

AN APPRAISAL OF DIRECT TAXES CONTRIBUTION IN THE REVENUE OF PAKISTAN DURING THE PERIOD OF 1990-91 TO 2004-2005

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Abstract

Every Government has different means of financing its activities. Taxes are the most commonly used form of government finance.

They represent compulsory payments associated with certain activities. Every country has its own tax system by its resources, expenses. In this paper we attempted to analyze tax system, types of taxes and their share in Revenue of Pakistan during 1999-91 to 2004-05.

The evidence suggests that revenue increased 7.017 percent during the year 2004-05 compared to 2003-04. In conclusion, we present a comparison of the major difference in revenue collection and comments on the performance of Central Board of Revenue.

Introduction

Pakistan's tax system is under control of CBR. The Central Board of Revenue was established in 1924 through CBR Act 1924. In 1944, a full fledged Revenue Division was created under the Ministry of Finance. Taxes are an essential source of revenue for Pakistan like all other state economies. According to Thomas; 'Tax is a compulsory contribution made to government under stated condition and not a return for a specific service rendered'.

In 1947, when Pakistan came into being, the narrow base enigma has been in tax structure. In 1987, when the population of the country was hundred million plus, the total number of income tax payer's was just over one million. Agro income was exempted from tax net.

The main imposed taxes are direct taxes and indirect taxes. Direct taxes of the Federal Government comprises of Income Tax, Wealth Tax and Corporate Tax. Indirect Taxes, on the other hand consist of custom duty, excise duty, sales tax, etc.

Background

There are certain motives behind the taxes:

1. Taxes are mostly levied with the object of raising revenue.
2. Taxes are also imposed in the form of protective duties.
3. They are imposed in order to protect some home industry against foreign competition.
4. It aims at removing the inequalities in the distribution of income.
5. Taxes are used for Human Resources Development like education, health, etc.
6. Taxes are used to discourage imports and encourage exports.
7. Taxes are imposed to earn more and more foreign exchange.
8. Taxes are used to provide services like free schooling medical for the poor etc.

Taxes are imposed to stop people from doing certain things, such as consuming some harmful items like opium (Junejo 2003-04), Indirect taxes contribute the predominant share to the total tax collection. Direct taxes, which contributed 25% of the consolidated tax revenue in 1949-50 and 33% in 1959-60, provided only 14% in 1970s and 13% in 1980s. They have now risen to 23% in 1990s. Total tax revenue apparently has increased 300% but most of it is attributable to inflation and a little broadening of narrow base by the rise in population. The overall structure is bounded by no changes.

Table - 1

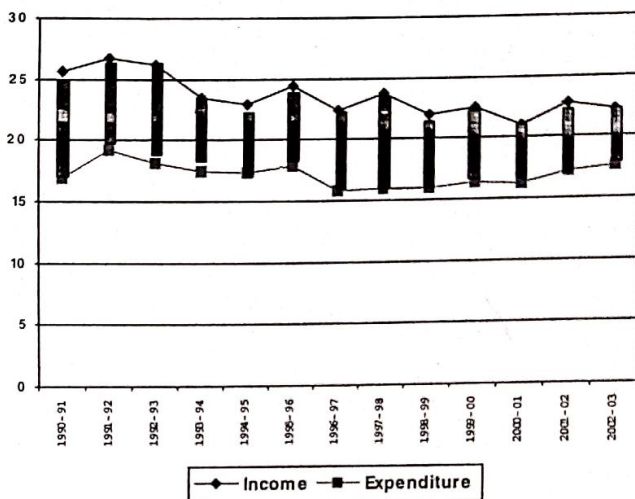
Before Reforms the Revenue & Expenditure Conditions was as under:

Year	Expenditure			Revenue		
	Total	Current	Development*	Total Rev.	Tax	Non-Tax
19990-91	25.7	19.3	6.4	16.9	12.7	4.2
1991-92	26.7	19.1	7.6	19.2	13.7	5.5
1992-93	26.2	20.5	5.7	18.1	13.4	4.7
1993-94	23.4	18.8	4.6	17.5	13.4	4.1
1994-95	22.9	18.5	4.4	17.3	13.8	3.5
1995-96	24.4	20.0	4.4	17.9	14.4	3.5
1996-97	22.3	18.8	3.5	15.8	13.4	2.4
1997-98	23.7	19.8	3.9	16.0	13.2	2.8
1998-99	22.0	18.6	3.4	15.9	13.2	2.7
1999-00**	22.5	20.3	3.2	16.3	12.9	3.4
2000-01**	21.0	18.9	2.1	16.2	12.9	3.3
2001-02**	22.8	19.3	3.5	17.2	13.2	4.0
2002-03(BE)	22.2	18.1	4.1	17.6	13.8	3.8

Source: Economy of Pakistan, by Prof.Dr.Khawaja Amjad Saeed, Edition 2005.

Table: 1 showing that in 1991-92, the expenditure was 26.7% and the total revenue was 19.2%. There is increase in Income & Expenditure. Now the Gap between Income and Expenditure is:

Revenue –Expenditure Gap (As % of GDP)



Source: Finance Division, (Budget Wing).

The magnitude of tax evasion can be gauged from the report of the NTRC, (National Tax Reforms Commission) which estimated the total tax evaded income in one year at Rs.50763 million with the total quantum of black wealth amounting to Rs.1,70,000 million. The sheer failure of fiscal agencies to deal with the problem is obvious from the fact that the total tax collected by the Department of Income Tax in one year is just about 35% of the (potential) amount that could have been brought in as revenue.

Our taxation structure has successfully resisted diversification and restructuring. Direct taxes have only three major subheads, i.e., Income tax including corporate tax, wealth tax and taxes on property. Income tax further classified into tax on salaries, interest on securities, income from house property, income from business or profession and capital gains (Saeed, 2005).

After tax reforms 2001 in Pakistan, the conditions have been little bit changed, that conditions are shown in the following table.

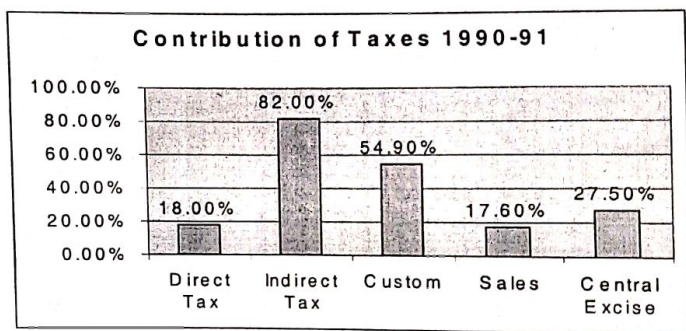
Table - 2
Structure of Federal Tax Revenue (Rupees in billion)

