Towards Self Reliance

KPRA

KHYBER PAKHTUNKHWA REVENUE AUTHORITY

ANNUAL 2018-19 REPORT

Government of
Khyber Pakhtunkhwa

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MESSAGE OF CHIEF MINISTER

It gives me immense pleasure to peruse the Annual Report 2018-19 of the Khyber Pakhtunkhwa Revenue Authority. The report gives a clear understanding that KPRA has made excellent achievements on several fronts evidencing the progressive nature of its demanding journey towards its declared institutional goals. Throughout the year, KPRA has been improving the quality and output of its working by inducting new professional talent and physical resources. KPRA has now systematically entered into an expansion phase plugging compliance gaps and extending geographical coverage.

The human history has always witnessed to the fact that importance of national income generation through buoyant revenue mobilization in the achievement of government's efforts for promoting development and welfare in society cannot be undermined under any circumstances. In the Federal system of Pakistan, due to historical constitutional developments, obligations of the provincial governments for pro-development and pro-welfare governance have over time increased many fold. There is no doubt that KPRA is fully cognizant of its responsibilities to maximize revenue income of the provincial government. The continuous growth in KPRA's revenue earnings ever since its establishment, testifies the presence of high standard professional competence and efficiency in KPRA besides a deep sense of responsibility. It also reveals that trust of the tax payers' community in the economic policies of the provincial government is increasing. It is really a source of great satisfaction that as a proactive and responsible tax collecting agency, KPRA is consciously following a very sound philosophy of inclusive tax policy and generally takes the trade bodies on board to ensure the acceptance of its tax management decisions.

The Director General, KPRA and his professionally dedicated team deserves appreciation for their excellent performance and efforts in shaping KPRA on efficient and dynamic lines. I believe that KPRA will continue its struggle to further increase its performance standards thereby helping the Khyber Pakhtunkhwa province to meet its various resource mobilization challenges in future. I am optimistic that KPRA will further intensify its professional dedication to the good governance cause of the province to make its institutional experience as an enviable success story.

Mahmood Khan
Chief Minister, Khyber Pakhtunkhwa
Chairman, Policy Making Council, KPRA

MESSAGE OF FINANCE MINISTER

It gives me tremendous pleasure to know the real width and depth of the activities and achievements of Khyber Pakhtunkhwa Revenue Authority for the year 2018-19. Modern economics predicates that the progress and prosperity of a society depends upon the governmental resource mobilization efforts. Resources in the hands of the government create sustainable enablement in society to maximize the individual and collective happiness levels of its members. Resources lead to development and development leads to peace and prosperity upgrading the human sense of legitimate enjoyment of pleasures of life.

It goes without saying that in this ultra-modern age of human ingenuity and innovation, inroads of opportunity for bringing real sustainable development and amplifying collective happiness for society are multifold and such opportunities can be effectively availed only if the government rightly prioritizes its development regimes and arrange the needed resources to materialize its priorities without losing direction to good governance. KPRA is no doubt making strenuous efforts to create the needed fiscal space for the Government of Khyber Pakhtunkhwa to meet its development and welfare requirements. The Government is confident that KPRA will perform a more active and meaningful role in the development, progress, prosperity and welfare of the province during time to come.

Historically, KPRA has done ample hard work and delivered very impressive output in the form of revenue collection despite the diversity of challenges it faced during its formative years. But one must not depend merely on one's short term achievements. KPRA has a long professional path and a long list of institutional deliverables ahead. The Khyber Pakhtunkhwa province has tremendous revenue potential which KPRA must maximally mine with further hard work and devotion. I hope KPRA will come out to meet these expectations with more visible increase in its performance.

I wish DG KPRA and his team for more achievements and success.

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

STATEMENT OF DIRECTOR GENERAL

It is indeed a great privilege and honor for me to present this 3rd Annual Report of KPRA spelling out its efforts and output during the year 2018-19. The report highlights the KPRA's performance in its core as well as in support functional regimes. The report also contains all relevant statistical data supporting the assertions and inferences expressed therein.

Over a very short period of its life, KPRA has institutionalized its structure and operations quite impressively despite varied challenges and problems commonly faced by new tax organizations in countries with weak tax culture. KPRA is constantly overcoming its bottlenecks and smoothening its tax-related operations thereby regularly contributing to the promotion of ease of doing business environment in the province without compromising the legitimate tax share of the provincial government.

Despite that, in a very short span of time KPRA has emerged as the largest revenue collecting agency of the province of Khyber Pakhtunkhwa and has substantially met the revenue expectations of the higher leadership, it is still passing through its stabilization and expansion phases. KPRA does feel that it needs to work much further hard to achieve the actual level of performance and delivery. It is expected that with the rationalization of its tariff structure, implementation of strong communication strategy, intensification of monitoring and enforcement measures, enlargement in audit coverage and systematic geographical expansion followed by tax-targeted penetration in the provincial market, KPRA will soon further uplift its performance and output on much more sustainable lines. KPRA has increased its coordination with its counterpart provincial tax authorities and has also somewhat succeeded in resolving the issues of mutual interest with FBR. Such efforts will surely bring additional revenue compensations to KPR in near future.

It is very encouraging that administrative oversight of KPRA has been entrusted to the Finance Department. Meanwhile, Policy Making Council's confidence and trust in KPRA's determination to increase its institutional capacity has increased quite visibly. On many occasions, the Council has appreciated the achievements of KPRA approving its proposals for injecting new resources to increase the capability of KPRA to extend its tax collection outreach even to the regimes and areas which have traditionally remained non-responsive or indifferent to government's taxation efforts. KPRA is immensely grateful to the Policy Making Council for its continued support and assistance to KPRA's endeavors to achieve its short and long term goals. I am very optimistic that with such helpful supervisory environment, KPRA will definitely further multiply its efforts to meet the government's expectations and produce more impressive revenue results in time to come.

Muhammad Tahir Orakzai
Director General, KPRA
Secretary, Policy Making Council, KPRA

CHAPTER 1: REVENUE ACHIEVEMENTS

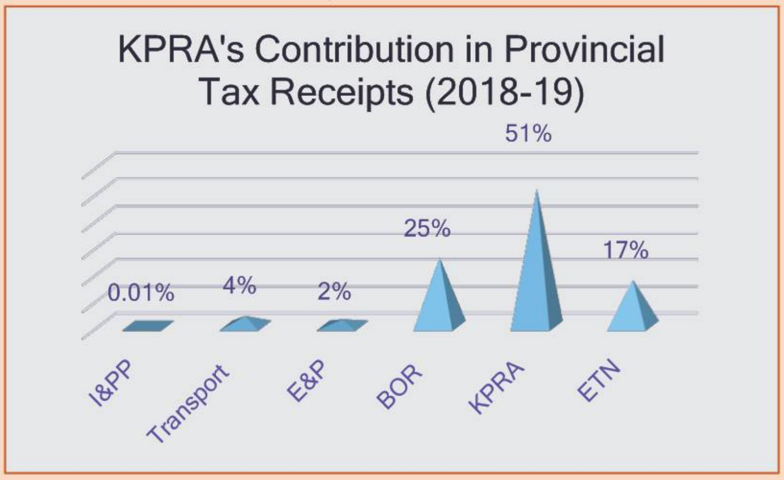
Khyber Pakhtunkhwa Revenue Authority (KPRA) was established in 2013 to administer and collect sales tax on services in the province of Khyber Pakhtunkhwa. Prior to the 18th Constitutional Amendment, FBR was collecting sales tax on services on behalf of the provinces. In this regard, Khyber Pakhtunkhwa Sales Tax Ordinance, 2000 remained in the field till the new law in the form of the Khyber Pakhtunkhwa Finance Act, 2013 was enacted. In its initial formative years, KPRA had to face multiple challenges mainly on the following three fronts:

i. Development of regulatory frameworks to meet the peculiar provincial needs of a new tax administration without disturbing the essential connectivity with the national tax system. For transitional period, the procedures already in vogue with FBR were adopted so as to ensure that continuity of management mode is not disturbed to the inconvenience of the taxpayers' community.

