expressly excluded from the domain of sales tax on goods and under the 7th NFC Award, the provinces were given option to administer the collection of sales tax on services at their own level. Chronologically, Sindh, Punjab, Khyber Pakhtunkhwa and Baluchistan took initiative in 2011, 2012, 2013 and 2015 respectively by enacting their sales tax laws and establishing their provincial sales tax authorities (in one province called board). Their mainframes of legislative arrangements are more or less matchable but their tax rates and procedural spheres somewhat differ from each other, although they more or less serve the same tax administration purposes. All the four authorities have a common consultative platform in the form of a committee which meets periodically and discusses issues of mutual interest and tries to find out consensual solution. During 2019-20, the committee held several meetings in Karachi, Gwadar, Lahore and Islamabad and discussed several issues relating to telecommunication services, bulk cargo transportation services, hospitality sector services, real time input-output cross matching system (e-STRIVE) and input tax adjustment reconciliation arrangement with the Federal Board of Revenue.
- 2.** The year 2019-20 has proved a turning point in the history of KPR. Ever since its establishment in 2013, KPR's annual collections have remained below rupee eleven billion. However, during 2019-20, despite COVID19 pandemic, the collections jumped to Rs. 17.158 billion registering a record increase of over 66%. Why and how it happened is not a complex question. It is a very simple tax policy approach called “tax acculturation” under which businesses and people are slowly but progressively attracted towards honoring their duties to the nation through paying taxes so as to enable the state to serve the society in more effective and welfare-oriented manner. High tax rates are no guarantee for higher revenue collections. Tax base can be broadened even through tax rates pitched on lower side. Lower tax rates contain more assurance for widespread compliance and sustainable growth in revenue income of the government. Conveniently compliant tax design reduces both the costs of compliance and of collection.
- 3.** VAT theory does not disallow the application of multiple tax rates in the formative and expansive phases of the implementation of sales tax system. Historically, different trade bodies and associations had been suggesting and requesting for reduction in tax rates keeping in view the peculiarities and constraints of the KP market. Trade representatives were of the view that in case of deserving regimes, tax rates should be reduced for three to five years so that tax base is broadened and it becomes possible for the government to reduce the standard rate and avoid multiplicity of rates or intrinsic tax cascading in the sales tax regime. KPR did honor this line of argument and after a very careful analysis of the KP market and its responsiveness to KP sales tax compliance requirements, it identified several services:



- ❖ which are yet at embryonic stage of their penetration into the market environment,
- ❖ whose accelerated growth is likely to generate widespread employment or income opportunities,
- ❖ which do not have backward documented linkages,
- ❖ which are provided by businesses owned and run by less educated people,
- ❖ whose providers cannot afford extra cost for tax compliance through professional tax consultants or members of the legal profession community,
- ❖ whose operators otherwise cannot afford to maintain lengthy or complex tax records,
- ❖ which cater to such groups of consumers as cannot afford to sustain the brunt of any tax burden bound to adversely impact their purchasing capacity,
- ❖ whose quick proliferation is likely to help faster development of skilled manpower in society,
- ❖ which are directly helpful in the industrial revival or reindustrialization in the province,
- ❖ which are favorable towards the speedy growth of tourism in the province,
- ❖ which are bound to entail transfer and adoption of modern technology and skills
- ❖ which are otherwise helpful in the growth, expansion and diversification of market activities, and
- ❖ which are conducive to open avenues for woman employment and woman empowerment.

**4.** Consequently, in the Budget 2019-20, while telecom services were kept at traditional higher rate of 19.5% and standard rate of 15% was kept unchanged, brackets of reduced rates were however, increased to four 10%, 8%, 5% and 2%. This measure was calculatedly taken to purposefully encourage, establish and strengthen a sustainable tax culture in semi-organized and informal sector businesses and businesses still passing through initial stages of making some reliable foothold in the competitive market environment. These measures were also intended to promote confidence of the taxpayers' community in the propriety and equity of the tax system. Eventually overall sales tax compliance level increased in the province and revenue grew much faster than ever. The following rationalized tax rate structure was eventually adopted in the Budget 2019-20:

- i. Sales tax at reduced rate of 5% was introduced on all digital economy services including Online Market Place (OMP) services (other than ride hailing services).
- ii. The services relating to installation, erection, commissioning and similar services (other than for domestic purposes) were brought under standard tax net because of their pre-existing linkages with formal economy (input tax adjustment was expected to visibly reduce the net tax effect).
- iii. Tax rate on middle class restaurants (other than corporate, chain-based, franchised or run by multinationals) was reduced from 15% to 8%. The rate was further reduced to 2% on restaurants operating purely in informal manner or style.
- iv. Rate of tax on services of wedding halls was reduced from 15% to 8% to push forward accelerated compliance. Rate on catering services was also cut down to 10%.
- v. While full exemption was granted to traditional type launderers and dry-cleaners, tax rate on medium sized stand-alone laundries and dry-cleaning businesses was reduced to 8%.



- vi. Tax rate on advertisements on electronic media was reduced to 10% and in case of print media advertisements, it was further reduced to 5%.
- vii. Tax rate on property dealers, second hand automobile dealers and dealers of second hand goods, rent-a-car businesses was reduced from 15% to 5%.
- viii. While the tax rate on industrial workshops and authorized dealership workshops was reduced from 15% to 10%, it was further reduced to 5% on all other categories of workshops.
- ix. Tax rate on toll manufacturing or contract manufacturing was reduced from 10% to 5%. However, contract printing of text books meant for free distribution by or through the government was granted full exemption from sales tax.
- x. While tax rate on other professional services was reduced from 15% to 5%, it was further reduced to 2% in case of legal and medical services (advocates and doctors).
- xi. Rate on contractors' services in respect of government's ADP-funded projects was reduced from 15% to 2% and protection against tax demand in all old cases carrying no provision for payment of provincial sales tax was given to facilitate commencement of prospective tax compliance with clean slate.
- xii. While all intellectual property rights' services were grouped with franchise services, which are already chargeable to reduced rate of 10%, education-related franchise services were granted complete exemption from sales tax.
- xiii. Tax rate on cinematographic, photographic, recording, telecasting or broadcasting services was reduced from 15% to 10% which was further cut down to 2% in case of cable TV operators.
- xiv. Tax rate on fashion designers, call centers (intermediating sale/purchase) was reduced from 15% to 5%.
- xv. Rate on beauty parlors, beauty clinics, gyms and similar other services was reduced from 15% to 8% However, cosmetic treatment of burns or burned body parts, traditional barber shops' businesses and student hostels were fully exempted from provincial sales tax.
- xvi. Being highly conducive for large scale employment generation, tax rate on Ride Hailing Services was reduced from standard rate of 15% to 2%.
- xvii. Non-taxability status or exemptions about healthcare, education, passenger travel, foreign grants-in-aid and international commitments was kept intact.



5. The First Schedule of the KP Finance Act, 2013, which is a minimum positive list of services, was thoroughly revamped. Descriptions of many services were streamlined and made consistent with market practices and international tradition. Several services were regrouped. Coverage of services under several categories was expanded. Classification patterns were streamlined keeping in view the tariffication principles of Harmonized Commodity Description and Coding System (HS Code).
6. In order to avoid disputes on taxability or tax assessment and to foreclose the possibilities of litigations, comprehensive principles of application and interpretation were end-noted to the Second Schedule of the KP Finance Act, 2013 on the analogy of rules of interpretation of internationally applicable HS Code. No such principles have been enacted in any other jurisdiction of the country where sales tax on services is being collected. The first credit of such professional innovation goes to the province of Khyber Pakhtunkhwa.
7. The KP Finance Act, 2013 is a composite statute. It covers the establishment of KPR, imposition and administration of sales tax on services in the province and levy of Infrastructure Development Cess (IDC). However, on different occasions, the superior judicial forums had been observing that such composite legislation is not an appreciable form of legislation and it is better if all the three subject matters are covered under separate statutes. KPR accordingly drafted three different statutes each for KPR, sales tax on services and IDC. The IDC Act was sent to the Law Department for vetting. The finalization of the KPR Act and KP Sales Tax on Services Act was temporarily hold back due to COVID19 scenario. These Acts shall however, be finalized during 2020-21. But in the Budget, 2019-20, some important overdue amendments were made in the KP Finance Act, 2013 as briefly mentioned below:
  - i. Reference to the Companies Ordinance, 1984 was changed to the Companies Act, 2017 vide sections 2(12) and 48(5) of the KP Finance Act, 2013.
  - ii. Virtual or web-based conduct of business without any physical presence was included in the definition of “place of business” so as to cover taxable businesses operating through electronic or digital means (representation through information technologies' means) vide section 2(37)(b).
  - iii. Definition of “unregistered person” was added so that input tax adjustment benefits could not be claimed by or allowed to the persons liable to be registered but not actually registered. Thus a subtle legal distinction between “registered person” and “person liable to be registered” was created without impacting the tax liabilities of the latter. Inequality was taken out of equality so as not to allow equality of obligations to mitigate the inequality of entitlements vide section 2(55A).
  - iv. Within the reverse charge framework of the application of principles of origin, the whole tax reverse charge provision in respect of services received by registered persons from off-province persons has been aligned with the withholding principles so that the outside



service providers who are also registered with KPRA may not face input tax credit difficulties owing to full reverse charge application on their supplies of taxable services in the KP province vide section 20(2).

- v. In order to suppress misdeclarations using undocumented cash payments, input tax adjustment was barred in respect of transactions valuing more than rupees fifty thousand if payments thereof are not made through banking channels with transfer of money from the bank account of the service recipient to the business bank account of the service provider vide proviso to section 26 (4).
- vi. A new sub-section (1A) was added in section 40 to give legal coverage to the adjudications, assessments and recoveries of tax amounts in case of failure to withhold due tax or to pay withheld tax amounts.
- vii. A number of amendments were made in section 64 dealing with offences and penalties. Penalties for late filing were rationalized to encourage taxpayers to avoid inordinate delays in filing returns not filed within dates, penalty for failure to issue tax invoice was increased from rupees five thousand to rupees one hundred thousand, penalties and prosecution were added for banks' failures for bank account attachments in connivance with the tax defaulters to defeat the departmental efforts for recovery of KP sales tax arrears and penalties for failure to withhold tax amounts were also added with minimum base of rupees twenty-five thousand.
- viii. Section 82 which deals with the composition of Appellate Tribunal, was suitably amended enlarging the pool of eligibles for the appointment of Judicial and Technical Members and increasing the upper age limit so that high end professional talent may be selected from both public sources and open market.
- ix. Section 94 was modified to shift the collection management of IDC from the Excise and Taxation Department to KPRA.
- x. Amendment was made in section 111 to transfer the powers of KPRA to its Policy Making Council for grant of permission to initiate any enquiry or investigation against any officer or official of KPRA in his official capacity by any government agencies.



