

Second Quarterly Report October-December

2017~ 18



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Sindh's Premium Revenue
Collecting Agency

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Sindh Revenue Board is a prominent tax collecting body in Sindh. It has served as a role model for other tax collecting bodies in the province and Pakistan. It is an object oriented organization focused on collection of sales tax on services. In FY 2016-17, 53.57% of the total provincial tax revenue receipts was collected by SRB.

To boost provincial revenues and help self-finance economic progress in Sindh, SRB has made strenuous efforts and succeeded in achieving annual assigned targets and the same is expected for the current FY 2017-18. SRB has built a competent team of professionals to tackle emerging challenges.

The revenue target for the ongoing FY 2017-18 is Rs. 100 billion, an increase of 28.2% over FY 2016-17. This represents a mounting challenge considering the continuous growth in revenue collection recorded since 2011; however, SRB stands committed to achieving this target. A sum of RS.37.5 billion has been collected at the end of second quarter. The pace is expected to pick up during the course of the year.

During this quarter, systems have been further upgraded in the fields of IT, HR, Reforms and Audit. IT wing has added value to its software applications processes. General Training Course for newly hired Intern Officers' has been successfully conducted at Sindh Institute of Fiscal Management (SIFM). The HR wing has also completed the World Bank Group HR Assessment and Employees Engagement Survey.

A tax audit supported by the IT department is under scrutiny and will be finalized in the ongoing fiscal year.



Revenue Growth Momentum



Sindh Revenue Board (SRB), since its inception in 2011 is given challenging revenue targets with an average revenue growth rate of 25% to 36% per annum. Fortunately, with the efforts of SRB employees, support of government and trust and cooperation of taxpayers, it has always been able to achieve its assigned targets.

Before the inception of SRB, Sindh Sales Tax on Services was collected by FBR. It collected and transferred an amount of Rs. 16.62 billion to the Sindh exchequer for the year 2010-11. For Fiscal year 2011-12, SRB was assigned to collect Sindh Sales Tax on Services with an annual revenue target of Rs. 25 billion which represented an increase of 50.42% over FBR's collection. SRB not only achieved the assigned target but also marginally exceeded it.

Table below shows an overview of annual SST collection up to FY 2017-18:

Table 1.1

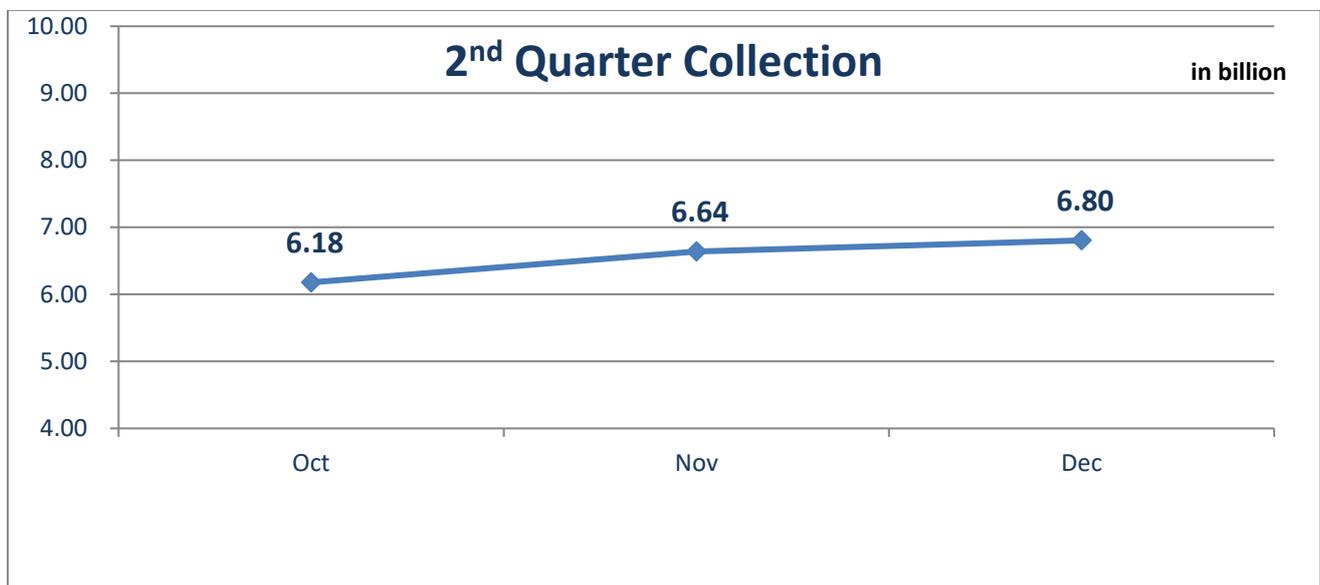
OVERVIEW OF SINDH SALES TAX COLLECTION FROM FY 2010-11 TO FY 2017-18						
(Rs. In billions)						
FY	STATUTORY RATE (EXCLUDING TELECOMMUNICATION SERVICES)	COLLECTING BODY	REVENUE TARGET	GROWTH IN REVENUE TARGET	AMOUNT COLLECTED	REMARKS
2010-11	17%	FBR	--	--	16.62	--
2011-12	16%	SRB	25	50.42%	25.01	Exceeded
2012-13	16%	SRB	32	28.00%	33.70	Exceeded
2013-14	16%	SRB	42	31.25%	42.49	Exceeded
2014-15	15%	SRB	49	16.67%	49.37	Exceeded
2015-16	14%	SRB	61	24.49%	61.61	Exceeded
2016-17	13%	SRB	78	27.87%	78.53	Exceeded
2017-18 (Till date)	13%	SRB	100	28.20%	37.5 *	In Progress