Year	Tax Revenue			Break-up of Indirect Tax		
	Total (CBR)	Direct Tax	Indirect Tax	Custom	Sales	Central Excise
1990-91	111.0	20.0 18.0%	91.0 82.0%	50.0 54.9%	16.0 17.6%	25.0 27.5%
1991-92	142.0	29.0 20.4%	113.0 79.6%	62.0 54.9%	21.0 18.6%	30.0 26.5%
1992-93	153.2	36.7 24.0%	116.5 76.0%	61.5 52.7%	23.5 20.2%	31.5 27.1%
1993-94	172.5	43.4 25.1%	129.1 74.9%	64.2 49.7%	30.4 23.5%	34.5 26.9%
1994-95	226.0	62.0 27.4%	164.0 72.6%	77.0 47.0%	43.0 26.2%	44.0 26.8%
1995-96	268.0	78.0 29.1%	190.0 70.9%	89.0 46.8%	50.0 26.3%	51.0 26.9%
1996-97	282.0	85.0 30.1%	197.0 69.9%	86.0 43.7%	56.0 28.4%	55.0 27.9%
1997-98	293.7	103.3 35.0%	190.4 65.0%	74.5 39.1%	53.9 28.3%	62.0 32.6%
1998-99	308.5	110.4 35.8%	198.1 64.2%	65.3 33.0%	72.0 36.3%	60.8 30.7%
1999-00	346.6	112.9 32.5%	234.0 67.5%	61.6 26.4%	116.7 49.9%	55.6 23.7%
2000-01	392.3	124.6 31.8%	267.7 68.2%	65.0 24.3%	153.6 57.6%	49.1 18.3%
2001-02	403.9	142.5 35.3%	261.6 64.7%	47.8 18.3%	166.6 63.7%	47.2 18.0%
2002-03	460.6	151.9 33.0%	308.7 67.0%	68.8 22.3%	195.1 63.2%	44.7 14.5%
2003-04	518.8	165.3 31.9%	353.6 68.1%	89.9 25.4%	219.1 62.0%	44.6 12.6%
2004-05	588.4	176.9 30.1%	411.4 68.9%	117.2 28.5%	235.5 57.2%	58.7 14.3%

Source: Year Book of Central Board of Revenue 2003-04, Islamabad, pp.14-19, Pakistan Economic Survey 2005-06 Islamabad p.68.

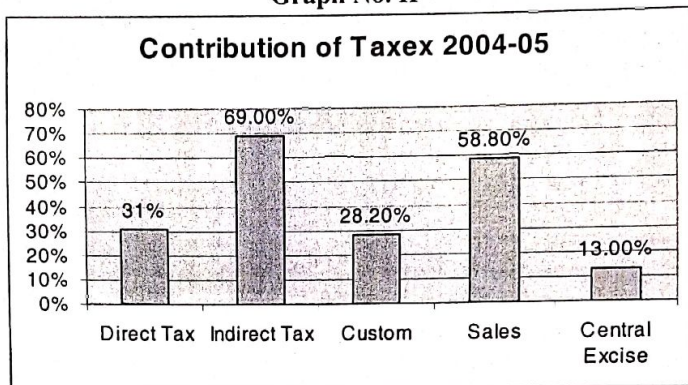
Table 2 shows that Direct Taxes have grown from 165.3 million to 176.9 million at a satisfactory rate of 7.017 percent in financial year 2004-05 as compared to the year 2003-04. In the light of above table, Direct taxes increased from Rs.112.9 million in 1999-2000 to Rs.183.4 in 2004-05. Indirect Taxes increased from Rs.234 million in 1999-2000 to Rs.407.0 million during 2004-05 which increased 68 percent.

Graph No. I



Graph: 1 shows the share of Direct taxes is increased from 18 percent in 1990-91 which increased 31 percent during the period of 2004-05 and indirect taxes share is decreased from 82 percent in 1990-91 which decreased 69 percent during period 2004-05

Graph No. II



Graph: 2 shows the break up indirect taxes in the taxes contribution customs share decreased from 54.9 percent to 28.2 percent during 1990-91 to 2004-05. Share of sales have grown at a satisfactory rate 41.2 percent during finance year 1990-91 to 2004-05. In last share of excise duty decreased from 27.5 to 13.0 percent during 1990-91 to 2004-05.

Conclusion

The performance of the CBR has been remarkable during the year 2004-05. CBR has collected Rs.588.4 billion against 2003-04 of Rs.518.8 billion which is a positive sign for the economy. Compared with immediate preceding year the CBR has increased the tax collection by 65.6 billion during financial year 2004-05.

To increase Revenue collection, a reform program, comprising of organizational re-structuring, simplification of procedures of tax collection has also been set up for this purpose. Promotion of information technology and development of human resources management has also increase the number of tax payers in the country.

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