## CHAPTER-2

# REVENUE ANALYTICS

1. During 2018-19, KPR collected Rs.10.354 billion. However, during 2019-20, its collections reached Rs.17.158 billion, which included Rs.194 million on account of IDC. Growth of over 66% was achieved. During the Budget 2019-20, the baseline thinking in fact revolved around a time-tested proposition that if applied wisely, tax as an instrument of public policy on development and welfare can effectively work to bring prosperity in society. Hence, when the tax rates were rationalized in the Budget, 2019-20, the following visionary horizons and real life expectations were in mind:

- ❖ Reduced rates would attract compliance from small and medium enterprises (SMEs).
- ❖ Tax coverage would easily extend to uncharted regimes.
- ❖ Suppression of turnovers would reduce enhancing the tax intake to government exchequer.
- ❖ Public acceptability of KP sales tax system would increase.
- ❖ Reduced rates would take care of affordability issues of the consumers' market.
- ❖ KPR's tax publicity campaigns would receive wider welcome and acceptance from the masses.
- ❖ Seeds for stronger future tax culture would be sowed in the province.
- ❖ Economic documentation would grow in the province.
- ❖ More economic documentation would enhance the quality and productivity of future tax policy.
- ❖ Increase in sales tax revenue earnings would enable the government to undertake more development works and initiate more socio-economic welfare schemes.
- ❖ Enhanced public sector development expense and business growth in the provincial market will generate employment and create more income opportunities in the province.
- ❖ More employment opportunities being available, literacy and skill development rates will increase.

2. Surely, such interdependent expectations cannot be achieved overnight. Under the cause and effect principle, fulfillment of one expectation paves way for the realization of another expectation putting positive chain reaction in the shape of golden cycle. Eventually wheel of socio-economic development starts revolving faster and faster around the pivot of good governance. Prosperity, peace, respect of human rights, justice and equity are the natural gains of socio-economic development based on visionary, rational, fair, pragmatic and transparent public policy. Such is the thinking underlying the KPR's overall work ethics. The year 2019-20 worked as a starting point to honestly follow and practice such public service ethics.

3. Collection of sales tax on corporate and formal sector businesses is comparatively a convenient venture. Problems are posed by medium and small size businesses. More importantly, service



sector especially in regimes where big investments are not 'crowded in' is not conveniently visible and pose very serious enforcement problems to the tax administrations. In a country like Pakistan, regulatory frameworks are not available in several business or commercial regimes with the result that people make medium or small size investments without any advance disclosures or declarations by way of compliance for any regulatory requirement. Businesses are started even without having national tax numbers (NTNs). Benami business tradition is also in practice in the market. KPRA has to work harder to extend its physical and business stream-wise coverage thanks to the informal sector business groups/lobbies' tactics and pressures to resist against tax compliance.

4. For the year 2019-20, the target for KP sales tax fixed at the time of budget was Rs.18 billion. It was however, later reviewed by the provincial political leadership and pitched in between two extremes, that is, minimum Rs.16 billion and maximum Rs.20 billion. KPRA was confident that it would be able to reach near to the maximum level if no abnormal factor emerged to disturb the flow of receipts and collections. But such factors did unanticipatedly occur as explained later in this report and disturbed the tax inflow on several counts.
5. Save one category of others' services, KPRA has classified the whole range of taxable services in twenty-one categories (commonly cited as sectors, i.e., sectoral classification). This classification has simplified the revenue accounting at macro level. The sales tax receipts (minus AG's reconciled figures not counted through the automated computerized system) from these categories during 2019-20 in comparison to 2018-19 remained as under:

<b>Sector Wise Collection Comparison Report 2018-19 &amp; 2019-20</b>				
<b>Sectors</b>	<b>2018-19</b>	<b>2019-20</b>	<b>Difference</b>	<b>% Increase / Decrease</b>
				<i>(Rs. In Million)</i>
Telecom	2,238	6,027	3,789	169%
Oil and Gas	596	1,219	623	105%
Withholding	1,820	2,272	452	25%
Bank	861	958	98	11%
Carriage	343	426	83	24%
Hospitality	309	370	61	20%
Security	348	394	46	13%
Franchise	549	586	37	7%
Workshop	39	76	37	94%
Insurance	81	107	25	31%
Others'	482	496	14	3%
Rent a car	6	19	13	204%
Beauty Parlor	5	13	8	148%
Airport services	18	23	5	29%
Contractual Execution of Work	27	32	5	19%
Courier Services	82	86	4	5%
Laboratories	36	40	4	11%
Advertisement	55	54	(1)	-2%
Testing	63	24	(40)	-63%
Agents	679	618	(61)	-9%
Automobile	137	76	(61)	-44%
Construction	1,636	1,493	(144)	-9%
<b>TOTAL</b>	<b>10,412</b>	<b>15,408</b>	<b>4,996</b>	<b>48%</b>

Breakup of collection made during 2019-20	
Description	Amount (in million)
Amount received in PRAL system	15,409
Amount received through Challan	62
Deduction at source	66
input adjustment from FBR	1,361
Opening Balance from previous year	308
<b>Collection made during 2019-20</b>	<b>17,206</b>
Collection from IDC	194
Amount retained with bank	- 241
<b>Total Collection made by KPR</b>	<b>17,158</b>

6. The major revenue contributor is telecom services. Their share in annual collection is around 40%. Their growth of about 169% has resulted from the fact that during 2018-19, no sales tax was paid by the telecoms owing to the suspension of taxes by the Supreme Court in a suo moto case. These companies continued carrying forward their unused input tax in their tax declarations. The KPR through the process of adjudication froze the input tax adjustment because no tax credit is admissible if there is no corresponding output tax. The telecoms challenged the decision at appeal. KPR won in its principal contention at first appeal but the Appellate Tribunal remanded the matter back on technical grounds. The issue therefore, again became a matter of adjudication. However, meanwhile an interim arrangement was entered into with the telecoms provisionally allowing them piecemeal monthly adjustment of disputed input tax against a formal commitment that they will forthwith pay this amount in case they could not win the matter at final appeal stage. KPR is very firm in its position because the principle is both legally and academically very clear that no input tax adjustment is available if there is no output tax on any supply or supplies unless the facility of zero-rating is available and KP sales tax law does not have any such facility. It is expected that with the indoctrination of 'social distancing', consumption of telecom services will grow faster than before bringing more tax contribution to the government coffers. But with the increase of revenue from non-telecom sources for which KPR is striving hard, the percentile share of non-telecom services will overshadow the significance of telecom services in aggregate revenue mix.

7. Under sales tax, withholding tax regime covers several services. Withholding in itself is not any distinct service. It is only one of the tax collection instruments. Collections through withholding increased by 25%. About 15% of the total tax receipts came from withholding regime. Lesson learnt from the global practices show that size of withholding regime remains bigger till such time the registration base and compliance levels at supply side stages are increased to the best optimal degree. But keeping in view the market peculiarities of KP province, it is generally understood that withholding will continue to survive to offset the inabilities or difficulties of tax reach to the lower bases of business stratification in the market. Unhindered existence of informal sector will force the continuation of withholding regime in the KP province. Besides recovering unpaid full or balance liabilities through system-based examination of tax declarations and information collected from public spending ends, KPR has very intelligently used withholding mechanism as a source of identification of registrable businesses eventually corralling them into regular tax net. This productive approach for tax base broadening through the close monitoring of withholding regime will continue unabated into future. The device of subjecting supplies of



services by unregistered persons to hundred percent withholding is also persuading new businesses to come to regular sales tax compliance stream. KPRA has planned to post the tax payments received under withholding system against the respective services in the system so that actual tax yield and potential of relevant services could be assessed as accurately as possible. This will add quality to the tax policy domain of KPRA.

**8.** Tax collections from oil and gas sector services grew at the historic rate of 105%. A chunk of revenue came from large scale seismic surveys undertaken in Kohat and Tal areas leading to mega discovery of both gas and oil reserves. Seismic surveys are likely to continue in future but with periodic intervals. New agreements in this regard are reportedly being contemplated. But once commercial recovery from the new sites is started, more tax from allied services will start coming in. Besides, certain classification disputes of economic activities carried out by some service companies were amicably resolved and settled opening new windows for revenue inflow. Distance examination of annual accounts and system-led scrutiny of tax declarations enabled KPRA to recover unpaid tax liabilities. KPRA will struggle very hard to ensure that the growth tempo achieved in 2019-20 is continued in future as well. Services' regime attached to the oil and gas sector is likely to enter into a futuristic diversification phase thanks to the innovative developments in the related technological, technical and professional fields. For this purpose, tax management of oil and gas sector is likely to be shifted from Mardan to KPRA headquarters so that more focused attention could be paid on this buoyant tax source besides facilitating the contact convenience to the exploration and service companies whose national or regional offices are mostly located in Islamabad.

**9.** The hospitality sector which showed growth of 20% was expected to bring much more revenue to government exchequer. But two adverse factors sabotaged KPRA's efforts to enhance the flow of tax from hospitality sector. FBR unilaterally levied and started collecting Federal sales tax from foodstuff supply services from restaurants (and similar other outlets) and caterers despite that these services are internationally treated and taxed as services. The restaurants and food catering businesses were pressurized through repetitive issuance of notices by the Inland Revenue Department and approached by low level officials warning them with serious consequences under income tax regime. A reasonable component of revenue consequently went to FBR. COVID19 completely shut up the revenue gates of hospitality market. Sales tax comes only when consumption is taking place. Closure of businesses blocked the revenue channel also. Resultantly all efforts of KPRA to expand tax coverage in hospitality sector including physical survey (geo-mapping), monitoring and launching of Restaurant Invoice Monitoring System (RIMS), came to standstill during the most of the second half of the year. Fear of spread of COVID19 pandemics had started hurting the hospitality businesses even much before the government's announcement of regular lockdown and closure of the outdoor food or tourist enjoyment opportunities. These revenue losses remained uncompensated even after the expiry of the financial year 2019-20.

**10.** Franchise services and insurance services which showed growth of 7% and 31% respectively had been and are still substantially facing jurisdictional clash issues. Most of the corporate sector entities trading in branded products and insurance companies have their headquarters in other jurisdictions. Branded products are marketed throughout Pakistan but franchise component involved therein is charged as a part of their price and is taken by the franchise owners or holders



directly out of price without any separate invoicing for franchise services. Similarly, several insurance policies relating to risks originating from KP province are applied for, processed, finalized and looked after in other jurisdictions and their premium is also paid outside the KP province. The relevant insurance companies deposit sales tax in their headquarters' jurisdiction. KPRA tried very hard to convince them to deposit KP's share with KPRA. Some companies responded quite positively and started paying KP sales tax. Efforts for tax sharing between origination and destination were made in case of petroleum oil road transportation by oil tanker contractors and multi-jurisdictionally agreed regulatory system was implemented due to which 24% revenue growth from carriage services was registered.