* Approximate number

The Sindh Revenue Board (SRB) has always been successful to bring positive growth in tax revenue collections. This is because of the fact that SRB has always aligned its tax policies and practices with business productivity and offers competitive tax rates.

The growth in monthly revenue collection in 2nd quarter of FY 2017-18 indicates the continued confidence of taxpayers on SRB policies and its taxpayer friendly environment.

Fig 1.1



Top Performing Sectors



Sindh Sales Tax on Services is being levied on taxable services provided by various sectors as mentioned in the second schedule to Sindh Sales Tax on Services Act, 2011. The total number of services taxed in FY 2016-17 was 89. Among such taxable services, a number of sectors make a significant contribution to the total tax revenue collection.

The following table shows the contribution of top performing sectors in the second quarter of FY 2017-18:

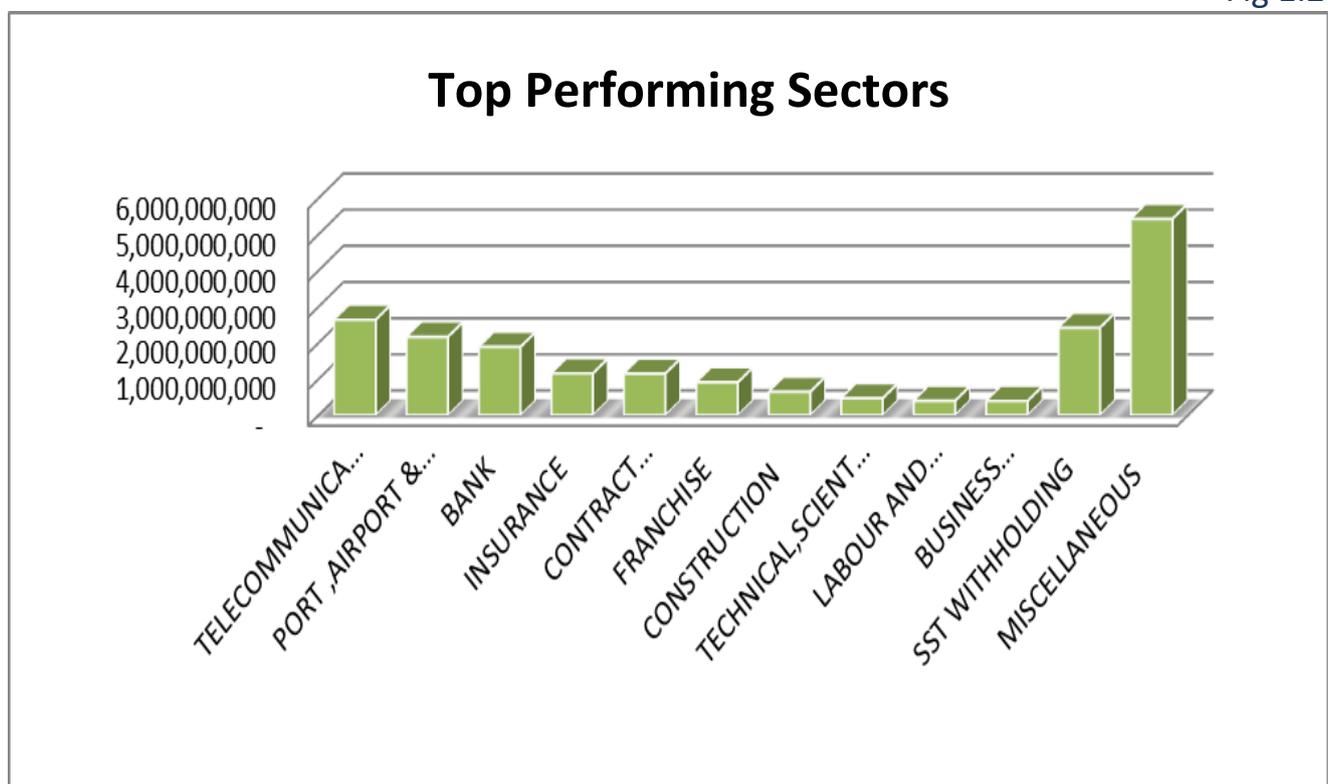
Table 1.2

TOP PERFORMING SECTORS			
S.NO	SERVICE CATAGORY	TOTAL AMOUNT PKR	% CONTRIBUTION
1	TELECOMMUNICATION	2,634,864,541	13%
2	PORT ,AIRPORT & TERMINAL OPERATORS	2,166,676,544	11%
3	BANKING	1,884,093,390	10%
4	INSURANCE	1,154,386,907	6%
5	CONTRACT EXECUTION	1,148,271,861	6%
6	FRANCHISE	904,187,975	5%
7	CONSTRUCTION	643,396,848	3%
8	TECHNICAL,SCIENTIFIC & ENGINEERING CONSULTANTS	463,995,129	2%
9	LABOUR AND MANPOWER SERVICES	394,228,042	2%
10	BUSINESS SUPPORT SERVICES	389,808,326	2%
11	SST WITHHOLDING	2,415,332,687	12%
12	MISCELLANEOUS	5,423,507,538	28%
TOTAL		19,622,749,788	100%