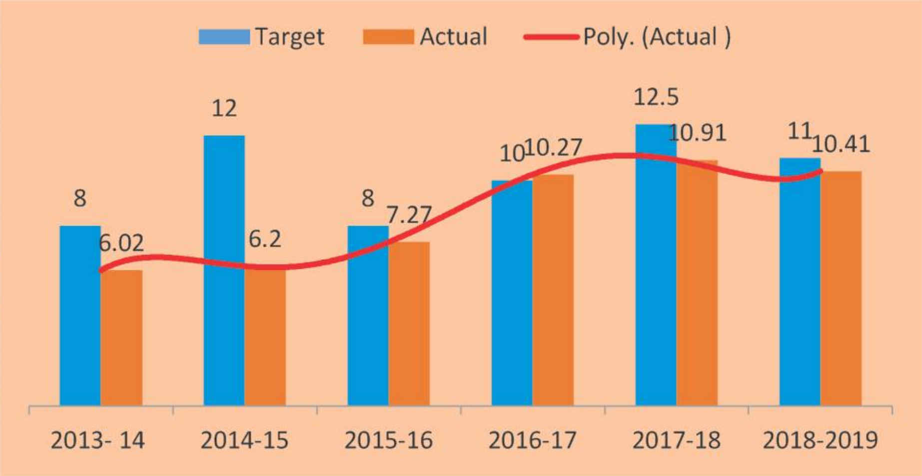
ii. Under the KP Sales Tax Ordinance, 2000, only thirteen services were liable to sales tax as transferred from Federal Excise regime. Till 2012, some more services were added from time to time under the guidance of FBR. More systematic work to increase the number of taxable services was started in 2013 and by the end of the year 2018-19, the number of services increased to ninety-four. Keeping in view the peculiar market dynamics and overall economic conditions of the province, selection of services for inclusion in tax net proved to be a difficult venture because taxability of any service is of no avail unless its tax productivity is visible enough to be ascertained in advance. Still some unforeseen pitfalls were experienced giving very useful lessons for future KP sales tax policy.

iii. Pegging of sales tax collection with traditional excise and taxation management environment right from the beginning created multiple problems for physical institutional development of KPRA as a futuristic modern tax administration. Although sales tax management involves intensive and extensive application of information technology and most of its compliance processes are automated to facilitate tax compliance by businesses, still its enforcement and audit regimes need proper trained and skilled manpower and multiple kinds of physical resources including logistics and office equipment's. Good revenue growth calls for timely investment from the government. Being a new organization, KPRA had to struggle very hard to assess its institutional requirements and their fulfilment with government-provided limited funds. KPRA has over the passage of time built its capacity on multiple sides with extra hard work and focused dedication. Now when KPRA has been attached with the Finance Department, the governmental support for its accelerated strengthening has visibly increased many fold.

During the year 2017-18, KPRA collected Rs.10.91 billion. For the year 2018-19, target of Rs.15 billion was fixed. However, taking *suo-moto* notice, the Honorable Supreme Court of Pakistan suspended the collection and payment of sales tax on mobile telecom services on 11th May, 2018. This suspension continued till 24th April, 2019. Unfortunately, the technical viewpoint of the provincial sales tax authorities almost remained unheard throughout the progression of the telecom case. During 2017-18, Rs.5.286 billion were collected from telecom sector. This figure declined to Rs.2.452 billion during 2018-19. Decrease of 54% was registered. Even the normal growth of telecom sector could not be capitalized into revenue gains thanks to the Apex court's suspension order. Due to such unanticipated disturbance in revenue inflow from telecom services, the target of the year 2018-19 was per force revised downward to Rs.11 billion. KPRA collected Rs.10.41 billion. KPRA's contribution to the provincial tax receipts of 2018-19 remained at 51%.



Another notable factor which hampered the full realization of the revised annual target stemmed from the non-establishment of the Appellate Tribunal. In several departmentally adjudicated cases involving sizable tax liabilities upheld at the level of Collector



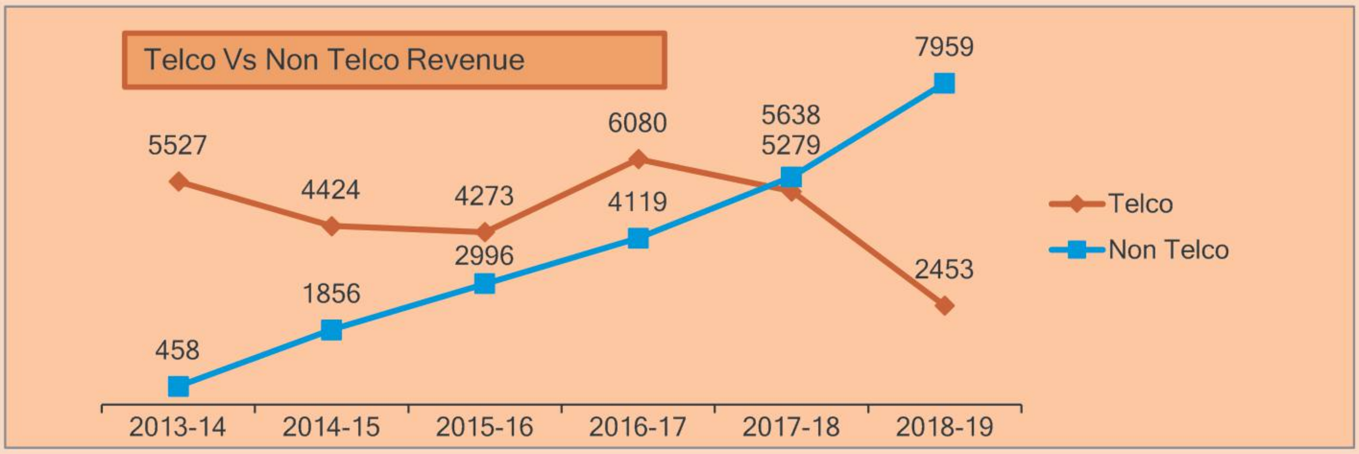
(Appeals), the taxpayers approached the Peshawar High Court and obtained stay orders against recovery for want of the non-availability of the opportunity of the second appeal

The revenue trends vis-e-vis revised targets as recorded since the creation of KPRA are reflected in the table and graphics below:

Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Target	8	12	8	10	12.5	11
Actual	6.02	6.2	7.27	10.27	10.91	10.41
Difference	-1.98	-5.8	-0.73	0.27	-1.59	-0.59
% Achievement	75.25	51.66	90.87	102.7	87.28	94.63

From December, 2007 to December, 2018, the mobile teledensity in Pakistan has increased from 64.156 to 72.557 with annual average of slightly over 13%. Cellular telephone usage in the womenfolk and children in the province of Khyber Pakhtunkhwa is, for multiple time-honored socio-cultural reasons, comparatively on lower side. At the time when sales tax collection on services was provincialized in Khyber Pakhtunkhwa, revenue reliance on telecom sector was on very higher side. Heavy reliance on any single revenue spinner is considered to be always prone to vulnerabilities. Thus, expansion of tax base together with diversification of sales tax sources has historically been taken as a serious task by KPRA. Two-pronged tool of bringing new services under tax net and overcoming revenue gaps in ongoing taxable regimes was methodically applied under tax net and overcoming revenue gaps in ongoing taxable regimes was methodically applied as a conscious strategy of tax policy and tax administration. Thus, over the period of six years, the share of telecom in KPRA's collections has declined from 92% to 22%, thanks partially to the suspension order of the Supreme Court. The year-wise tele and non-tele components of tax collections are tabulated below:

Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Telco	5527	4424	4273	6080	5279	2453
Non Telco	458	1856	2996	4119	5638	7959
Actual	**5984**	**6280**	**7269**	**10200**	**10917**	**10412**

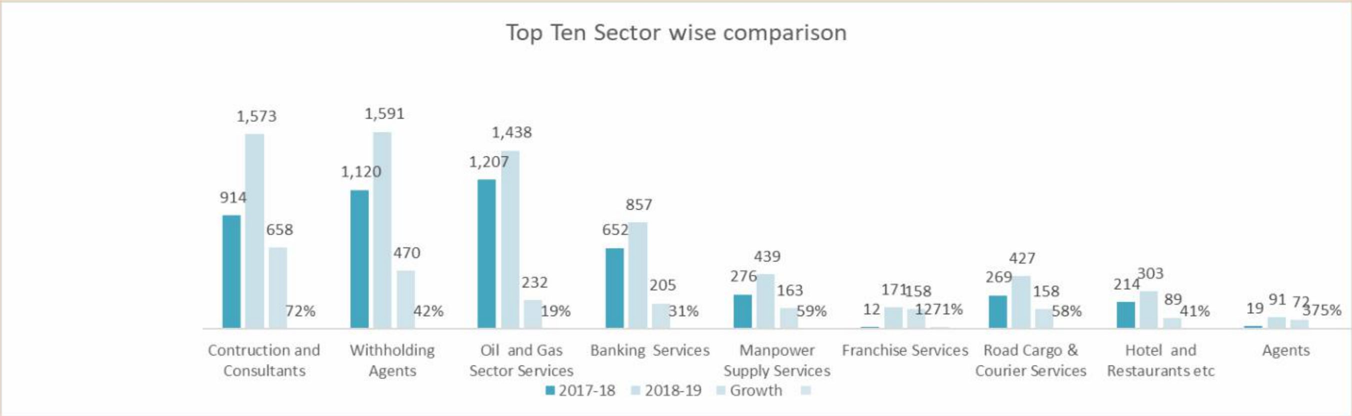


Even after the restoration of sales tax levy on mobile telecom services by the Supreme Court, the revenue form this source did not get re-inflowing due to a dispute on the admissibility of input tax adjustment relating to the suspension period. Except one mobile telecom company, the other three companies, without disclosing their turnover in their monthly returns, continued showing their input tax as accumulated “carry forward”. KPRA issued them show cause notices and adjudicated the cases by freezing (suspending) the adjustment because under the established principle of law, input tax is adjustable only where output tax is applicable, collected and paid. In case where there is no output tax, no question of input tax adjustment arises. Contrarily, the telecos took a stance that during the suspension period, their services were neither exempt, nor non-taxable and hence they were entitled to adjust their suspension period-related input tax against the output tax accrued during the post-restoration period. Despite the bar expressly put through the adjudication orders, the telecos intransigently continued adjusting their old input tax against their output tax of restoration period with the result that KPRA received no net tax payments from these companies not only during the closing months of the year 2018-19 but even for several months thereafter. The telecos have gone into appeal against the adjudication orders. The estimated short receipt (which is primarily a double jeopardy revenue loss) on this account is over Rs.7 billion including disputed input tax adjustment component.