- 11.** Besides hospitality, COVID19 impacted tax receipts from several other services. Construction sector suffered the most. However, for its survival full exemption from KP sales tax was granted from April to June, 2020. Already, no tax could be collected from ADP-funded projects as the market rate system (MRS) could not be put in place. Had these two factors not been there, tax receipts from construction services would have shown phenomenal rise. Due to the uncertainties created by COVID19 and the government-ordered lock down, not only sales of automobiles declined bringing dip in federal sales tax but also KP sales tax from authorized dealers' commissions and their workshop services declined very sharply. Due to closure of education institutions and administrative issues of National Testing Services (NTS), revenue from testing services declined very phenomenally. Further due to exclusion of prescription-based medical or clinical lab tests in the previous year's budget, tax yield from laboratories also dipped very sharply.
- 12.** Registration regime under VAT-like sales tax is a very sensitive affair. All tax frauds originate from registration. Bogus or Benami registrations bring in bogus invoicing in the system and sometimes cause unstoppable invisible bleeding of government's legitimate revenue. KPRA is very careful in registering service providers. Earlier several (over 1454) contractors engaged in participating in government tenders were registered although they did not get any service provisioning contract. Resultantly, non-filing rate increased. KPRA then took up the matter with concerned government organization requesting for change in their regulatory requirement for sales tax registration not at tender filing stage but after succeeding in winning the tender and signing of the contract for rendition of services. In KPRA, activation of registration is termed as enrolment. During 2019-20, 3737 registrations were enrolled. Non-filing curse was rigorously hunt and substantially overcome by KPRA. Average filing rate reached 77% and eventually touched 82%. KPRA is trying to cross 90% and meanwhile want to undertake a grand scale decontamination of its registry so that return filing regime may be managed on more realistic lines.
- 13.** Ever since the provincialization of sales tax on services, several equity issues and ease of doing business problems have cropped up. Jurisdictional disputes, overlappings of tax demands, duplication of tax incidences, tax cascading, tax credit denials, multiplicity of tax declarations, divergent tax treatments, differentiations of processes and procedures, contradictory applications of reverse charge mechanisms, disputes on the application of origin and destination principles, disagreements on any sharing of trans-jurisdictional services, disparities of tax rates, demarcations between supplies of goods and services and absence of any definite clearance of



mutual input tax adjustment settlements are but the few areas of disputes amongst different jurisdictions. The international donors especially IMF and World Bank have drawn very adverse inferences from such scenario. These donors have claimed that tax to GDP ratio in case of service sector side of the national economy has not improved under the collection of sales tax on services through provinces. Although the provinces have questioned such observations by identifying the terminological and classification misnomers in the national accounting system of GDP, yet the donors are not convinced and are insisting on national level GST harmonization without any compromise on constitutional privileges and entitlements of the federating units. It has been required from Pakistan to quickly set the things right on the front of sales tax system in the country. Chambers of Industries and Commerce and industrial and trade association have also been persistently demanding for removal of difficulties arising out of fragmentation of sales tax system in the country

**14.** The World Bank's tax experts in collaboration with the Finance Division (Federal Government) gathered in Dubai and heads and advisors of all the provincial sales tax authorities including FBR discussed all the main issues and questions about GST harmonization. Earlier, the IMF economic management experts met the provincial sales tax heads these heads in Islamabad and explained the bleak sides of the current sales tax system in Pakistan in comparison to the success stories form different developed and developing countries of the world. The Dubai conference proved a very crucial kick start towards the consensus of all the authorities on GST harmonization. Keeping in view all such academic dialogue, it was agreed to establish a National Tax Council (NTC) representing both political and executive leadership of the country with a full-fledged tax policy research backup from tax professionals and experts. NTC was established consisting of all the provincial Finance Ministers and headed by the Federal Finance Minister with Federal Secretary Finance as its secretary. NTC has a standing Executive Committee consisting of all provincial Finance Secretaries and heads of the provincial tax authorities (including FBR) with Federal Finance Secretary as its Chairman. NTC through its Executive Committee has initiated work on the following areas of common interest:

- ❖ Definitions of goods and services for the purpose of determination of the nature and character of the supply.
- ❖ Principles of taxation (origination vs destination).
- ❖ Common Tax Portal with single registration and single tax return (declaration).
- ❖ Harmonization of tax rates, tax concessions and exemption benchmarks (threshold).
- ❖ Compatibility of processes and procedures.
- ❖ Concordance of organizational structures.
- ❖ Harmony of functional canvasand powers' distribution across hierarchical lines.
- ❖ Matchable legislative and regulatory frameworks.

**15.** KPRA has in the recent past developed and increased its academic and technical research potential substantially. A tremendous contribution has been made by KPRA to NTC in the above areas through comments, proposals and feedbacks. On several pivotal and crucial questions and issues, KPRA's professional viewpoint has been honored and made basis for further discussions and decisions. Thus, KPRA has visibly attained prominence in the working and decision making of NTC and its Executive Committee. KPRA will try to continue such nationalist work in future also.



## CHAPTER-3

# ADMINISTRATION AND ALLIED MATTERS

- 1.** Administrative dynamics of a tax organization has complex peculiarities as compared to any other kind of organization performing general government or generic public sector functions. Four fundamental challenges are faced in the administrative domain under any modern tax system. These are (i) human and material resource need assessment and mobilization, diverse professional talent hunting either through transfer-based appointment or direct recruitment, induction training and (ii) periodic capacity building and regular performance monitoring aimed at increase in efficiency and delivery attracting financial incentives. Wisely planned investment in tax organizations never runs short of returns. Returns of such investment are usually sustainable and increasingly economize on the collection cost.
- 2.** KPRA has historically met these challenges in a very successful and result-oriented manner. Vacancies were created in piecemeal with the expansion and diversification of functions either geographically or intrinsically within the existing institutional setup. Physical resources were increasingly acquired with the multiplication of functions, expansion in geographical coverage and escalation in outreach from enforcement and monitoring point of view. Professional talent was acquired through transparent meritorious recruitments based on third party-managed entry tests. Training and capacity building mechanism like on –the-job-training (OJT) and learning through practical participation in actual technical ground work was applied besides overseas advance trainings under foreign technical assistance programs. Performance-based incentives system embedded in revenue and non-revenue key performance indicators (KPIs) was launched as a tool to monitor and enhance efficiency at various levels of organizational hierarchy (both vertical and horizontal).
- 3.** KPRA started recruitment of its own employees during the year 2017-18. During the year 2019-20, a paradigm policy shift was taken. Instead of recruiting its own regular class IV employees, it outsourced the lower staff services to a firm selected on competitive basis. This saved KPRA not only in financial terms but also protected it from the hazards of own employees' management. Only 45 employees were taken on different jobs on outsourced basis. The government has been saved from future liabilities of gratuity and pensions etc. It is hoped that this experiment will succeed beyond expectations. For its own employees, KPRA has issued KPRA Employees (Contributory Provident Fund) Regulation, 2020.



4. KPRA is a thin organization as its whole mainstream assessment and declaration regime is automated. Manual interventions are confined to registration, enforcement and enrolment compliance, return examination (processing) for identification of short assessments/payments, audit, adjudication, recovery of undischarged due tax liabilities and last but not the least, removal of difficulties etc. During 2019-20, KPRA's human resource base has remained as under:

Designation	BPS	On 30th June, 2019	Addition	Remarks	On 30th June, 2020
Collector Appeals	Fixed Pay	1	0	-	1
Deputy Director	18	4	1	-	5
Assistant Director	17	9	1	-	10
Assistant Collector	17	3	8	-	11
PRO	17	0	1	-	1
Inspector	16	6	5	Recruited 5 new inspectors as one Inspector got initially recruited as Assistant Collector leaving the previous number as 5	10
Audit Officer	16	4	10	Recruited 10 new audit officers as one Audit Officer got initially recruited as Assistant Collector leaving the previous number as 3	13
Data Processing Officer	16	10	7	-	17
Assistant Accounts Officer	16	1	3	-	4
Reader	16	0	1	-	1
Receptionist	12	1	3	-	4
Telephone Operator	7	2	1	As one telephone operator got initially recruited as Receptionist in Phase 2 of recruitment	1
Driver	4	14	0	-	14
Notice Server	4	1	0	-	1
Photostat Operator	4	2	0	-	2
Naib Qasid	2	14	0	-	14
Chowkidar	2	4	0	-	4
Mali	2	1	0	-	1
Sanitary Worker	2	4	0	-	4
Advisor Tax Policy, Administration, Research & Reforms			1		
Advisor Financial Management & Tax Audit			1		
Total as on 30th June 2019		81	Total as on 30th June 2020		118



5. Besides the already operating Abbottabad (Northern Region) office, two more regional offices at Bannu and Mardan (Southern Region) were opened. Necessary officer rank and other manpower was posted. Logistics was provided and required equipments and furniture items were supplied. These new offices have collected Rs.665 million during 2019-20. These offices are taking several measures to expand tax base and increase tax coverage. Physical surveys, regular liaison and close coordination with local trade bodies and on-ground assistance to the taxpayers for registration, tax payment and return filing are but few such measures. KPR is planning to shift the Bannu office to Kohat and open another office in Dera Ismail Khan. Time will soon come when these regional offices will become very efficient tax collection spots of KPR and succeed in creating tax culture in areas not chartered in the past.
6. Collection of IDC was earlier entrusted to KPR. During 2019-20, collection of IDC was started at Torkham, Karlachi and Ghulam Khan (Customs stations/check posts). Besides, KPR's Appellate Tribunal was established, which started its regular functions from February, 2020 onwards. KPR has requested for the posting of two more technical members.
7. During 2019-20, the following important purchases valuing Rs. 38.83 million were made:

<b>Purchase of Physical Assets During FY 2019-20</b>						
<b>Vehicles</b>						
<b>S. No.</b>	<b>Item</b>	<b>Qty</b>	<b>Model/Supplier</b>	<b>Date</b>	<b>Price (Rs)</b>	<b>Office Location</b>
1	Toyota Corolla GLI VVT-I 1.3 Car	3	Toyota Frontier Motors Pvt Ltd	8-Nov-19	8,746,971	KPR HQs
2	Toyota Hilux Revo V Automatic	2	Toyota Frontier Motors Pvt Ltd	8-Nov-19	12,702,022	KPR HQs
3	Honda CD 70 Motor Cycles	5	M/S Atlas Honda	19-Aug-19	362,500	KPR HQs



