



TAX EXPENDITURE REPORT MANUAL

**A Step-wise Tool for Developing
Tax Expenditure Report**

FY 2023-24

**Revenue Analysis Wing
Federal Board of Revenue
Government of Pakistan**

Developer’s Manual for Tax Expenditure Report (TER)

As per standard practice this report, developed by Directorate General of Revenue Analysis (DGRA), FBR is based on specific input from two primary sources i.e:

- i. From FBR’s online systems capturing taxpayers- information from Tax Returns and GDs filed by them, and;
- ii. From third parties, whose specific data is not captured by FBR’s online systems.

To streamline the preparation of tax expenditure report, the DGRA has prepared a TER Manual. The TER ‘Developer’s Manual’ is a booklet that defines major steps to be followed by TER-Team, so as to undertake the assignment in a structured fashion. These specific steps, along with details are summarized below:

1. Formulation of Team

A team comprising of experts (Officers/Staff) of FBR is officially notified at the initial stage of activity. The team works under the supervision of Director General, Revenue Analysis. As a start-up activity;

- 1.1 The team develops *Activity Matrix*, containing list of activities, work break down structure (WBS), with steps/sub-steps, timelines.
- 1.2 The matrix further clarifies responsibilities for each task assigned to individual team members in light of Activity Matrix.
- 1.3 The anticipated constraints/ impediments are highlighted.
- 1.4 A Gant chart is developed based on WBS.

2. Mapping of Exemptions/Concessions/Omissions/modifications of tax laws:

After the development of Activity Matrix, the team is expected to initiate the spade work, in following sequence:

- 2.1. Mapping of tax exemptions provisions (existing, newly introduced or abolished and modifications in rates, as introduced in relevant Finance Act) relating to respective tax laws [in case of Pakistan (Income Tax Ordinance 2001, Sales Tax Act 1990, Pakistan Customs Act 1969)].

- 2.2. Review of sub-ordinate legislations through Statutory Regulatory Orders (SROs) and Sales Tax General Orders (STGOs) etc.
- 2.3. Any addition/omission, introduced through Supplementary Finance Act, during the currency of the financial year, have to be catered for.

3. Identification of Data Sources

After the initial spade work pertaining to legislative amendments etc, the process for data acquisition is to be initiated from all available sources. This includes internal Databases of FBR as well as third party data, whose data is not captured/reported in FBR portals (like; exemptions availed by government agencies and diplomatic missions etc.). A mailing list is developed for third party data sources. Details of data collection process for different tax-types are narrated below:

3.1. Income Tax

- 3.1.1. Income tax data to be retrieved from IT-returns: Source-Pakistan Revenue Automation Ltd (PRAL).
- 3.1.2. Third party data, not captured through FBR's online systems are to be sought from governmental, non-governmental sources and autonomous bodies and their sub-offices or attached departments etc. (as per mailing list).
- 3.1.3. The mailing list has to have postal address as well as emails, phone numbers, for periodic follow ups.

3.2. Sales Tax

- 3.2.1. Complete data of sales tax returns: Source-Pakistan Revenue Automation Ltd (PRAL).

3.3. Custom Duty

Custom duty expenditures data is sought from WeBOC and Pakistan Single Window (PSW), through Customs Wing.

4. Data Cleaning and verification

After consolidating relevant data from all sources, the data is minutely examined by the relevant team members to remove redundancy, typos, errors, outliers if any.

- 4.1. Review of data consistency.

4.2. Identification of data discrepancies by comparing consolidated data in light of mapping of exemptions granted under law, omissions, outliers or mis-match with cumulative collection figures etc.

4.3. Tabulation of Tax Expenditure Estimates.

5. Key Insights from Tax Expenditure Data

The TER team analyses tax expenditures, growth patterns, unusual trends, which may aid the tax policy formulation process.

5.1. Five Yearly Trend Analysis.

5.2. Major Beneficiary Sectors of Tax Concessions.

5.3. Economic Response to Tax Concession.

5.4. Regional and Global Comparison of Tax Expenditure.

5.5. Any proposed Alternates to Tax concessions (if possible).

6. Comparative analysis (two years)

6.1. Two Yearly Comparison to find out abnormalities/Deviations in the exemption in two consecutive years (if any).

6.2. Detailed Analysis of Omissions to find out erroneous transactions, if any, and reporting to operations wings.

7. Preparation of Draft Report

7.1. Draft report outline:

7.1.1. Preface

7.1.2. List of Acronyms

7.1.3. Executive Summary

7.2. Introduction

7.2.1. Tax Expenditure

7.2.2. Benchmarking

7.2.3. Merits and demerits of tax expenditures

7.2.4. Reporting

7.3. Scope & Methodology

- i. Scope
- ii. Methodology
- iii. Taxation Period
- iv. Tax Base
- v. Tax Rate
- vi. Benchmark and Measurement for Income Tax Expenditure
- vii. Benchmark and Measurement for Sales Tax Expenditure
- viii. Benchmark and Measurement for Custom Duty Expenditure
- ix. Deviations in Methodology, if any and rationale for the same
- x. A note on data limitation and interpretation biases

7.4. International Evidence on tax expenditure

- 7.4.1. Global Comparison of TE with reference to Pakistan
- 7.4.2. TE Trends in Developed (OECD) countries
- 7.4.3. TE Trends in Comparable Economies

7.5. Tax expenditure estimates

- 7.5.1. Income Tax Estimates
- 7.5.2. Major Beneficiary Sectors of Income Tax Expenditure
- 7.5.3. Sales Tax Estimates
- 7.5.4. Major Beneficiary Sectors of Sales Tax Expenditure
- 7.5.5. Custom Duty Estimates
- 7.5.6. Major Beneficiary Sectors of Custom Duty Expenditure

7.6. Appendix A: Detail list of Tax Expenditure:

- 7.6.1. Detail list of Income Tax Expenditure.
- 7.6.2. Detail list of Sales Tax Expenditure.
- 7.6.3. Detail list of Custom Duty Expenditure.

7.7. Appendix B: List of new insertions/omissions.

7.8. **Appendix C: International Obligations, Structural Benchmarks.**

7.9. **Appendix D: Procedural Clauses.**

7.10. **Appendix E: Data sources.**

7.11. **List of References.**

8. Review of Draft TER

8.1. Internal Review of Draft Report: By officers of DGRA.

8.2. Finalization of Report: Director General RA.

8.3. External Review: forwarding of draft report to other wings of FBR, soliciting input if any.

8.4. Incorporation of inputs/comments received from other Wings of FBR.

8.5. Finalized version of TER for approval.

9. Approval of final draft of TER by Chairman, FBR.

10. Approval of TER by Finance Minister.

11. Inclusion of TER in Finance Bill to be placed before the Parliament at the time of National Budget Session.