The growth trends across the service category lines reveal that except airport services, insurance sector services and telecommunication services, all other categories showed positive growth. Franchise services, agency services, workshop services, maintenance and janitorial services and advertisements showed impressive high growth trends. Overall non-tele revenue grew by over 41%. The table below indicates the service category-wise growth and other fluctuation trends of the year 2018-19 as compared the previous year.

Service Category Wise Comparison of 2017-18 & 2018-19 (rupee in million)

	2017-18	2018-19	Growth	
Contruction and Consultants	914	1,573	658	72%
Withholding Agents	1,120	1,591	470	42%
Oil and Gas Sector Services	1,207	1,438	232	19%
Banking Services	652	857	205	31%
Manpower Supply Services	276	439	163	59%
Franchise Services	12	171	158	1271%
Road Cargo & Courier Services	269	427	158	58%
Hotel and Restaurants etc	214	303	89	41%
Agents	19	91	72	375%
Security Services	251	293	42	17%
Laboratories and Testing Services	54	85	30	55%
Rent -a- Car	93	122	29	31%
Workshops	17	40	22	129%
Land and Property Dealing	121	138	17	14%
Advertisement & Cable TV	11	26	15	136%
Maintenance & Janitorial Services	3	10	6	200%
beauty Parlours & Beautification Services	2	4	2	64%
Airport Services	41	36	(4)	-11%
Insurance Sector	78	73	(5)	-6%
Telecommunication	5,286	2,453	(2,833)	-54%
Other Services	156	244	88	56%
Total	**10,644**	**10,168**	**(476)**	**-4%**



In order to create a compulsive compliance environment, taxation through withholding mechanism is one of the time-tested options to forcefully attract or persuade businesses towards tax acculturation. In its proliferatory phase, KPRA has also adopted withholding tax system. In this regard, a regulatory framework was notified through KP Sales Tax on Services Special Procedure (Withholding) Regulation, 2015. Besides specifying the categories of withholding agents, withholding of full tax was made mandatory on services provided by unregistered and inactive registered businesses while in other cases withholding was confined to one fifth of the tax. By the end of the year, 2017-18, the number of withholding agents was 176, which increased to 233 by the end of the year 2018-19 (32% increase). During 2017-18, Rs.1.128 billion were received from the withholding agents, while during 2018-19, withholding tax receipts increased to Rs.1.567 billion showing an increase of 39%. Four full-fledge intensive workshops on withholding scheme were conducted during 2018-19 for Hattar Industrial Estate Association, Sarhad Chamber of Commerce & Industry and AGPRA's Sub-Office, Peshawar. Besides, withholding audit manual was drafted and a comprehensive multi-session training was imparted to the KPRA's officials with the technical assistance from GIZ. KPRA is optimistic that withholding tax regime will become more vibrant in future with the intensification of focused monitoring and audit based on cross-verification of declarations and statements of the with holders and with holdees.

The registration and return filing scenario of KPRA during 2018-19 in comparison to previous years is shown in the table below:

REGISTRY				
Year	Numbers	Progressive	Increase	% Increase
2013-2014	323	323		
2014-2015	326	649	3	1
2015-2016	525	1174	199	61
2016-2017	851	2025	326	62
2017-2018	1774	3799	923	108
2018-2019	3890	7689	2116	119

RETURN FILING												
Filing	Total Filing			Null Filing			Nill Filing			Paid Filing		
	Total	Incr No	Incr %	Total	Incr No	Incr %	Total	Incr No	Incr %	Total	Incr No	Incr %
2013-2014	3225			889			123			2213		
2014-2015	5415	2190	68%	1769	880	99%	354	231	188%	3292	1079	49%
2015-2016	8479	3064	57%	3548	1779	101%	540	186	53%	4390	1098	33%
2016-2017	14903	6424	76%	7666	4118	116%	1037	497	92%	6200	1810	41%
2017-2018	26390	11487	77%	15877	8211	107%	1834	797	77%	8678	2478	40%
2018-2019	44067	17677	67%	30190	14313	90%	3733	1899	104%	10144	1466	17%

While registrations have increased many fold due to inclusion of new services in tax net and usage of readily available third party data in the departmental efforts to identify and register new taxable businesses, the filing ratio has not given any impressive results. Non-filing is alarmingly over 50% and paid filing is less than 25% of the compliant registrants. Nil-filing is almost 8.47% and null-filing is 30.40%. Filing ratio remained low partially because of the fact that on the request of KPRA, KPPRA introduced a law where under it made it mandatory for the suppliers and contractors to get KPRA registration for participation in a government bidding process. Resultantly, many businesses engaged in the supply of tangibles (goods) obtained registrations from KPRA and subsequently refrained from filing returns to KPRA. Even the businesses operating in exempt erstwhile tribal (now settled) areas obtained registrations. KPRA has made a program for thorough cleansing of its registration data base in near future. Once cleansing is complete, the filing ratio will realistically increase to reach closer to globally acceptable standards.

Potential taxpayers' identified from different sources are listed in the table below:

S. No	Sector	No. of Potential Taxpayer Identified	Department
1	Advertisement	77	Survey
2	Beauty Parlors	222	KPITB & Internet
3	Cable Operators	111	PEMRA
4	Cargo Transportation	177	Survey
5	Hospitality	1007	Survey
6	Property Dealers	300	ET&NC
	Total	1894	

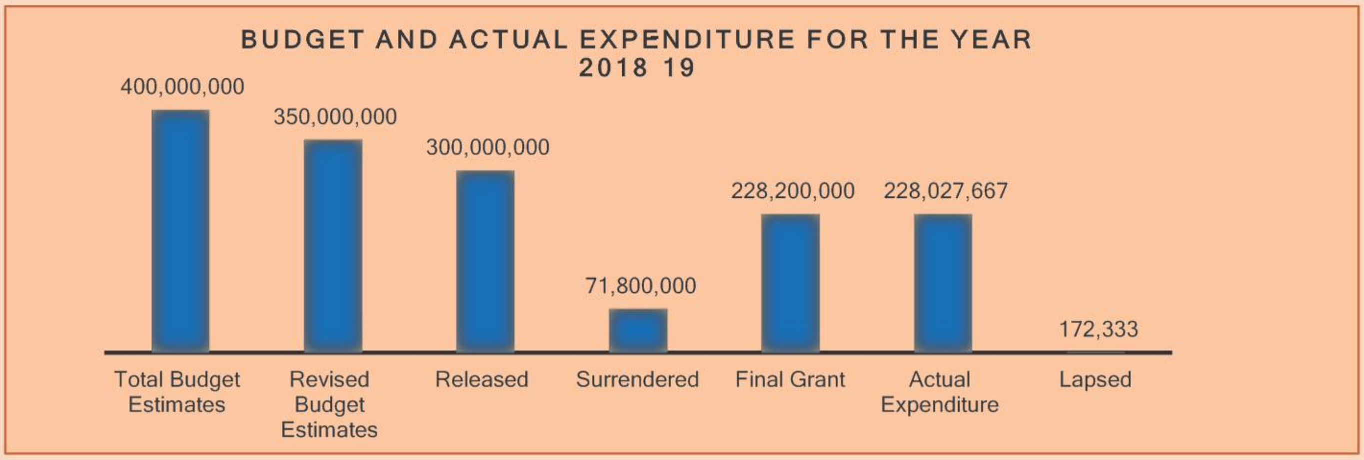
S. No	Sector	No. of Compulsory Orders
1	Hospitality	175
2	Miscellaneous Sectors	578
3	Town Planners/Housing Societies	52
	Total	805

Still to combat the menace of non-filing, KPRA has introduced a very effective system of telephonic calls, SMS, email and notification to force the non-filers to file their outstanding returns and also avoid non-filing in future. During 2018-19, 1843 notices (covering mostly consolidated periods) were issued and 15,400 sms messages were delivered. Penalties of Rs.452.042 million were imposed for filing-related violations. In order to vanquish the possibilities of mis-declarations under null or nil-filing regimes, not only the desk audit operations have been intensified but also sizable businesses falling under these categories are being selected for regular detailed audit. The new audit strategy in this regard will surely boost up compliance standards through a mixed impact of persuasion and deterrence.