<b>Computer/IT Equipments</b>						
4	HP Laptops , IDS DSC MX 130 2GB i7-8565U 450G6BNBPC	26	M/S Premier System Pvt Ltd	25-Nov-19	3,849,367	KPRA HQs
5	LIEBERT PSA ITON 1000VA/600W, 230V, AVR Without software	40	M/S Premier System Pvt Ltd	25-Nov-19	968,200	KPRA HQs
6	HP Spectre x360 Convertible 15- df1033dx , Intel Core i7-10510u processor 512 GB, 15.6" UHD (Laptop)	2	M/S Premier System Pvt Ltd	25-Nov-19	626,364	KPRA HQs
7	Dell PE R740 Server 2x Intel Xeon Gold 6130 8x32GB RDMM, 2x480GB SSD SAS , 8x800GB SSD SAS DVD RW	1	M/S Mega Plus	23-Sep-19	3,633,840	KPRA HQs
8	laserjet Printer HP Model No : 402DW Warranty : 1 Year	1	M/S Micro Engineering Networks & Security System	28-Nov-19	59,800	KPRA HQs
9	laserjet Printer HP Model No : 402DW Warranty : 1 Year	1	M/S Micro Engineering Networks & Security System	16-Dec-19	59,800	KPRA HQs
10	Transcend 2TB External USB 3.0 Hard Drive	1	M/S Silicon Technologies	27-Dec-19	16,500	KPRA HQs
11	Laser Jet Printers 3 In 1 Model M2727fn Heavy Duty	1	M/S Salwan Traders	25-Sep-19	56,250	KPRA HQs



12	2TB External Hard Drive Brand : Transcend	1	M/S Micro Engineering Networks & Security System	10-Nov-19	20,800	KPRA HQs
13	HP Laser Jet Printer PRO 400 M402DW Wireless Network Printer	1	M/S Silicon Technologies	28-Aug-19	61,500	Office RTO Abt
14	Epson Printer Model: LQ350	1	Micro Engineering Networks & Security Systems	17-Jun-20	48,785	KPRA HQs
15	VM ware for 2 Processors	1	M/S Mega Plus	23-Sep-19	537,840	KPRA HQs
16	Microsoft Windows Server (16 Cores each)	2	M/S Mega Plus	23-Sep-19	274,860	KPRA HQs
17	Microsoft SQL Server Enterprise	2	M/S Mega Plus	23-Sep-19	3,961,722	KPRA HQs
18	TP Link Wireless Lan Card	2	M/S Easy Solutions & Services Provider	19-Nov-19	5,600	KPRA HQs
19	Wireless Access Point m Ubiquiti Unifi AP Pro 3*3 Memo,750 Mbps (Dual Radio) Giga	2	M/S Silicon Technologies	7-Nov-19	85,600	KPRA HQs
20	View Sonic VX 3276-2K-MHD-32-INCH LED Monitor	1	M/S Easy Solutions & Services Providers ESSP	25-Nov-19	72,500	KPRA HQs
21	TP Link 840N Router SB 2133	1	M/S Global Computers	31-Oct-19	3,090	KPRA HQs
22	Extension card for exchange	1	M/S Micro Tech Solution	18-Nov-19	34,500	KPRA HQs
23	Wire For Extension 600RFT	600 RFT	M/S Micro Tech Solution	18-Nov-19	12,000	KPRA HQs
24	Installation Charges	1	M/S Micro Tech Solution	18-Nov-19	3,000	KPRA HQs



25	ZK Teco IN05-A TA & Access Control Machine with ADMS Software For Centralized Machines in One Link	2	M/S 3 Com Technologies	4-Oct-19	94,887	KPRA HQs
26	Mobile Phone Huawei P30 Lite	1	M/S White Apple	9-Oct-19	49,401	KPRA HQs
27	LED Monitor HP E 243 Screen Size 24 inch	1	M/S Micro Engineering & Security System	2-Aug-19	57,800	KPRA HQs
28	UPS With battery , XPERT	1	M/S Micro Engineering & Security System	2-Aug-19	19,800	KPRA HQs
29	Orient Water Dispenser	1	M/S Office World	1-Aug-19	26325	KPRA HQs
<b>Machinery &amp; Equipments</b>						
30	Split AC 1.5 Ton Orient	1	M/S Office World	17-Jun-20	79,500	KPRA HQs
31	Orient Air Conditioner 1.5 Ton DC Inverter	1	M/S Office World	29-Jul-20	99,400	KPRA HQs
<b>Furniture &amp; Fixtures</b>						
32	Aluminum Partition 1.6mm , 88 Sq ft	1	M/S Naz Aluminum	28-Jan-20	61,600	KPRA HQs
33	Aluminum Partition 1.6mm , 88 Sq ft	1	M/S Sikandar & Co.	12-Nov-19	61,600	KPRA HQs
34	Executive Revolving Chair	2	Pearl Office Furniture	4-Sep-19	49,600	KPRA HQs
35	Reception Counter, KPRA Words Board	1	M/S Prince Office Furniture	2-Sep-19	76,000	KPRA HQs
36	Executive Tables	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	45,047	Abbottabad Office



37	Executive Side Racks	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	9,155	Abbottabad Office
38	Revolving Chair	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	19,130	Abbottabad Office
39	Revolving Chair Full Cushion	21	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	266,756	Abbottabad Office
40	Sofa Set	2	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	136,464	Abbottabad Office
41	Centre Table Set	2	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	26,688	Abbottabad Office
42	Revolving Chair High Back	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	19,342	Abbottabad Office
43	Computer Table	8	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	113,443	Abbottabad Office
44	Computer Chair	8	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	72,783	Abbottabad Office
45	Office Chair	20	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	87,937	Abbottabad Office
46	Conference Table	4	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	64,986	Abbottabad Office
47	Conference Table Corner	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	13,647	Abbottabad Office
48	Single Bed	2	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	41,851	Abbottabad Office
49	5 Seater Bench	2	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	19,906	Abbottabad Office
50	Stool	6	KPK SIDB Wood	25-Sep-19		Abbottabad



51	Coat Hander	1	KPK SIDB Wood Working Centre Mansehra	25-Sep-19	7,784	Abbottabad Office
52	Vertical Blends Curtains For 4 Rooms	358	M/S Global General Order Suppliers	11-Oct-19	98,808	Mardan office
53	Revolving Chair	4	KPK SIDB Wood Working Centre Mansehra	1-Jul-19	43,468.00	Abbottabad Office
54	Officer Table	4	KPK SIDB Wood Working Centre Mansehra	1-Jul-19	96,450.00	Abbottabad Office
55	Side Rack	4	KPK SIDB Wood Working Centre Mansehra	1-Jul-19	22,239.00	Abbottabad Office
56	Easy Chair	10	KPK SIDB Wood Working Centre Mansehra	1-Jul-19	78,344.00	Abbottabad Office
57	Stone Chairs	3	M/S Office World	4-Jul-19	22,815.00	KPRA HQs
58	Fiber glass sheet	1	M/S Energy Empower	7-Jul-19	22,500.00	KPRA HQs
59	Steel Rods	1	M/S Energy Empower	7-Jul-19	5,000.00	KPRA HQs
60	Exhaust Fan Parts	1	M/S Energy Empower	7-Jul-19	17,000.00	KPRA HQs
61	wooden benches	5	M/S Prince Office Furniture	10-Jul-19	53,000.00	KPRA HQs
62	Folding Chairs	10	M/S Prince Office Furniture	10-Jul-19	59,000.00	KPRA HQs
63	Book Shelf	1	Noor Habib Qureshi	19-Jul-19	1,550	KPRA HQs
64	Wooden Honor Board 49x31"	1	Samad Brother	9-Jul-19	43,300	



<b>Electronics &amp; MISC Items</b>						
65	ECO Star LED 50" 4k UHD	1	Silicon Technologies	11-Jun-20	97,500	KPRA HQs
66	Electric Heater Bester Q.53	4	M/S Energy Empower	14-Jan-20	27,200	KPRA HQs
67	Electric Heater Model 808	2	Ajab Gul Crockery	9-Jan-20	5,300	KPRA HQs
68	Electric Heater	1	Pak Electronics	31-Dec-19	2,950	KPRA HQs
69	Pole with Flag , Table Flag & Stand	1	Fauji Hatti	30-Sep-19	17,000	KPRA HQs
70	Electric Heater	1	M/S Popular Pipes	21-Nov-19	800	KPRA HQs
71	Electric Heaters	6	Ajab Gul Crockery	26-Nov-19	9,790	KPRA HQs
72	Bracket Fans	5	M/S Energy Empower	9-Jul-19	32,200	KPRA HQs
73	Bracket Fans	8	M/S Energy Empower	2-Jun-19	45,512	KPRA HQs
74	White Board & Innauguration Board 3x4	1	M/S Office World	29-Jul-19	40,365	KPRA HQs
75	Carpet Matt 150 Ft	1	M/S Office World	9-Jul-19	48,000	KPRA HQs
76	Flag Poles With Flags	4	M/Samad Brothers	26-Jul-19	70,000	KPRA HQs
77	Portrait	3	M/S Office World	4-Jul-19	14,742	KPRA HQs
78	Pedestal Fans	2	M/S Office World	4-Jul-19	13,338	KPRA HQs



- 8.** In order to motivate the KPR's workforce, a very comprehensive incentives system based on measurable key performance indicators was introduced in the year 2019-20 under the guidance of the provincial political leadership. KPR's Performance Based Management & Incentives System (PBIS) follows objective principles of incentivizing optimization of growth in the organizational output through a system enshrined in simple, specific and transparent parameters. The overarching purpose of the system to stimulate and steer organizational growth by systematically promoting organization's well-thought short and long term growth and reform programs. Key performance indicators are decided annually. The KPIs are carefully adjusted in with the long-term revenue mobilization strategy of KPR along four dimensions of broadening of tax base, increase in tax compliance, organizational efficiency and enhancing taxpayer awareness directed towards taxpayers' education-cum-facilitation.
- 9.** The PBIS contained two intertwined principal components i.e. the revenue collection by KPR through organic and achieved growth and the incentives calculation on the basis of basic pay scales of KPR's employees of all categories. The progressive linked incentives on revenue side were spread on weightage basis between two extremes of the annual targets progressively linked to the quantum of basic pay to be considered for cash reward with maximum limit of eighteen basic pays. Thus, if KPR achieved minimum target level, it would then be capable of achieving fifty percent of its aggregated annual basic pays as a reward, which percentage was to incrementally increase with the increase in achieved levels of target on higher side ending at the said maximum limit. The non-revenue KPIs were also given weightage linked with maximum of six months' basic salaries. They covered areas like telecom, withholding, hospitality, region-wise revenue growth, litigation management, audit, recoveries of outstanding tax dues, establishment of Appellate Tribunal, collection of IDC at all customs stations, broadening of tax base, establishment of regional offices and compliance of return filing. The percentage weightage of the KPIs are indivisible so that in-built stimulus for hardwork may be kept alive within the corpus of the PBIS.
- 10.** Two surveys were also conducted by the Finance Department and KPR, with a random pool of taxpayers in February 2020 and then in June 2020 to assess KPR's overall customer satisfaction. These surveys brought very encouraging results about the taxpayers' and public image about the professional standards, integrity and tax facilitation norms of KPR.



## CHAPTER-4

# ENFORCEMENT, AUDIT & SUPPORT FUNCTIONS

**1. Enforcement:** Under every good tax administration, enforcement consists of a wide range of activities primarily aimed at optimizing tax compliance through broadening of tax base, implementation of tax laws, ensuring maximum accurate tax compliance, detection of compliance irregularities, tax evasion, tax fraud and other tax-related misdeeds, tax intelligence, tax monitoring and prosecution in serious tax crimes. Keeping in view the peculiar, rather distinct features of the KP's provincial economy, KPRA has been hitherto applying soft enforcement tools with more concerted emphasis on the following measures:

- ❖ Physical surveys were conducted from time to time to identify registrable businesses and third party data was used to gather information about non-compliant entities.
- ❖ Business associations were contacted to hold frequent meetings with them to motivate their members and other related businesses to commence KP sales tax compliance.
- ❖ Workshops and seminars were held to educate the business community about the compliance procedures and take their input for further simplification of processes.
- ❖ A very effective communication and publicity strategy was designed and implemented for public awareness.
- ❖ In the three regional offices and at KPRA's headquarters, taxpayer facilitation desks/centers were established to help the visitors from the business community in need of guidance and advice.
- ❖ Different social media tools were used to help create public awareness and replying public queries.
- ❖ Online complaint system (basically a real time difficulty removal system) was put in place to facilitate the taxpayers in their interaction with the automated computerized system.
- ❖ A very organized and efficient system was established to quickly respond to the clarifications requested by taxpayers, business associations, public sector organizations and other concerned quarters.
- ❖ Off and on physical monitoring of sales was done in case of vulnerable and tax avoidance-prone businesses leading to visible improvement in tax declarations.
- ❖ Restaurant Invoice Monitoring System (RIMS) extendable to other categories of business streamshas been designed but could not be launched due to COVID19, although several food-outlets were shortlisted after proper survey and were persuaded to welcome the installation of RIMS.
- ❖ Soft-warded notices were issued to potential taxpayers including withholding agents to obtain registrations and get enrolled and compulsory registrations were also issued and enforced where needed.
- ❖ The system of return processing/declaration examination was further refined to ensure combat late, short and non-filings and contraventions were adjudicated under due process of law and assessed amounts of tax, default surcharge and penalties were recovered.



- ❖ Very carefully thought tax policy design as an enforcement instrument for voluntary compliance was adopted to mitigate the traditional resistance against government taxes and economic documentation.
- ❖ Appeals and litigations were focusedly pursued through law background personnel specifically recruited for the purpose besides case-wise legal opinion from the regular standing counsels selected on merit from open market.

**2.** During 2019-20, COVID19 unleashed multiple setbacks and shocks to the revenue maximization measures of KPRA. Closure of markets, lock-ups and social distancing very adversely impacted the size and range of consumption. Revenue flow from several sources suddenly stopped. Due to the public fears aired by COVID19, KPRA could not manage alternate sources for compensatory revenue. Though for quite a long period, the public offices remained closed but most of the KPRA's officers and officials continued attending office for allowed limited hours almost every day. Taxpayers were approached through electronic media for recovery of payable dues and even adjudications were carried out through video conferencing and the taxpayers whose liabilities were determined through video adjudication were persuaded to deposit the due tax amounts. Physical interaction however, remained almost extinct throughout the lockdown period. COVID19 in fact deprived KPRA to reach closer to the expected mid-range of the two extremes of its annual target. Still KPRA succeeded to glean as more revenue as was possible with human efforts.

**3. Tax Audit:** Audit is one of the core functions of a tax administration and is essential for keeping check and balance on taxpayers to ensure proper compliance to fiscal tax laws and payment of due taxes. Under VAT-like sales tax, the objective of audit of the records of registered persons is to evaluate that they have correctly declared the true values of taxable transactions, correctly assessed payable tax amounts after taking admissible tax credits and discharged their due tax liabilities on time in the prescribed manner. Tax audit is one of the most sensitive dimensions of contact or interaction between the tax administration and the taxpayers. The presence of a tax auditor at the taxpayer's business premises, coupled with the examination of business records and documents primarily aimed at gathering tax-related information from taxpayer's books and accounts etc, sometimes put pressure on the taxpayer and is prone to be construed as an unwarranted intrusion into their business affairs. Notwithstanding this, tax audit remains the only effective method for ascertaining actual facts about tax compliance or verifying the veracity of declared data and information.

**4.** The audit function goes beyond just verifying information provided by taxpayer in his tax returns and detection of discrepancies between the information in the return and supporting books and records etc. The audit function also includes verifying the taxpayer's reported obligations and detecting discrepancies with available third party information obtained from different institutional and intelligence sources. Cross-matching of sales and purchases also help a good deal in the verification of the declarations' accuracy. The audit function of the tax administration can play a crucial role in setting the level of deterrence against tax misdeeds. According to one of the studies conducted by IMF on the success and failure of VAT systems, if VAT audit is weak, VAT administration will be weak and VAT revenue will soon decline once taxpayers realize that there is no effective audit by the tax administration.



5. During 2018-19, KPR's audit domain was more or less limited to desk audit involving return examination on the basis of information available in the system and purpose-specific documents called for from the auditees. However, during 2019-20, audit was organized and conducted in a more professional and target-oriented manner by taking the following initiatives.

- ❖ A separate Audit Wing was established in July 2019 with specific new appointments of officers and staff groomed through intensive on-the-job training.
- ❖ A formal Audit Plan containing targets for category-wise audits with anticipated revenue additions was prepared and put to implementation during the year 2019-20.
- ❖ Implementation of the planned audit programs and audit proceedings in important cases were closely monitored and monthly report were generated showing the quantum of audits initiated, conducted and completed. Audit report writing was adopted as an obligation of the audit officers. The volume of prima facie recoverable revenue was also shown in the monthly reports.
- ❖ A senior level pre-adjudication quality review system was introduced so that the cases may not suffer any adverse adjudication results thereby adding up in the productivity of audit operations.

6. Selection of registered persons for audit was carried out manually on the basis of data available on PTMS/DSS, risk-based analysis and third party information. Audit Plan envisaged audit of 200 registered persons. However, due to COVID-19, audit of only 170 registered persons could be undertaken. Audit of 145 registered persons was completed during the year. An amount of Rs.703.31 million was detected on account of different violations like non-payment, short payment and inadmissible input tax adjustment etc. Audit reports were sent to the concerned competent officers for adjudication. Regions-wise details of audit reports are given below:

Description	Central Region	North Region	Mardan & Malakand Region	South Region	TOTAL
Audit Reports	54	12	51	27	145
Amount Detected (Rupees)	374,158,577	35,996,294	192,137,828	99,273,973	703,308,783

7. The Directorate of Finance, KPR carried out a “case study” in respect of transportation of wheat by the “carriage contractors” of Food Department during the year 2019-20 on the basis of information about public sector withholding agents obtained from the office of Accountant General Khyber Pakhtunkhwa. The study gave three very important lessons. First, withholding tax compliance in public sector needs constant overwatch at the stage of disbursement of service charges. Secondly, the public sector contractors need to be brought under registration net and approached to guide and ensure that they do not fall prey to their tax avoidance follies. Thirdly, tax payments on such contractual transactions need to be verified through the instrument of single purpose audit at both ends of the service contracts besides the tax payment verification on the side of taxable services provided by such contractors in non-public sector side market.



**8. Information Technologies:** Efficient and inclusively responsive IT infrastructure is the backbone of modern tax management system. It is very crucial for effective monitoring, audit, enforcement and recovery functions. KPR has a full-fledge in-house IT Directorate equipped with modern IT hardware, strong knowledge base for bespoke software development and well-qualified experienced computer professionals and technical support personnel. During 2019-20, the KPR's IT Directorate took several important software development and application measures, some of which are briefly mentioned below:

- ❖ A new website which feedback and complaint management facility has been developed for exclusive service to KPR's domains, which is regularly updated with the latest legal developments and other information for the facilitation of tax payers.
- ❖ SMS portal, useable also in registration campaigns, has been set up for dispersal of messages amongst the taxpayers fore-reminding them about their time-specific responsibilities for return filing and tax payment replacing the individual manual notification processes.
- ❖ In order to catch information from invoices of the restaurants and beauty salons on real time basis, the IT Directorate has developed a system called RIMS (Restaurant Invoice Monitoring System), which will be deployed soon once the COVID19 impact is over.
- ❖ KPR grievance redressal system was developed to facilitate quick response to taxpayers, organizations and general public with facility to receive complaints through Pakistan Citizen Portal, Website, Helpline, WhatsApp, Email, Facebook and Twitter.
- ❖ A system has been evolved and applied for efficient database replication from PRAL's PTMS to KPR's
- ❖ DSS (Decision Support System) has been launched thereby enabling KPR to streamline its internal interactional and reporting system (now about thirty statements are generated under KPR's MIS). DSS is serving several purposes as follows :
  - ❖ Generates multiple statements and information sheets to facilitate the KPR's functionaries to expedite their routine operations helping higher management to make data-driven decisions at central and regional offices' levels and on sector-wise basis.
  - ❖ Provides dashboards for respective regions (Mardan & Malakand, North, South) and sectors (Corporate, Non Corporate, Withholdings, Oil & Gas) for the tracking and analysis of their performance and growth.
  - ❖ Provides graphical representation of important information through visual elements like charts, graphs and maps thereby providing accessible ways to see and understand collection, returns, registration trends, outliers and patterns in the data.
  - ❖ Provides registration reports including service providers, withholding agents, individual businesses, AOPs (associations of persons) and companies on jurisdiction, sector and district wise basis along with one view report showing a complete picture of any taxpayer data (profile details, bank branch, business branches, declaration details, payments and liabilities).
  - ❖ Helps return filing analysis with a complete summary of tax period wise (with aggregates) return filing showing filers, non-filer, paid-filers, null-filers, nil-filers and late-filers.
  - ❖ Provides return annexures' analysis showing all relevant particulars (suppliers and buyers details, tax deductions, and tax rates, invoice details) required for auditing and in detection processes besides a cross matching report of purchases and sales pointing out valid and invalid invoices included in the annexures.



- ❖ Provides detailed reports including main collection report showing all the particulars of bank payments by service providers, highly customizable by financial year, sector, tax period, NTN and business name wise.
- ❖ Makes taxpayer wise monthly collection reports showing all payments made in each month in any selected financial year with shortfalls in payments, if any.
- ❖ Provides withholdings data analysis including registered withholding agents, withholding statements, CPR details with identification of service provider in withholding statements and sales tax withheld month and tax period wise.