CHAPTER 2: BUDGET AND ACCOUNTS

Khyber Pakhtunkhwa Revenue Authority is required under section 13 (I) of the Khyber Pakhtunkhwa Finance Act, 2013, to prepare for each financial year a statement of its revenue targets, estimated receipts and expenditure for governmental approval. For the year 2018-19, a budget proposal of Rs 400 million was submitted to the Finance Department. The proposed amount was initially allocated.

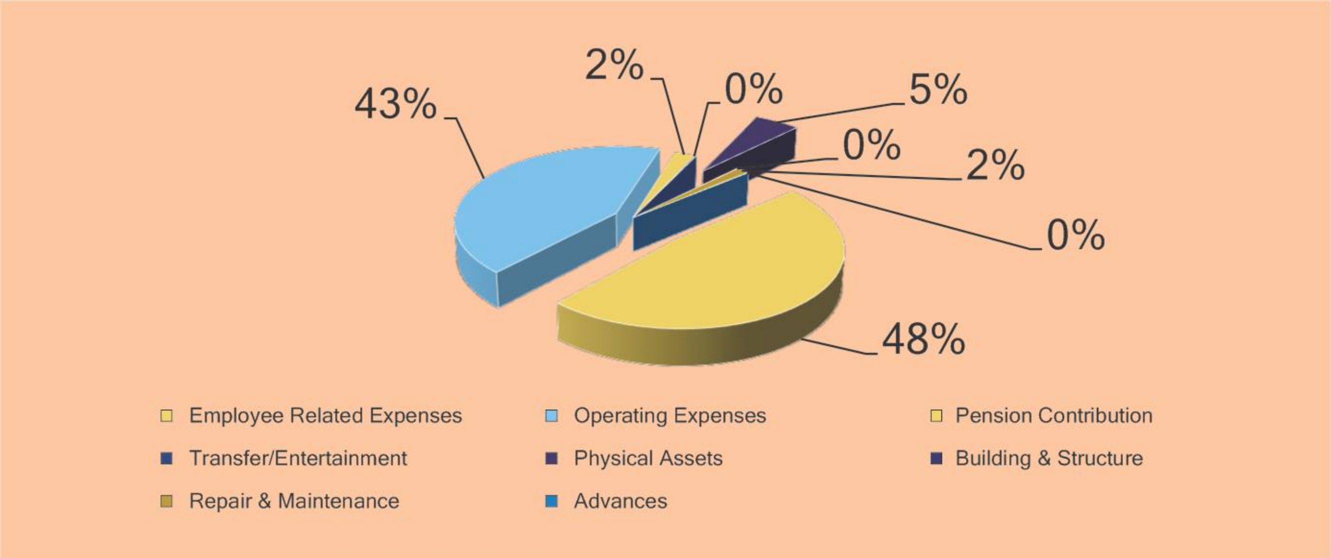
However, during the year, estimates were revised downward to Rs. 350 million against which Rs 300.00 million were released. Keeping in view the actual requirements based on nine months' actual expenditure, saving of Rs.71.800 million was surrendered. Against the final grant of Rs 228.200 million, expenditure of Rs 228.028 million was incurred. This position is graphically explained below:



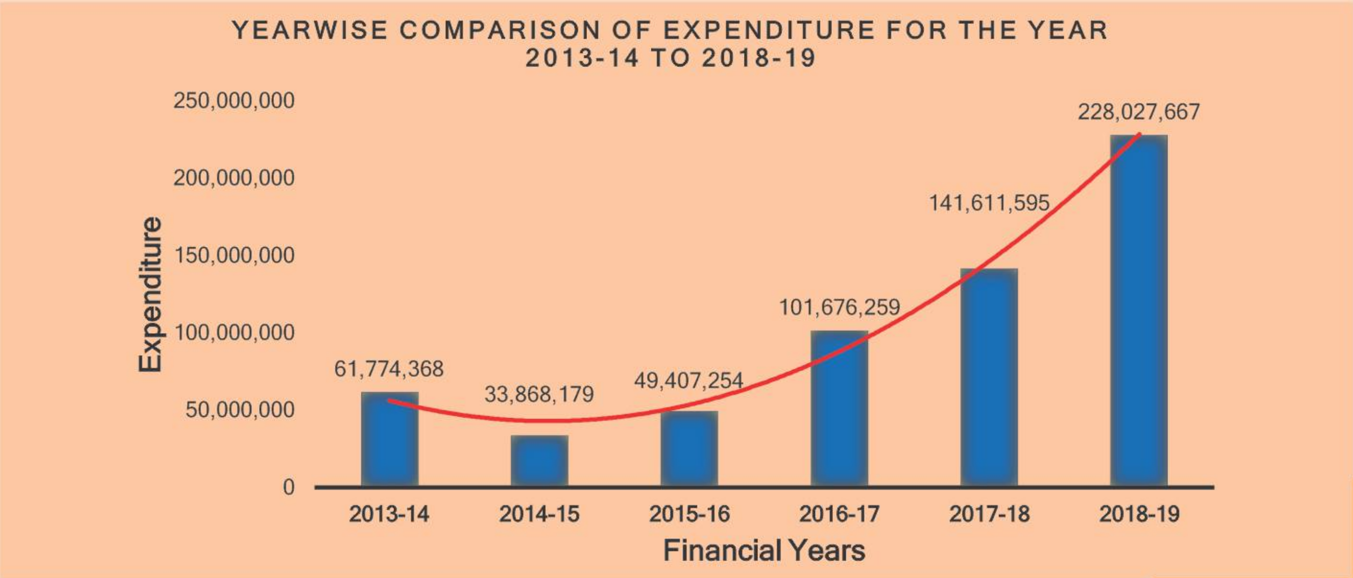
Major object wise details of expenditure of Rs 228.028 million are given below:

Object Code	Major Object	Amount
A01	Employee Related Expenses	109,436,016
A03	Operating Expenses	97,613,725
A04	Pension Contribution	5,132,731
A06	Transfer/Entertainment	351,275
A09	Physical Assets	11,986,866
A12	Building & Structure	233,810
A13	Repair & Maintenance	3,003,244
A03	Advances	270,000
	Total expenditure	228,027,667

The following figures show object wise percentages (%) of expenditure.



Out of total expenditure of Rs 228.028 million, the expenditure incurred on employees-related expenses was Rs 109.43 million which is 48% of the total recurring expenses. The capital expenditures of Rs 12.22 million was incurred during the year on the acquisition of physical assets, increasing the total assets to Rs 85.56 million at the end of the accounting period. The cost of collection during the year 2018-19 comes out to be 2.19 %. Once the capital resources' needs of KPRA are met on durable lines and revenue grows faster, the collection cost will surely reduce. The following graph shows comparison of expenditure during the period from 2013-14 to 2018-2019.



As a mandatory requirement under section 13(2) of the KP Finance Act, 2013, KPRA has compiled its annual accounts and annual financial statements i.e. statement of assets and liabilities, statement of receipts and expenditure and statement of budget vs actual expenditure (appropriation account) for the year 2018-2019 in accordance with the International Public-Sector Accounting Standards (IPSAS). The financial statements are given hereafter:

STATEMENT OF ASSET AND LIABILITIES			
AS AT 30th JUNE 2019			
		2019	2018
	NOTES	(RUPEES)	(RUPEES)
CURRENT ASSETS			
Cash & bank balance	5	-	-
Receivables & Advances	6	304,232	135,416
Total current Assets		304,232	135,416
NON-CURRENT ASSETS			
Physical assets	7	85,799,283	73,578,607
TOTAL ASSETS		86,103,515	73,578,607
CURRENT LIABILITIES			
Payables	8	5,066	5,066
Total Current Liabilities		5,066	5,066
TOTAL LIABILITIES		5,066	5,066
RESIDUAL EQUITY	9	86,098,449	73,708,957
TOTAL RESIDUAL EQUITY & LIABILITIES		86,103,515	73,714,023

STATEMENT OF RECEIPTS AND EXPENDITURES			
FOR THE YAER ENDED 30TH JUNE 2019			
	NOTES	2018-2019	2017-2018
		Receipts	Receipts
		(Payments)	(Payments)
		Controlled by	Controlled by
		KPRA	KPRA
RECEIPTS			
Grant in aid	10	350,000,000	315,000,000
Surrendered		121,800,000	173,339,337
Departmental receipts	11	-	-
		228,200,000	141,660,663
EXPENDITURE			
Employees Related Expenses	12	109,436,016	71,281,330
Operating Expenses	13	97,613,725	36,281,856
Pension Contribution	14	5,132,731	4,757,781
Transfer/Entertainment	15	351,275	395,896