**9.** Social media platforms including Facebook and Twitter etc are being maintained to update KPR information for taxpayers and general public besides receiving queries and complaints from the public and taxpayers. Automation of notices' generation, issuance and management is crucial for efficient enforcement of tax laws. KPR has developed notice automation system initially from registration side of the tax compliance enforcement. A complete inventory management system has been developed and applied for the intake and outtake of KPR's consumable and durable stores including its moveable and immovable assets adding transparency in its financial and administrative management domains. In order to facilitate the KPR regional offices including Abbottabad, Mardan and Bannu with the latest IT facilities, technical surveys of the regional offices have been conducted to identify their needs for hardware and software.

**10.** Besides the above measures and activities of KPR's IT system, hardware has been suitably upgraded and network infrastructure laid down meeting all indoor IT-usage requirements. Dedicated internet service of 24 Mbps has been provided as acquired from NTC for official use which enables the KPR's officers and officials to work through internet, conduct research, download technical materials and publish software applications on the internet. Server's security has been enhanced through next generation firewall installation. IP-based CCTV cameras have been installed to monitor the KPR's premises and vouch for its overall security. Visitors' handling will also be automated in near future. Work towards real time system-based automation of audit, adjudication and recovery work is also likely to be undertaken and finalized in near future

**11. Communication:** Communication and Public Relations (PR) is an integral part of KPR's organizational structure. KPR is well aware of the importance of media, social media, communication and reaching out the public using modern mass communication tools. The principal aim of KPR's communication strategy is to round the year provide timely information to its stakeholders regarding any developments or changes in the tax system along with building tax culture in the province thus increasing tax base and boosting revenue collections. The KPR's Communication & Public Relations Wing arranges seminars, workshops and registration-drive programs backed by rigorous communication campaign through social media and mainstream media meanwhile providing on spot registration facility to untapped potential taxpayers at their doorstep. During 2019-20, the following main activities were undertaken by the Wing:

- ❖ Registration week in Peshawar from Monday March 9, 2020 till March 13, 2020 to increase registrations, create awareness among the masses and provide on-spot registration facilities to the businesses. Resultantly, 136 business were registered



- ❖ Registration week in South was scheduled to be held from March 16, 2020 till March 20, 2020 but could not be fully materialized due to COVID19 and teams were called back while still working in Dera Ismail Khan.
- ❖ A regular system was put in place to make aware, educate and give timely response to the taxpayer's queries via social media platform i.e. Facebook Fan Page, Twitter and WhatsApp.
- ❖ Press releases and broadcast materials were prepared and issued for every important event of KPRA thereby updating the taxpayers' community and public at large about the organization's operational and tax management direction.
- ❖ Publicity and outreach material (including brochures, pamphlets and leaflets, hangers, streamers and billboards etc) was printed, distributed, displayed and installed for the information and education of the taxpayers regarding KPRA's activities, tax policy changes, registration requirements, sales tax return filing procedures and removal of difficulties.
- ❖ Audio/video material including TVCs (TV commercials) for social media networks was produced and relayed containing tax educative (pictorial step-by-step procedural guidance on registration and compliance procedures) and instructional material and messages from the political and organizational leadership for information, advocacy, motivation towards tax compliance.
- ❖ Tower-based SMS campaign was also launched for awareness and mobilization of taxpayers.

**12. Litigations (including adjudications):** KPRA is not facing any voluminous (higher) court litigation against its legislative or regulatory frameworks or their implementation. KP sales tax law as currently contained in the KP finance act , 2013 and rules and regulations issued thereunder, has over the passage of time streamlined in such a way that a very limited or minimal room exists for any serious disputes. Under the separate new draft of KP Sales Tax on Services Act expected to be legislated in near future, even the least probable possibilities of disputes have been taken care of. It is hoped that with the new law in the field, chances of court litigations will be further minimized. Even the tax policy measures taken in the Budget, 2019-20 have casted a very positive impact on reducing court litigations. Only, 14 cases about infrastructure development cess are pending in the Supreme Court of Pakistan. Meanwhile, IDC collections have started showing exponential growth (more than double) and expected to further grow in future at good rate.

**13.** At High Court level (Peshawar High Court), out of 26 constitutional writ petitions, 21 petitions have been decided. Most of these petitions were filed by construction contractors, privately practicing doctors and legal practitioners. In consequence of tax rate reductions together with waiver of old uncharged liabilities in the last year's budget, 21 petitions were disposed of either as withdrawn or without any adverse decision against KPRA. After the announcement of these decisions, KPRA started efforts to collect tax from thence onward. On IDC side, only 11 writ petitions are pending before the Peshawar High Court. Most of these petitions are against the duplication of IDC in different provincial jurisdictions and collection of IDC at the import stage



of goods, although IDC is not customs duty and customs clearance is only the collection point adhered to for the purpose of collection convenience without changing the nature and character of IDC as a purpose-specific provincial cess. KPR has also drafted a separate new IDC Act which is likely to be enacted very soon. It is understood that with the new IDC law in the field, the legal disputes on IDC will drastically reduce.

- 14.** Appellate Tribunal of KP sales tax is a second forum of appeal in departmental adjudications. The Tribunal became functional in February 2020 and since then, it has decided 13 appeals (out of the total of 22) involving revenue of Rs.1409.75 million (not yet recoverable as such) with major chunk remanded to the original adjudication stage for reconsideration in the light of directions given by the Tribunal. Since KPR's officials are carrying out their adjudicatory functions in very judicious manner determining tax demands very carefully and strictly within legitimate boundaries, handsome recoveries are made at original adjudication stages and it is because of the application of such justful approach that very few disputes are brought to higher fora of appeals or for judicial review.
- 15.** During 2019-20, adjudications were completed in 91 contravention cases determining tax liability of Rs.256.92 million, out of which Rs. 109.11 million were recovered. These cases mostly related to non-payment or short-payment of due tax, availing inadmissible input tax adjustment and tax liability violations resulting from delinquency or breach of withholding tax obligations. Recovery efforts in the balance assessed tax amount are in progress except in cases where appellate forums have granted stays due to the debatability and sensitivity of legal issues raised in the appeals.



## CHAPTER-5

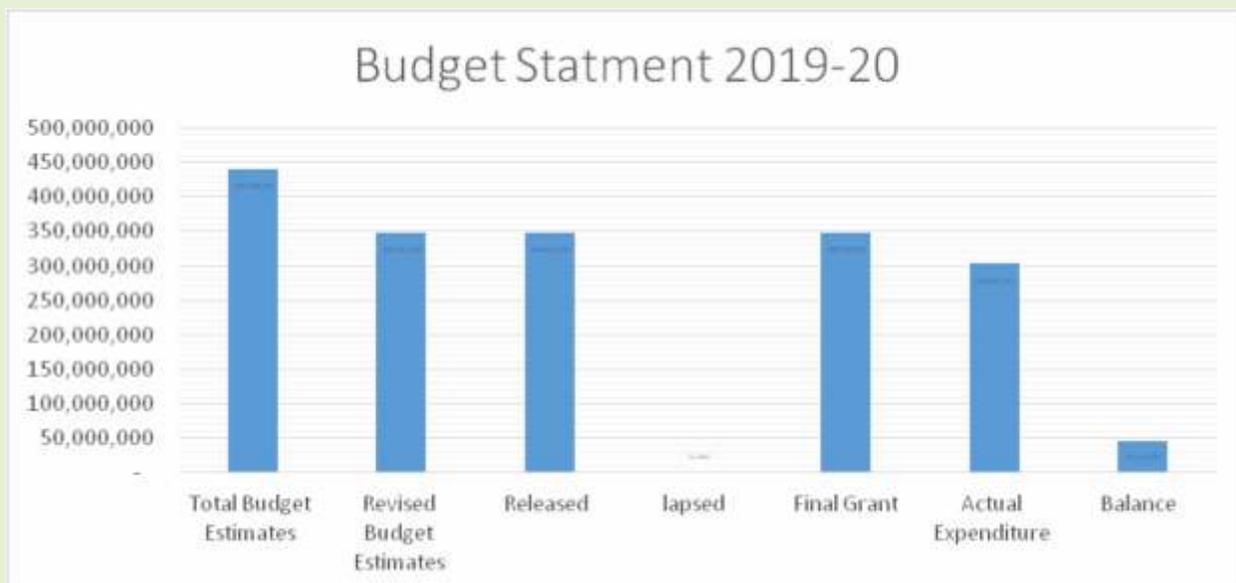
# BUDGET AND ACCOUNTS (Expenditure)

- 1. Preamble:** KPR is a sleek organization. Most of its functions are performed through high-tech IT-based system. Its revenue is growing much faster than its expenditure demands. Since KPR is currently passing through an expansion phase, bare minimum new resource mobilization is quintessential to facilitate and support its expansionist processes. However, in expansion phases, most of the tax organizations have to spend on acquisition of sources whose serviceability, utility and actual utilization continues for a longer period of time. Such sources bring repeated returns in the form of additionality in revenue during every year of their life. It is perhaps because of this reason that in several tax overseas tax administrations, only annual depreciated value of the durable assets is taken into account to work out real as against nominal cost of collection. Nominal cost is always higher than real cost.

There are certain fundamental principles which are religiously followed by KPR to make its financial management transparent and flawless. These principles revolve around the norms of strict supervisory control over financial management, adherence to prescribed expenditure documentation, observance of all codal sanctions and restrictions in procurements, maximum avoidance of wastage of resources, utmost conformity to austerity, regular maintenance of physical assets, maximum gains from the value of money and fair compliance to codified internal and external audit protocols.