Physical Assets	16	11,986,866	28,006,930
Civil Works	16.1	233,810	
Repair and Maintenance	17	3,003,244	887,802
Advances	18	270,000	-
TOTAL		228,027,667	141,611,595
Balance Lapsed	10	172,333	49,068

STATEMENT OF CASH FLOWS		
FOR THE YEAR ENDED 30TH JUNE, 2019		
	2019	2018
	(RUPEES)	(RUPEES)
CASH FLOWS FROM OPERATING ACTIVITIES		
Grant in aid	228,027,667	141,611,595
Departmental receipts	-	-
Employees Related Expenses	(109,436,016)	(71,281,330)
Operating Expenses	(97,613,725)	(36,281,856)
Pension Contribution	(5,132,731)	(4,757,781)
Transfer/Entertainment	(351,275)	(395,896)
Repair & Maintenance	(3,003,244)	(887,802)
Cash flows from operating activities	12,490,676	28,006,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances	(270,000)	
Physical Assets	(11,986,866)	(28,006,930)
CAHS FLOW FROM INVESTING ACTIVITIES	(12,256,866)	(28,006,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash flow from financing activities	-	-
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	-	-

CHAPTER 3: ADMINISTRATIVE ACTIVITIES

During the year 2018-19, KPRA worked and achieved on four main administrative fronts:

- Human resource mobilization both on general administration and technical functions sides.
- Regular relocation of KPRA's headquarter in government-owned building and arrangement for needed physical resources including logistics, office equipment's, furniture and other items required for official use.
- HR capacity building at least to the extent of enabling the new inductees and appointees to initially assume official functions and duties efficiently enough to make visible improvement in the KPRA's overall work disposal especially on declaration processing, monitoring, enforcement and recovery sides.
- Optimization of public awareness through effective communication strategy and impressive publicity campaign.

At the commencement of 2018-19, KPRA's manpower was limited to thirty-seven personnel only. Approval from the Policy Making Council (PMC) was secured for the creation of seventy-nine more vacancies including:

- Eight Assistant Collectors.
- One Assistant Director Accounts.
- Ten Senior Auditors.
- Five Inspectors.
- Seven Computer Operators.
- One Reader.
- Three Receptionists.
- Forty-two Class-IV officials.

Competitive recruitment as envisaged in KPRA Employees Regulation, 2017 consisting of screening test through NTS, academic evaluation including qualifications' verification, relevancy of experiential background, computer proficiency examination and interview by the independent selection committee, was made with utmost objectivity and meritocracy. Eventually, the KPRA's working strength was increased to one hundred and sixteen.

At strategic tax management level, KPRA has been in the past feeling a strong need to create in-house capacity for tax policy formulation and tax audit administration. After approval from the PMC, one tax expert and one audit expert were appointed as KPRA's Advisors on extendable contract basis. Both of these incumbents have civil service background with strong professional and personal image and carry immense experience in the fields of tax policy, tax management, tax audit and accounts. These Advisors have hitherto contributed a lot in the fields of legislative reforms, review of regulatory frameworks, tax policy decisions, revenue and financial budget making and formal commencement of regular tax audits. Their continued professional and technical tutorial guidance and work-related help has visibly increased the level of confidence of the operational officials of KPRA.

Since VAT-type sales tax is an effective tool to document the economy and is a good precursor of direct taxation, in countries like Pakistan where tax culture is yet taking roots, resistance to tax collection measures of the state is an anticipated outcome. Such attitude is displayed by the businesses (and public in general) in the use of techniques to avoid or delay the dischargement of tax obligations. Implicating the tax departments in litigations is one of such techniques and KPRA has not been exception to it. KPRA has also been numerous litigations seeking judicial stays and thereby blocking the intake of huge amounts of KPRA's legitimate revenue. Proper representation of KPRA in the judicial fora, services of three Legal Councils (senior level Advocates) were hired on regular basis after due approval from the PMC.

For several years KPRA continued working from hired building premises without any competency to improvise the office facilities to meet its specific growing needs. After long-drawn efforts, the KP Government allocated the hostel building of recently constructed Revenue Academy located in Hayatabad. KPRA's headquarter was shifted to this new premises in February, 2019. The infra structural development and improvement work including floral beautification, IT-networking, physical refurbishment of the building, placement of furniture items and other office equipment's, establishment of board/conference rooms, tax facilitation center and renovation of evening sports areas was completed within the shortest possible time with the partial financial assistance from international aid giving agencies. Resultantly, overall tax administration environment was created with a transparent corporate ambience. Services of a security agency were contractually hired for round-the-clock watch and guard duties on the KPRA's office buildings at its headquarter and the Collectorate of Appeals.

Seventeen official (operational) vehicles were purchased with government funding of rupee seventeen and half million. Furniture articles and generators worth rupee (over) three million were purchased as funded by the World Bank. IT equipment valuing rupee thirteen million were purchased with government budgeting. The World Bank also helped in establishing two tax facilitation centers one in Peshawar and the other in Abbottabad. All codal formalities were fully complied with for the purchase and acquisition of all these physical resources.

On personnel management side, KPRA issued two sets of regulations during 2018-19, namely, KPRA Employees (Appeal) Regulation, 2018 and KPRA Employees (Efficiency and Discipline) Regulation, 2018 with KPRA Employees Regulation, 2017 being already in the field.

During 2018-19, two meetings of PMC were held in February and June, 2019. Several important decisions were taken in these meetings covering, besides several specific matters, the following ten important institutional development and operational areas:

- Revenue analytics and revenue optimization.
- Creation of posts and appointments.
- HR capacity building measures.
- Determination of pay packages.
- Decisions on strategic tax policy issues.
- Approval of budgetary measures.
- Establishment of regional offices.
- Clearance of amendments in law and procedure.
- Procurement of physical (moveable) assets.
- Settlement of outstanding issues with FBR.

The regular meeting mechanism is a statutory requirement for KPRA. In these in-house meetings, besides approving the instruments of regulations in different domains, KPRA basically discusses and decides upon the issues relating to three broad areas, namely, administrative operational matters, policy matters required to be submitted to the Policy Making Council for formal approvals and decisions and matters arising out of or during the follow-up actions on the PMC's decisions. During the year 2018-19, KPRA held twenty meetings on different dates and took decisions on the matters as precisely tabulated below.

S. No.	KPRA Meeting No.	Matters of Decision
1.	34th	Hiring of Legal Counsel.
2.	35th	Approval of Honorarium for Ex-DG
3.	36th	• Progress Review. • Input Tax Adjustment Issues. • Approval of Tenders. • Hiring of legal Counsel. • MCMC Training for KPRA's officers. • Pay & Service Protection for KPRA's employees.
4.	37th	Approval of Recruitment of Class-IV employees.
5.	38th	• Pay Protection. • Jurisdiction of the Directorate of I&I.
6.	39th	• ToRs of the Advisors on Tax Policy & tax Audit. • Re-designation of PA's post. • Advertisement of the 2nd Phase of Recruitment.
7.	40th	• MoU with NTS for Screening Tests. • Approval of Draft KPRA (Engagement of Private Lawyers) Regulation, 2018.
8.	41st	• Jurisdiction Orders of the Directorate of I&I. • Pay Package of Advisors.
9.	42nd	Hiring of the Services of Advisors.
10.	43rd	• Discussion on Amnesty to Tax Payers 2014. • Pending Rules & Regulations. • Jurisdiction Orders of the Directorate of I&I. • Annual Financial Statement for FY 2017-18. • Outsourcing of Physical Test for Constables in KPRA.
11.	44th	• Probation Period of KPRA's employees. • Approval of Hiring of Legal Counsel. • Approval of Collector Appeals Appointment & Other Conditions of Service Regulation, 2019. • Shifting of KPRA Headquarters. • Jurisdiction Orders of the Directorate of I&I. • Establishment of Call Centre.
12.	45th	• Establishment of Enforcement Cell in KPRA.
13.	46th	• Posting of Officers under section 75 of the Finance Act, 2013.
14.	47th	• Posting of Officers under section 75 of the Finance Act, 2013.
15.	48th	• Posting of Officers under Section 75 of Finance Act, 2013.

16.	49th	• Security arrangements for the new premises. • Cases related to grant of ST exemptions. • Provision of office accommodation to Collector Appeals' office. • Issues of Seniority List. • Submission of cases to the L0egal Councils. • Purchase of motorbikes.
17.	50th	• Establishment of Enforcement & Monitoring Cell and Deployment of KPRA Staff in business premises.
18.	51st	• Approval for purchase of Air Conditioners (Tender). • Time condonation in respect of cases referred to by the Collectorate. • Approval of re-imbursement of Residential Telephone Charges.
19.	52nd	• Notification of Advisors KPRA and Collector STS as member of the Authority. • Approval of the recommendations of Selection Committee against posts in BPS-12 to 16. • Tax exemption in respect of KPRA Advisors as supported by KP sales tax law.
20.	53rd	• Approval of the revised estimated Budget 2018-19 and expected surrender during FY 2018-19. • Honoraria for KPRA employees for the year 2018-19.