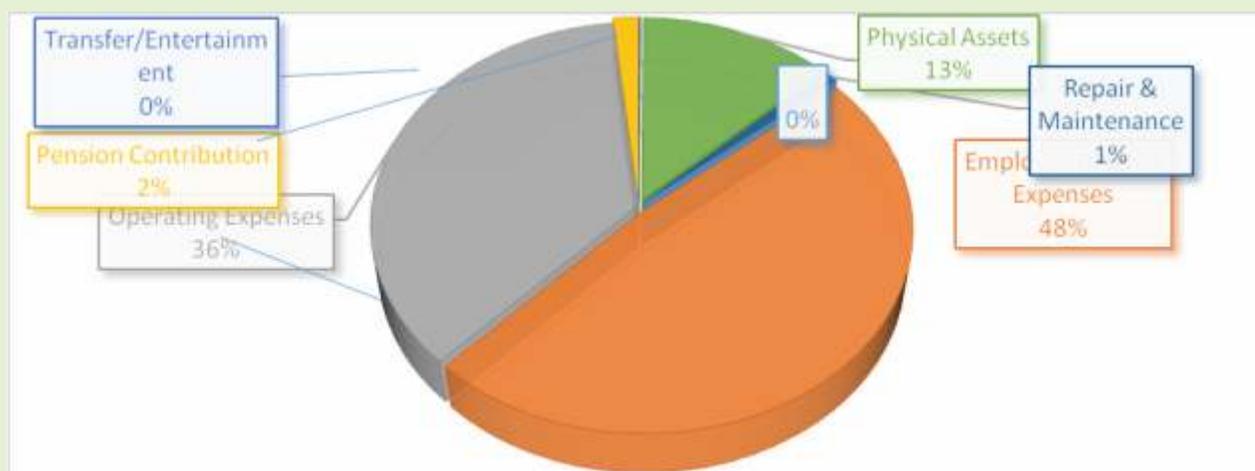
- 2. Original & Revised Estimates:** Under section 13 (I) of the KP Finance Act, 2013, KPR is required to prepare for every financial year its statement of the estimated receipts, revenue targets and expenditure for submission to the Government for approval. For the year 2019-20, KPR accordingly submitted its budget proposal of Rs 440 million which was approved and allocated as “grant in aid” in the Schedule of Authorized Expenditure under Grant No. 3 for the year 2019-20. However, during the year, estimates were revised downward to Rs 348.411 million estimates as revised estimates and consequently, the releases did not exceed the revised estimates.
- 3. KPR Fund:** Although under section 12 (3) of the KP Finance Act 2013, account for KPR Fund is required to be maintained in any scheduled bank. The Finance Department however, allowed opening of KPR Fund account with Bank of Khyber (Bok), Hayatabad Branch, vide its letter No. 6-25 (F/L)FD/2002 dated 11th November 2019. The unspent balance of Rs 60,027,144/- lying in the assignment account was transferred to the Bank of Khyber.
- 4.** Against the released amount of Rs 348.411 million, expenditure of Rs. 303.447 million was incurred upto 30-06-2020. A meager amount of cheques issued but not encashed of Rs 52,860 lying in the assignment account was lapsed. The unspent amount of Rs 44.911 million allocated for performance-based incentives and reward to KPR employees was carried forward to the next financial year. The graph below shows the comparison of budget estimates, final grant and actual expenditure.





**5. Object-wise Details:** The major object wise details of expenditure of Rs 303,447,142 are given along with a pie chart as below:

Object Code	Major Object	Amount
A01	Employee Related Expenses	146,502,797
A03	Operating Expenses	109,721,375
A04	Pension Contribution	5,178,139
A06	Transfer/Entertainment	274,457
A09	Physical Assets	38,829,699
A13	Repair & Maintenance	2,940,675
	<b>Total expenditure</b>	<b>303,447,142</b>



Out of total expenditure of Rs 303.447 million, the expenditure on employee's related expenses is Rs 146.502 million which is 48% of the total recurring expenses. KPRA incurred capital expenditures of Rs 38.829 million during the year on acquisition of physical assets useable over a longer period of time. The nominal cost of collection during the year 2019-20 remained at 2% only.

**5. Progressive Expenditure:** The following graph shows comparison of expenditure during was period from 2013-14 to 2019-20.



**6. Financial Statements:** As a mandatory requirement under the KP Finance Act, 2013, KPRA has compiled its annual accounts and annual financial statements i.e. Statement of Assets and Liabilities, Statements of Receipts and Expenditure and Statement of Budget vs Actual Expenditure (appropriation account) for the year 2019-2020 in accordance with the International Public-Sector Accounting Standards (IPSAS). Its physical assets have increased from Rs 86.103 million to Rs 124.628 million.

**7. External Audit:** The KP Finance Act, 2013, requires the Auditor General of Pakistan to annually audit the accounts of KPRA. During the year, the Director General Audit Khyber Pakhtunkhwa, on behalf of Auditor General of Pakistan, has conducted audit of both revenue receipts and expenditure for the year 2018-19. Report of the external auditors was received in December, 2019. Report was examined and annotative replies submitted to the Principal Accounting Officer for arranging meeting of the Departmental Accounts Committee (DAC).



KPRA always appreciates and welcomes timely conduct of external audit taking audit as a time tested tool for institutional transparency and accountability. This approach reflects the degree of strength and seriousness of the KPRA's sense of responsibility as a major revenue collecting organization of the province of Khyber Pakhtunkhwa.

- 8. KPRA Employees Contributory Provident Fund (CPFund):** For grant of retirement benefits to its employees, KPRA has approved KPRA Employees (Contributory Provident Fund) Regulation, 2020. Employer's and employees' contribution to the Fund has started pouring in.
- 9. Statements:** The statements of financial position, receipts and expenditure and comparison of budget and expenditure are given below (all statements' showing figures in Pak rupee in millions)

<b>Statement of Financial Position</b>			
<b>2019-20</b>			
		<b>2020</b>	<b>2019</b>
<b>CURRENT ASSETS</b>			
	Cash & Cash equivalents	44.91	-
	Receivables & Advances	0.00	0.30
	Investments		
	<b>Total current Assets</b>	<b>44.92</b>	<b>0.30</b>
<b>NON-CURRENT ASSETS</b>			
	Physical assets	124.63	85.80
	<b>TOTAL ASSETS</b>	<b>169.54</b>	<b>86.10</b>
<b>CURRENT LIABILITIES</b>			
	Payables	0.01	0.00
	<b>Total Current Liabilities</b>	<b>0.01</b>	<b>0.00</b>
	<b>TOTAL LIABILITIES</b>	<b>0.01</b>	<b>0.00</b>
	<b>RESIDUAL EQUITY</b>	<b>169.54</b>	<b>86.10</b>
	<b>TOTAL RESIDUAL EQUITY &amp; LIABILITIES</b>	<b>169.54</b>	<b>86.10</b>



**STATEMENT OF RECEIPTS AND EXPENDITURES**
**2019-20**

				<b>2019-20</b>	<b>2018-19</b>
				<b>RUPEES</b>	<b>RUPEES</b>
<b>RECEIPTS</b>					
Grant in aid				348.41	350.00
Surrendered				-	121.80
Departmental receipts				-	-
<b>Total</b>				<b>348.41</b>	<b>228.20</b>
<b>EXPENDITURE</b>					
Employees Related Expenses				146.50	109.44
Operating Expenses				109.72	97.61
Employees Retirement Benefit					
Pension Contribution				5.18	5.13
Employee Contributory Provident Fund					
Transfer/Entertainment				0.27	0.35
Physical Assets				38.83	11.99
Civil Works				-	0.23
Repair and Maintenance				2.94	3.00
Advances				-	-
<b>TOTAL</b>				<b>303.45</b>	<b>227.76</b>
Amount Lapsed as result of uncashed cheques				(0.05)	(0.17)
Closing Balance				<b>44.91</b>	<b>0.27</b>



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE							
2019-2020							
	Budgeted Amount	Revised Budget	Released Budget	Surrendered	Final Grant Budget	Actual	Variation Excess/ (Savings)
<b>Receipts</b>							
Grant in aid	440.00	348.41	348.41		348.41	348.41	-
Surrendered		-	-	-	-		-
Departmental receipts	-	-	-	-	-	-	
<b>Total Receipts</b>	<b>440.00</b>	<b>348.41</b>	<b>348.41</b>		<b>348.41</b>	<b>348.41</b>	<b>-</b>
<b>Payments</b>							
A01 Employee Related Expenses	218.67	146.50	146.50		146.50	146.50	-
A03 Operating Expenses	122.88	109.73	109.73		109.73	109.72	(0.01)
A04 Employee Retirement Benefit Pension Contribution	36.60	5.18	5.18		5.18	5.18	-
A06 Transfer/Entertainment	0.85	45.19	45.19		45.19	0.27	(0.00)
A09 Acquisition of Physical Assets	56.10	38.83	38.83		38.83	38.83	-
Civil Works							
A13 Repair & Maintenance	4.90	2.98	2.98		2.98	2.94	(0.04)
A08 Advances	-	-	-	-	-		-
<b>Total expenditure</b>	<b>440.00</b>	<b>348.41</b>	<b>348.41</b>	<b>-</b>	<b>348.41</b>	<b>303.45</b>	<b>(44.96)</b>
<b>Cash Balance</b>						<b>44.96</b>	
<b>Amount Lapsed as result of uncashed cheques</b>						<b>(0.05)</b>	<b>0.05</b>
<b>Total Closing Balance transferred to KPRA Fund A/C</b>						<b>44.91</b>	<b>44.91</b>

**10.** KPRA has in the recent past established three regional offices out of Peshawar at Abbottabad, Mardan and Bannu. Functionally, these offices are still passing through formative phases. Once they are stable in their initial assignments becoming able to maximally mine out the potential revenue from their respective areas, their jurisdictional range on functions side will be enhanced. May be their legal status will have to be regularly or permanently upgraded as regional Collectorates. Since the basic purpose of establishing these offices was to extend physical outreach of KPRA so that tax base could be increased geographically and through tax gap bridging, the issues of making these offices self-sufficient in their sub-organizational management will sooner or later surface.

**11.** Currently financial management of the regional offices is being controlled centrally by KPRA headquarters. They are still, in a sense, dependent on headquarters office to meet their everyday expenses. Capital goods are preferred to be purchased by headquarters. However, for non-capital buyings, whenever needed by the regional offices, advance procurement permissions are granted and bills are received, processed, sanctioned at and paid through cheques by headquarters. But for future, KPRA will surely develop some transparent and foolproof system whereunder



expenditure shall be allowed to be made directly by the regional offices observing all codal and record-keeping formalities. In such scenario, proper accounts offices with DDO powers will have to be established.

**12.** KPRA has a very stringent internal expenditure audit control. No payment is made without pre-audit aimed at checking the legality of the sanction, genuineness and propriety of the expenditure, fulfilment of codal requirements, deduction of applicable taxes. scrutiny of the documentary compliance and accuracy of intended payment.

**13.** KPRA is gradually moving towards a model of financial management where incentives, compensations and welfare of the officers will be one of the salient features of its internal financial governance. Performance-based incentives scheme has already been launched. Provident fund framework with equal share from KPRA has already been operationalized. Thinking is also in progress to establish a system of medical insurance with payment of premium from KPRA's own resources hopefully with nominal contribution from the employees. Provisions for the establishment of staff welfare foundation available under the KP Finance Act, 2013 are likely to be invoked in due course.

**14.** KPRA has in the past availed and is still availing some foreign grant-funded technical assistance programs. Although under these programs which are primarily aimed at capacity building and system refinement, financial funding for direct purchase of tangibles is not generally done but KPRA has been off and on facilitated in off-stream resource mobilization in the form of free handing over of used electronic and office equipments left surplus on the completion/closure of the aid programs, in good serviceable condition. KPRA is using these items for institutional purposes thereby reducing its demand from the government for the acquisition of such essential and useful capital goods. Records of such donated items are properly maintained but they are not counted towards assets acquired from government budgeted grants. Even recently, SNG-II has agreed to provide limited number of computer-compatible electronic devices for installation at selected food outlets (restaurants) under RIMS scheme.