Table 1: KPRA Statutory Meetings

IT Regime

Information technology plays a vital rather pivotal role in the management of VAT-like sales tax where compliance is based on self-documentation, self-assessment, self-declaration, self-filing, self-payment and self-recordkeeping. IT helps the tax managers to keep constant watch and ensure compliance accuracies through regular declaration processing, advisory tax-facilitation, focused monitoring, purpose-specific field enforcement, selected indoor/outdoor audit and expeditious recuperation of unpaid or short-paid tax amounts. The data analytics techniques provide for a great instrument for tax analysis, tax policy formulation and tax forecasting. In several of these areas, KPRA is taking technical assistance from the international donors so that benefits from global success stories and international experience may be availed for boosting up KPRA's tax management standards and practices on short to long term basis.

KPRA 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. The mission of the IT Directorate is to provide strategic advantage to KPRA by fostering creative and innovative use of technology to achieve the declared organizational objectives and to endeavor for the provision of sustainable baseline for a secure and highly reliable technology infrastructure to KPRA with a focus on meeting the ever changing needs and expectations of KPRA as a proactive tax organization while minimizing costs. During 2018-19, the KPRA's IT Directorate took several important software development and application measures, some of which are briefly mentioned below:

New website: A new website has been developed for exclusive service to KPRA's domains because the old website, which was developed not independently but with purpose-specific controlled technical assistance from other department, was facing updation issues due to the rigidity of the templates. The new website has been developed with the latest web technology with inbuilt efficient updation capacity.

SMS portal: SMS portal 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. This portal is also being used in registration campaigns and return enforcement in non-compliant and non-filing cases.

Mobile IMS system: In order to enable the monitoring personnel to transmit real time pictures of invoices and other documents required for surprise checking during the course of on-spot monitoring, mobile IMS for monitoring of sales tax invoices of taxable businesses has been developed and used to protect revenue intake from businesses prone to under-declaration of sales. This app has produced a very effective deterrence contributing to high revenue growth from services like restaurants, marriage halls, beauty salons etc.

Database replication: A system has been evolved and applied for efficient database replication form PRAL's PTMS to KPRA's DSS thereby enabling KPRA to streamline its internal reporting system (now about thirty statements are generated under KPRA's MIS) and analyze its revenue receipts.

Decision support system: KPRA's DSS developed in conjunction with PRAL's PTMS database has started generating multiple statements and information sheets covering areas such as:

- Registration, enrolment, activation, withholding agents, service-wise categorization, assessment declarations, statements, returns, tax payments, bank branch-wise tax receipts and taxpayer profiles.
- Tax payments reports, payment comparisons, return compliance patterns, filers, non-filers, short-filers, wrong-filers, late-filers and annexures' reports including their cross-matchings (very useful for enforcement and audit purposes).
- Identification of invalid invoices through annexures' analysis, comparison and cross-matching or cross-verification.
- Full range details of CPRs and periodized statements and comparisons including scrutiny and analysis of tax payments.

Social media: Social media platforms including Facebook and Twitter etc are being maintained to update KPRA information for taxpayers and general public besides receiving queries and complaints from the public and taxpayers.

Enforcement management system: Automation of notices' generation, issuance and management is crucial for efficient enforcement of tax laws. KPRA has developed notice automation system initially from registration side of the tax compliance enforcement.

Inventory management system: A complete inventory management system has been developed and applied for the intake and outtake of KPRA's consumable and durable stores including its moveable and immoveable assets adding transparency in its financial and administrative management domains.

Miscellaneous IT affairs: 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 KPRA's 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 KPRA'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 time to come.

Communication Regime

Ideally, tax collector and taxpayer have relationship of mutual confidence based upon the fair principles of reciprocity. Tax collector responsibly serves the tax payer by facilitating him towards tax compliance and taxpayer willingly discharges his tax obligations as a service to the state or nation. KPRA believes that accurate knowledge of the taxpayers about the tax system and their linked duties and rights catalytically motivates the taxpayers on tax conformity.

KPRA has developed and implemented in phases a well-defined communication strategy for building tax culture (C4BTC) in the province. This strategy is being applied across sector-specific issues as a crosscutting program to drive positive behavioral and social change. It aims to foster four main outcomes.

i. Educate the masses on the importance of sales tax on services.
ii. Build a tax culture enabling the public to understand the interdependence of tax and development.
iii. Promote voluntary tax compliance with a strong trust on the tax machinery.
iv. Engage taxpayers' representative bodies in support of tax policy and its implementation.

- Multiple tools are being used to increase the effectivity of KPRA's communication strategy. They include:
- Development and execution of well-thought media campaigns including electronic and print media advertisements including ads displayed on bill-boards.
- Holding of taxpayers' awareness and facilitation seminars, workshops and arranging lectures in higher education institutions and trade bodies' platforms.
- Complaint and queries' management through website and social media.
- Updation and printing of statutory enactments and regulatory instruments including administrative instructions and guidelines.
- Processing and settlement of taxpayers' grievances about KPRA's operational domains.
- Preparation and distribution of explanatory literature, standees, posters, broachers, flyers and leaflets etc.

During the year 2018-19, ten thousand introductory brochures were printed and disseminated. Ten thousand brochures about registration and return filing procedures were prepared and distributed. Seventy-one press releases were published. Three thousand leaflets were printed and distributed. Six hundred standees and hangers were got prepared and installed in the markets and the premises of the taxable businesses. Ten bill-boards installed in different regions. Thousands of SMS alerts (including weekly and bi-weekly messages) were sent. Numerous radio messages were aired on FM 104, Burraq Radio and SUNO FM etc. Two instructional videos were prepared and uploaded on social media. Preparation of animated videos in this regard is also in progress. Ten large-size advertisements were published in print media. Communication staff is closely coordinating and working with the ongoing registration drives in the newly established regional offices of KPRA.

Enforcement

Enforcement is a multi-pronged instrument to effectuate the implementation and compliance of tax laws to optimize the mining of tax potential in a given tax base. The scope of enforcement starts from identification of potential taxpayers through registration and compliance to recovery of tax arrears. Prosecution is also one of the components of enforcement and is applied in situations involving commission of tax-related crimes usually grouped and termed as "tax fraud". KPRA has broadly applied enforcement techniques on three fronts as stated below:

i. Identification of potential taxable businesses through physical surveys and usage of third party data.
ii. Enlargement of registration coverage supplemented with compliance monitoring of existing and new registrants.
iii. Recovery of unpaid or short-paid tax amounts including withheld amounts either through adjudication process or otherwise as direct recoveries under the law.

In case of VAT-type sales tax on intangibles (services), physical survey as a technique of tax laws' implementation is applied restrictively in well-defined manageable phases. With the technical assistance from the international donors, KPRA got two mega physical surveys conducted through the Economics Department of Peshawar University in Peshawar and Abbottabad in respect of three services, namely, advertisements, hospitality and cargo transportation. The data collected through this survey was carefully scrutinized and used for registration purposes. Compulsory registrations were done where voluntary compliance response to registration notices was not received.

In order to gather third party data, several provincial government departments exercising regulatory jurisdictions were approached and data about businesses of beauty parlors/beauty salons, property dealers, property developers, town planners, construction contractors, bargain houses, car dealers, restaurants and food outlets, carriage contractors and auto workshops was collected. This data was also subjected to registration exercise.

With the establishment of regional offices at Abbottabad, Mardan and Bannu, the localized survey work has been accelerated after taking the local trade bodies on board. Tax coverage is now fast increasing in these areas. Except hospitality sector, most of the services-related (non-corporate and non-franchise or non-chain) businesses locally operating in these regions are generally of medium and small sizes. Their individual tax contribution may not be sizeable but their aggregate contribution will surely be a good addition in the provincial revenue income. Moreover, with the anticipated rehabilitation of the national economy which is already on the horizon thanks to the economic planning and policies at national and sub-national levels, tax yield from these business peripheries will phenomenally grow in time to come without bringing any additional collection cost to the government.

During 2018-19, KPRA conducted monitoring on very limited scale only in two categories of services, beauty parlors and non-corporate/non-franchised restaurants. Services of the internees provided by the donor agencies and the KPRA's own monitoring personnel were used for this purpose. In case of beauty parlors, females were deputed. The monitoring staff used to sit in the business premises of the taxpayers during working hours noticing the charging of tax on transactions. On the basis of the volume of transactions noted during the monitoring period, minimum monthly turnover averages were worked out and enforced resulting not only in some immediate recoveries but also making more contribution in the future receipts. KPRA's experience has revealed that monitoring if done systematically without disturbing the normal flow of the businesses proves to be a good tool for the correction of tax-related misactions by the businesses especially in such businesses where customer age is from general public not usually interested in getting receipts for their day-to-day purchases.

On the basis of enforcement work experience of the year 2018-19, KPRA was able to learn two things of institutional importance. First it could identify the gaps in the public awareness about the KP sales tax on services system and secondly, it could firm up its outlook as to what type of future planning will work to make the sales tax revenue system more buoyant in time to come. Accordingly, two plans were prepared and put to implementation. The first plan related to communication with taxpayers and public covering the period from February to December, 2019 covering distribution of printed material especially amongst withholding agents, regular and social media campaign, outdoor publicity, application of behavior change communication, development of volunteer groups, field coverage through face-to-face communication and printing/issuance of leaflets, news-letters and similar printed matter.

The second plan relates to revenue generation action plan, 2019-20 for which rigorous joint brainstorming sessions were held amongst the senior level officers of KPRA and suggestions were analytically reduced into black and white in the form of an operations' policy base document. This plan contains measures to be taken in all vital areas including revenue forecasting, registration (BTB), enforcement, withholding tax management, departmental tax audit, adjudication, input tax adjustment settlement with FBR and reconciliation of revenue figures. This plan is the first ever document in which the annual KPRA revenue targets have been sub-targeted on regional (city-wise), sectoral and functional lines. It is expected that this plan document shall work as an operational guidance framework throughout the ensuing financial year. KPRA has adopted this strategic approach as a “functional systematization of KPRA”.

Tax Audit

Audit is not an instant tool of tax management for new tax organizations. Audit travels and matures with the evolvement of institutional formation and strengthening of such organizations. However, in case of VAT-style sales taxation where voluntary compliance, deferment-based monthly or otherwise periodized self-declaration of tax assessments and self-payment of tax liabilities are the hallmark of the tax management system, declaration processing functions of the tax officials are also carried out in the para-audit mode. In this regard, regular or full coverage audit is not undertaken unless the data available in the departmental computer system and the limited documents, if any, retrieved from the taxpayer(s) are indicative of any glaring irregularity creating suspicion of any abnormal tax concealment or evasion.

KPRA is, like several other modern tax administrations the world over, treating the ongoing methodical declaration processing work as “desk audit”. In the desk audit regime, IT-based departmental tax data warehouse receiving real time information intake from the taxpayers (besides registering declaration irregularities) play an important role in guiding the nature, character, direction and purpose of the audit. Historically, desk audit has remained a normal function in KPRA serving four main purposes:

- Verification (including cross-verification) of declaration accuracies.
- Recovery of non- or short tax payments including withheld amounts.
- Imposition and recovery of penalties and fines in respect of declaration-related irregularities.
- Creating a deterrence that tax compliance actions are being regularly watched with system-based “distance oversight”.

The regularity of the desk audit work is also replicated to curb non-filing and late-filing misconduct. Continued enforcement work on return enforcement side has led KPRA to identify the pitfalls and fault lines of the KPRA's registry. Decontamination (cleansing) plan is already in hand and will be implemented in near future curtailing the ratios of non-filing. Size of the registry shall still increase because genuine new registrations are fast increasing due to the impact of budgetary measures, filling-up of compliance gaps and geographical expansion of the tax base. Non-tele revenue growth figures of KPRA in the year 2019-20 will surely gauge the outcome of these return-related audit-like enforcement measures.

The last quarter of the year 2018-19 was partially used to develop tax audit plan for the year 2019-20. The outcome draft was the first annual tax audit plan ever developed by KPRA. KPRA intends to continue this practice improving its theoretical contents, practical scope, sectoral diversity and professional efficacy. The audit plan takes care of the following aspects of the intended regular audit activities of KPRA:

I. It explains the underlying legal framework.
ii. It identifies the audit risks at operational end.
iii. It highlights on the nature and characteristics of audit evidence.
iv. It elaborates the audit selection criteria.
v. It assigns revenue and non-revenue targets of audit.
vi. It classifies audits according to their modality and scope.
vii. It creates linkage between audit and investigation.
viii. It assesses the resource needs and cost of the planned audit.
ix. It provides for the audit training covering its objective, scope and program.
x. It specifies the audit record-keeping requirements.
xi. It spells out the audit plan execution strategy.
xii. It covers audit monitoring and audit reporting mechanisms.
xiii. It calls for level-wise audit review and audit quality control.
xiv. It carries practical guidelines for the audit staff.
xv. It offers sufficient grounds for experiential learning form audit for further qualification of future tax audit plans.

Meanwhile, with the technical assistance from the international donors, drafts manuals of telecom sector audit and withholding tax audit were prepared followed by training of the KPRA technical-side officials to understand the audit techniques of these two important regimes. However, before KPRA embarks upon audit of any major revenue spinning regime like telecom, banking, insurance, courier services and multinational franchised food sector service chains etc., it will consult the sales tax administrations of other provinces (and even FBR if need be) to look into the possibilities of joint audit so that audit of such nation-wide services is not conducted in isolation because it is generally believed by tax experts that joint audit of such complexly networked nation-wide services will prove more meaningful and productive from revenue protection point of view.

CHAPTER 6: CHALLENGES AND WAY FORWARD

In the annual report of 2017-18, a linkage was expressed between the challenges and the way forward spelling out the measures which KPRA was determined to undertake during the year 2018-19 so as to enhance its overall operational impact. Before the accomplishment of these measures is highlighted, it looks appropriate to mention the contours of the budget-based paradigmatic shift in the KPRA's tax policy in view of the peculiarities of the provincial economy of Khyber Pakhtunkhwa and patterns of its connectivity with the national economy.

Tax-averse factors like non-documentation of businesses, concurrent presence of grey economy and weakness of tax culture are salient in KP province mainly because of geographical, historical, cultural and traditional reasons. At least three more typical features are prominent in case of this province. First, majority of the local businesses fall in the category of SMEs. Secondly, similar medium or small sized businesses are owned mostly by persons who are either close relatives or are otherwise socially well-knitted on several market-related counts. Due to such typical scenario, the politics of trade bodies has overtime developed such typical features that most of the organized or well-run businesses carry a strong propensity to safeguard the interests of small or low-level informal businesses and demand for their non-taxation. It looks as if they share market demand with mutual understanding. Thirdly several businesses providing services in the province are headquartered elsewhere outside the province. They either generally do not have any permanent physical presence in the province or they have small front offices usually not counted as separate entities for the purposes of national taxation.

Such unique and complex market scenario created a realization that in the province of Khyber Pakhtunkhwa, special policy measures are needed to acculturate all categories of service sector SMEs in tax conformity. Accordingly, whole sales tax tariff was thoroughly reviewed. Descriptions-cum-groups-based classifications of services were rationalized. Not only businesses were size-wise trifurcated into large, medium and small categories but also the business regimes attracting the application of ultra-modern technology, new investments and generating wide-range employment opportunities were identified. New lower tax rate slabs were created and applied to all these categories of businesses in such a way that not only the market economic activity should grow fast with higher levels of investments and employment but also voluntary-compliance-led tax culture should quickly evolve under facilitative tax environment so that economic activity and tax receipts grow in unison. Meanwhile exemptions whether granted by inclusion or by exclusion, were also rationally revisited and partially curtailed.

Previous Way Forward Travelled

On the fifteen actionable points covered in the way forward at the end of the annual report, 2017-18, the following concrete measures were taken during 2018-19.

i. **Strategic Action Plan:** Strategic action plan for the year 2019-20 was very thoughtfully and realistically prepared for timely launch.

ii. **HR Induction:** Human resource requirements were identified and merit-based recruitments with the involvement of National Testing Services (NTS) were completed followed by on the job trainings besides short foreign trainings with the help of international donor agencies.

iii. **Inter-Provincial Coordination:** Several meetings of the inter-provincial revenue (sales tax on services) authorities were held as sponsored rotationally by all authorities. Views on several issues of mutual interests were jointly firmed up and the concept of inter-provincial input tax adjustment governable under common memorandum of understanding was also in principle agreed. This forum is over time becoming important from the point of view of tax policy harmonization and taxpayers' facilitation. Joint working on negative list-based tax model is also in the pipeline. Probabilities of joint audit of joint service sector regimes have also been taken on future agenda.

iv. **Operational Coupling with FBR:** With mutual understanding, the provincial revenue authorities held different meetings with FBR for the real time cross-verification of input tax data through FBR-sponsored system STRIVE and the establishment of Single Portal System (SPS) with single registration and single return (uni-declaration). KPRA has given its formal consent for adoption of STRIVE besides vehemently supporting the idea of SPS.

v. **Resource Mobilization:** The immediate IT equipment's' and logistics' needs were carefully assessed and fulfilled. It included procurement of thirteen operational vehicles.