## CHAPTER-6

### WAY FORWARD

1. Although several local adjustments have been made especially in the tariff design of KP sales tax, KPR's operational system is more or less following the basic management doctrines of VAT-type modern sales tax. Institutionally, KPR is a progressive and forward-looking tax organization always wishing and trying to learn more and more from the success stories of VAT countries of the world. With intensive use of information and digital technologies, KPR has reached at a stage where its tax management model can be rated as a fast-becoming-efficient modern pro-VAT sales tax administration system.
2. KPR believes in very simple principles of deep-rooted nexus between tax and market. Tax system must be conducive to maximize ease of doing business so that new investments bring more businesses generating more opportunities for enhancement in tax collections. Steadily growing businesses are a guarantee for the buoyant revenue growth. Tax should not interfere with the legally protected decision-making freedom of the businesses. It must honor genuine and legitimate market practices and norms. Tax compliance should not impose any undue cost on the businesses. Tax system must contain a visible and trustworthy facilitation mechanisms attracting businesses towards voluntary compliance. Taxpayer's confidence that his fair and truthful compliance will never be doubted or dishonored should never shatter. Pro-compliance confidence building is considered as one of the prime actions of the tax administrations, which not only promotes image and respect of the tax system but also works as an effective tool to motivate the market to value, honor and comply with the tax laws.
3. Such is the sublime institutional work philosophy of KPR that has always kept KPR thinking on and working for the achievement of more advance vision of tax management. KPR has therefore, established a tradition to prepare its annual future plan with a clear way forward. This future plan is, if needed, reviewed mid-year to make adjustment for unanticipated developments. Such midyear review also helps KPR to overcome deficiencies, if any, in its struggle to achieve its revenue and non-revenue targets. KPR has set the following way forward as a pivotal underpinning of its action plan for the year 2020-21:
  - i. Take all possible administrative and other measures under the tax management field as may help the market to speedily recover from the shocks and setbacks of COVID19 pandemics.
  - ii. Design and implement pro-tourism KP sales tax package containing reduced tax rate and amnesty from penal liabilities for the hospitality sector businesses at hill stations of Kaghan Valley and Galiyat ensuring that all taxable hospitality businesses in the area start immediate adequate compliance and continue to stay as fair compliant in future.



- iii. Introduce a reduced KP sales tax rate scheme for the hospitality sector businesses in Malakand in the light of limitations and exclusions in respect of non-resident service providers and non-resident service recipients under the time-bound exemption under the recently currently notified concessions for the erstwhile tribal areas.
- iv. Open seasonal outposts of KPR at hill station tourist spots after bringing them under tax net through special schemes.
- v. Rationalize region-wise jurisdictions, work distribution and redeployment of manpower so that localized businesses may be facilitated through the proximus presence of KPR's technical services to help in compliance to tax obligations.
- vi. Implement RIMS first in food services sector and then in other service regimes where services are mostly provided to walk-in customers.
- vii. Cleanse registration data so that realistic increase in return filing rate may be ensured to incrementally go closer to international standards.
- viii. Conduct physical surveys and geo-mapping to identify new registrable and taxable businesses bringing them to regular tax compliance besides enlisting fresh and updated third party data to expand tax net.
- ix. Restore a well-planned physical monitoring system in case of tax deviation-prone businesses once the market has re-stabilized out of recovery from COVID19 adverse impact.
- x. Get the issue of market rate system (MRS) settled on priority so that revenue yield from construction services under ultra-reduced rate may be optimized.
- xi. Get new separate statutes on KPR and KP Sales Tax on Services passed from the forth coming new laws of KPR provincial parliament well before the expiry of the financial year 2020-21.
- xii. Review all existing rules and regulations to bring them in complete harmony with the forth coming laws of KPR and KPST.
- xiii. Manage the mobilization of necessary resources both human and other to ensure that the desired levels of institutional efficiency and delivery do not suffer due to the paucity of essential resources.
- xiv. Open new sub-office at D.I. Khan (and may be at Kohat as well) under Bannu region so that physical outreach of KPR may be further extended and non-conformist businesses may be brought under tax net with localized facilitation arrangements.
- xv. Launch mobile registration and facilitation units so that registration and tax guidance services are made available at the doorstep of the taxable entities and businesses.



- xvi. Implement more impressive and efficient communication strategy coupled with seminars and webinars in coordination of trade bodies in different commercial clusters in the province.
- xvii. Develop and implement wider audit plan, expedite disposal of adjudication cases, pursue early decisions in appeal and litigation cases, pursue recoveries of tax dues and expeditious settlement of outstanding tax dues.
- xviii. Prepare training modules and commence in-house instructional sessions so that overall capacity of the manpower is increased to create higher degree of quality and productivity in the performance of KPR.
- xix. Settle the issues of mutual input tax adjustment with FBR for the remaining period of and subsequent year starting from 2016-17 and pursue the transfer of due amounts from Federal Government to KP Government.
- xx. Join as early as possible e-STRIVE system of FBR whereunder cross-jurisdictional invoice verification will become automated on real time basis easing out the solution of input tax adjustment settlement issues.

**4.** National Tax Council (NTC) has been established. Joint dialogue on GST harmonization has been started by FBR and all the provincial sales tax authorities under the auspices of the Finance Division. KPR is very pro-active in furnishing its academic and professional input to the Executive Committee of NTC. KPR however, never undermines the significance of political economy considerations. The guidance being given by the provincial political leadership in the context of NTC and GST harmonization is being fully observed and followed in its dealings with the forums working for and under NTC. Both the IMF and the World Bank have in their meetings with KPR or jointly with all sales tax authorities has appreciated the clarity and realism of KPR's approach on GST harmonization issues. On request, KPR furnished its views in black and white to the IMF's experts team. Many of the KPR's views were incorporated in the IMF's report on GST harmonization in Pakistan. KPR is trying to convince the NTC forums that relevancy of international best practices, sacrosancy of the constitutional entitlements of the provincial jurisdictions, importance of the time-honored principles of economic justice and equity and realities about inter-jurisdictional economic development levels and needs together with the differentiations of market structures and dynamics, should not be ignored while working towards harmonization of sales tax regime in the country.

**5.** KPR has recently brainstormed and designed a concept paper on the establishment of its own tax policy research unit. Initially, the unit will be operationalized from within the available sources and once it has started regular work and dived into more scholastic research activities, separate and dedicated resources shall be arranged so that self-sufficiency of the unit may be secured to the maximum extent. The KPR's research unit will work in the light of the following TORs, although it will perform very central role in the GST harmonization regime:

- ❖ Development, upgradation and maintenance of library both hard books and digital.
- ❖ Finalization of the drafts of new KPR Act and KP Sales Tax on Services Act.



- ❖ Development of comprehensive positive tariff of services and preparation of concessionary and negative lists.
- ❖ Preparation, updation and maintenance of working tariff of sales tax.
- ❖ Finalization and enlargement of definitions of 'Tax rates' rationalization through research into international success stories.
- ❖ Simplification of returns and statements.
- ❖ Review of regulations (and rules) in the light of new KPR and KP Sales Tax statutes.
- ❖ Simplification of procedures and processes.
- ❖ Development and periodic up upgradation of sector notes.
- ❖ BTB planning on sectoral and territorial basis.
- ❖ Revenue analysis, revenue budgeting (target fixation) and revenue forecasting.
- ❖ Vetting of the legal instruments from the Law Department.
- ❖ Holding of workshops, seminars and webinars from time to time.
- ❖ Development of cadre-wise training modules and holding of in-house training courses.
- ❖ Revenue budget preparation in coordination of all concerned internal and external quarters.
- ❖ Preparation of annual reports.
- ❖ Printing of KP sales tax laws for in-house and other governmental use.
- ❖ Assistance in the regular and timely updation of KPR's legal instruments on its website.



## HIGHLIGHTS OF

Towards Self Reliance



# EVENTS





DG KPR Mr. Fayyaz Ali Shah chairing meeting with Property Dealers Association in Peshawar



DG KPR Mr. Fayyaz Ali Shah receiving certificate of appreciation from Chief Minister Khyber Pakhtunkhwa Mr. Mahmood Khan



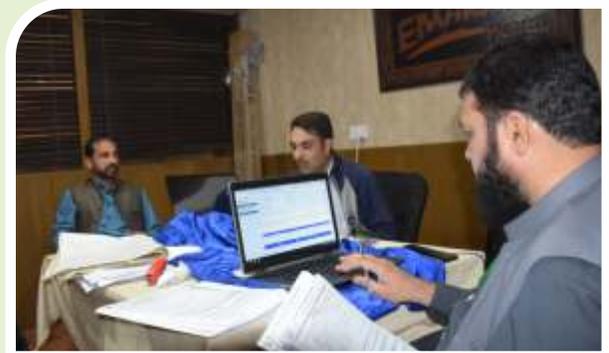
KPR field staff giving registration to a Doctor at his clinic



View of meeting with Taxpayers in KPR Headquarters



DG KPR Chairing an Internal Meeting at KPR HQ



Registration camp in Peshawar



KPR staff getting briefed in a meeting at KPR HQ



KPR Inspector examining registration certificate of restaurant owner in a registration drive at Peshawar





Taxpayer registration drive in Peshawar



Group photo with former DG KPRRA at his farewell



KPRRA staff briefing a potential taxpayer in Peshawar



Progress review meeting at Provincial Finance Department



KPRRA Staff educating a Hotel Manager regarding STS



KPRRA Staff briefing a restaurant owner at Peshawar





Finance Minister Taimur Khan identifying potential areas for tax



Morning meeting of mobile Registration Camp in DIKhan



KPRA Staff briefing Car detailing owner regarding STS



A restaurant staff displaying KPRA hangers for visitors



South region field team educating a taxpayer in his office



Finance minister Taimur Khan is presiding progress review meeting



Finance minister Taimur Khan is presiding progress review meeting



Monthly progress review meeting





Finance Minister Taimur Khan presiding progress review meeting



Finance Minister Mr. Taimur Khan chairing KPR review meeting



KPR Team registering doctors in Peshawar



KPR's Monthly Progress Review Meeting



KPR senior staff in planning meeting at KPR



DG KPR Mr. Fayyaz Ali Shah chairing a meeting



Prayers for success of KPR after handing and takeover ceremony



KPR Staff group photo with former DG Mr. Tahir Orakzai





Handing and Takeover meeting with Ex-DG Mr. Tahir Orakzai



Honorable Chief Minister Mahmood Khan giving certificate of appreciation to Mr. Fayyaz Ali Shah (DG KPRA)



Handing and Takeover meeting with Ex-DG Mr. Tahir Orakzai



Handing and Takeover meeting with Ex-DG Mr. Tahir Orakzai



KPRA Inspector in DIKhan is collecting data from guest house owner for Registration



KPRA Communication Team installing hangers on Road





Government of Khyber Pakhtunkhwa

Sponsored By:



---

Phase # 3 Chowk, Near Railways Track  
Hayatabad, Peshawar  
Phone: 091 921 9202  
[www.kpra.gov.pk](http://www.kpra.gov.pk)