vi. **3rd Party Data:** Besides conducting sector/city-specific physical surveys, businesses-related data was collected from E &T department, DCs' Offices, PEMRA and KPITB and used in KPRA's registration drive. This operational domain has been made a permanent feature in the context of broadening of tax base (BTB).

vii. **Litigations:** Standing counsels were hired as per requirements, cases were dedicatedly pursued before the Collector (Appeals) and High Court, efforts for early establishment of Appellate Tribunal were intensified and some legislative changes were made to avoid continuity of the present litigation or future litigation in regimes giving rise to disputes due to legal interpretation or involving tax afford ability issues.

viii. **Registrations:** Due to focused efforts, the KPRA's registry almost doubled during 2018-19 adding handsomely to the revenue receipts. Due to the ongoing efforts for KPRA's geographical expansion, the quantum of productive registrations will increase in near future more significantly.

ix. **Adjudications:** Special measures were taken to expedite the adjudications of contravention discovered through desk audits including penalization in case of non-filings and late filings. Hardly occasions arose where condonation of prescribed time limitation for original adjudication decisions was needed. The cases covered in the original orders were also quickly got decided from the first appellate stage but due to non-existence of Appellate Tribunal, stays granted by the High Court slowed down the recovery process of the adjudged tax amounts. Still handsome recoveries were made through out-of-court persuasions.

x. **Appellate Tribunal:** The efforts made during 2018-19 for the early establishment of Appellate Tribunal have fructified in that the Government has by the time of writing this annual report posted two members and a registrar in the Tribunal and third member has been transferred by FBR to KP government. Infra structural arrangements including furniture items and office space have been made. Purchase of vehicles is also in progress. The Tribunal will now start functioning very shortly.

xi. **Legislative Review:** With the technical assistance from an international donor, two separate new drafts statutes, one of Khyber Pakhtunkhwa Revenue Authority Act and the other of the Khyber Pakhtunkhwa Sales Tax on Services Act have been prepared besides KP Sales Tax on Services (Definitions) Rules. These instruments shall be got legislated in the next provincial budget. Moreover, tax audit and recovery rules were prepared, which are under submission to the Cabinet for final approval. Draft revision of withholding regulation is also at final stage.

i. **Real Time Invoice Monitoring System (RIMS):** Software design work is complete. Modalities for its implementation are being looked into with a view to make the RIMS' application more productive and result-oriented at minimal cost of hardware and allied equipment.

ii. **Intelligence & Incentive System:** Preparatory work on the creation of a separate Directorate of Intelligence & Investigation was completed. By the time of preparing this report, the Directorate has been established. Draft reward rules were prepared. Before the proposed rules could be issued, a new idea was developed under the guidance of the political leadership linking the incentives to achieving and exceeding the targets. A new incentives' model has accordingly been prepared with the help of technical support from an international donor, which is likely to be submitted to the KP government for formal approval and issuance in near future.

iii. **KPRA's IT System:** A complete IT Directorate comprising of qualified and experienced IT professional has been established. Hardware has been upgraded and replenished with new equipment, devices and accessories. KPRA has developed and applied a software for the quick retrieval of data from PRAL's system to its own system for analysis and reporting purposes (KPRA's own DSS domain). Efforts are under way with the help of PRAL to curtail the retrieval time gap and make the data transmission on time basis.

iv. **Communication:** With the help of specifically recruited media experts, a modern style communication strategy was formulated and applied with the aim to promote voluntary compliance through impacting market and all strata of public. Coverage and diversity of media campaign is increasing day by day.

Major Challenges Still on Horizon

Nowhere in the world tax administration is an easy venture. In developing countries especially, where weaknesses of tax culture are deep rooted in the primary institutions' fabric of society and informality of social life, tax collection always remains one of the major dilemma of state management. So emergence of challenges after challenges is a natural fate of developing countries' tax systems. KPRA is still foreseeing the following major challenges on its way to fully optimize the mining of provincial services-related sales tax potential of Khyber Pakhtunkhwa.

- Introduction of single portal system as envisioned by FBR will demand hectic struggle from KPRA (and of course its other counterpart provincial authorities) for the pre-determination of its rights and duties (operational role) about the management of the proposed single portal. Handling of registration and return-related affairs including violation of related laws will surely demand more qualified standards of professionalism and operational performance.
- Whenever tax rates are reduced, generation of compensatory revenue and achievement/maintenance of higher levels of revenue growth demand extra efforts from the tax administration with any likely intake of additional resources form the governmental quarters. Every officer and official is resultantly working with multi-tasked assignments. To keep this passion of the KPRA's manpower intact, rather flourishing further, is great test for KPRA.
- With the opening of regional offices of KPRA in Abbottabad, Mardan and Bannu, different components of local business community carrying historically unquestioned anti-tax culture have joined hands to give as much resistance to KPRA's enforcement efforts as possible. Since KPRA has a very strong work ethics, it is trying to convince the business community of these regions to start compliance with assurance that KPRA will forego their elementary pitfalls. Instead of honoring the facilitative cooperation from KPRA, they are demanding such concessionary and ultra-favorable tax treatments, which if granted, will later or sooner seriously hurt the governmental efforts to graduate the current sales tax system into a system as close to VAT as possible.
- Supplies of goods and services are very complexly intertwined in the market. There are several transactions where contradictory interpretations carry, if not equal at least match able weight. Now at this belated stage, FBR has started giving rulings (even through budgetary measures) for the treatment of some important services as supplies of goods and resultantly directing its field formations to start demanding and collecting Federal sales tax on them. The first blow has been unleashed on food sector services like restaurants, marriage halls and caterers etc. Since international VAT practice in this regard is very clear in complete favour of the provinces, SRB, PRA, BRA and KPRA have joined hands to jointly argue with FBR to give up such unjustified encroachments on provincial tax jurisdictions. But meanwhile like other provincial tax authorities, KPRA is facing revenue loss as several businesses have either started paying tax to FBR or have stopped paying tax to either side asking the provincial authorities to first settle the issue with FBR.

- Due to Supreme Court's suo-moto intervention, the telecom companies stopped paying sales tax on mobile telephone services. Their unadjusted input tax accumulated. After final judgement of the Supreme Court culminating into prospective restoration of tax, these companies illegally started to adjust their old (inadmissible) input tax against fresh output tax with the result that no tax is so far coming from them. KPRA has already issued judgement in the case disallowing these companies any adjustment of the already consumed input tax. The case is at appellate stage but these companies have violated the original judgement. These companies are lingering the litigation process on different pretexts posing multiple revenue-related challenges for KPRA.

Way Ahead

In the coming time, KPRA is not only determined to deal with the foretasted major challenges on war footing basis, but is also take the following forward-looking measures on urgent basis so as to optimize the revenue growth to the maximum possible extent without any wastage of time and energy.

- Identification and filling up of tax gaps in the light of new budgetary measures and through smooth market penetration for facilitative and result-fetching enforcement.
- Successful implementation of annual plans of strategic action and tax audit through more dedicated efforts and realization of revenue assigned to different action domains.
- Handling of litigations with more concerted efforts and recovery tax amounts adjudged to be payable.
- Strengthening of intelligence and investigation work (including recruitment of suitable number of intelligence and investigation officers and purchase of new heavy duty vehicles) so as to reinforce overall enforcement regime of KPRA creating effective deterrence against non-compliance and violations of tax laws.
- Maximization of tax coverage and ensuring full tax compliance in all the regional jurisdictions of KPRA especially the ones where KPRA has opened its sub-offices in the recent past.
- Immediate strengthening of all regional offices through new HR and other resources (including heavy duty vehicles) to suitably enhance their operational capacity even in difficult or tough areas (mountainous).

- Holding of seminars and workshops at all regional office levels through the respective trade bodies and associations and getting true understanding of their genuine problems for their immediate solution either through policy review or through administrative decisions.
- Drafting and passage of new legislation for infrastructure development surcharge, establishment of IDC collecting facilitation centers, regular monitoring and enforcement of IDC, raising of specialized force of qualified manpower for IDC management in collaboration with Pakistan Customs and other departments/authorities/quarters.
- Reconciliation of input tax adjustments with FBR for the remainder year 2016-17 and subsequent years 2017-18 and 2018-19 ensuring transfer of the agreed amounts besides developing a proper future system of quarterly settlements of input tax adjustment amounts.
- Completion of all unfinished or partially finished tasks (including connectivity with Federal Accounting & Budgeting System (FABS) and introduction of online tax payment system as already taken up with FBR and State Bank of Pakistan) carried over from the previous year as mentioned in the annual report, 2017-18.

"Taxes provide essential public revenues for governments to meet economic and social objectives"

Director General KPRA

KPRA Headquarters, Near Railways Track, Phase-3 Chowk Hayatabad, Peshawar.
(091) 9219233 (091) 9219223 eSupport@kpra.gov.pk
Kpra.gov.pk kpra.kp.gov.pk /kprahq