For the second quarter of current FY 2017-18, Telecommunication has emerged as the top contributor followed by Port, Airport & Terminal Operators and Banks respectively. The collection of Telecommunication services in the second quarter of FY 2017-18 stood at Rs. 2,634 million compared with the first quarter which stood at Rs. 2,499 million, showing a growth rate of 5.4%.

On the other hand, Ports, Airport & Terminal Operators collected Rs. 2,167 million compared with its first quarter collection of Rs. 1,824 million, exhibiting growth rate of 18.80%. Banking sector has collected Rs. 1,884 million during the second quarter of current FY 2017-18 compared with first quarter collection of Rs. 1,458 showing a growth rate of 29.21%.

Fig 1.2



Withholding Agents

Withholding Agents are described in Sub Rule (2) of Rule 1 of The Sindh Sales Tax Special Procedure (Withholding) Rules, 2014. These agents withhold tax on receiving taxable services. During the second quarter of FY 2017-18, Rs. 2,415 million of SST was collected from withholding agents showing a growth rate of 2.59% comparative to its first quarter collection of Rs. 2,354 million.



Widening the tax base is one of the top priorities of SRB. As the organization is in its growth phase, there is a lot of potential where more persons and businesses can be registered. SRB has significantly expanded its tax base through various measures such as taxpayers' education, facilitation and effective enforcement, etc.

The table below reflects the increase in number of registrations during the second quarter of FY 2017-18 compared with the second quarter of FY 2016-17.

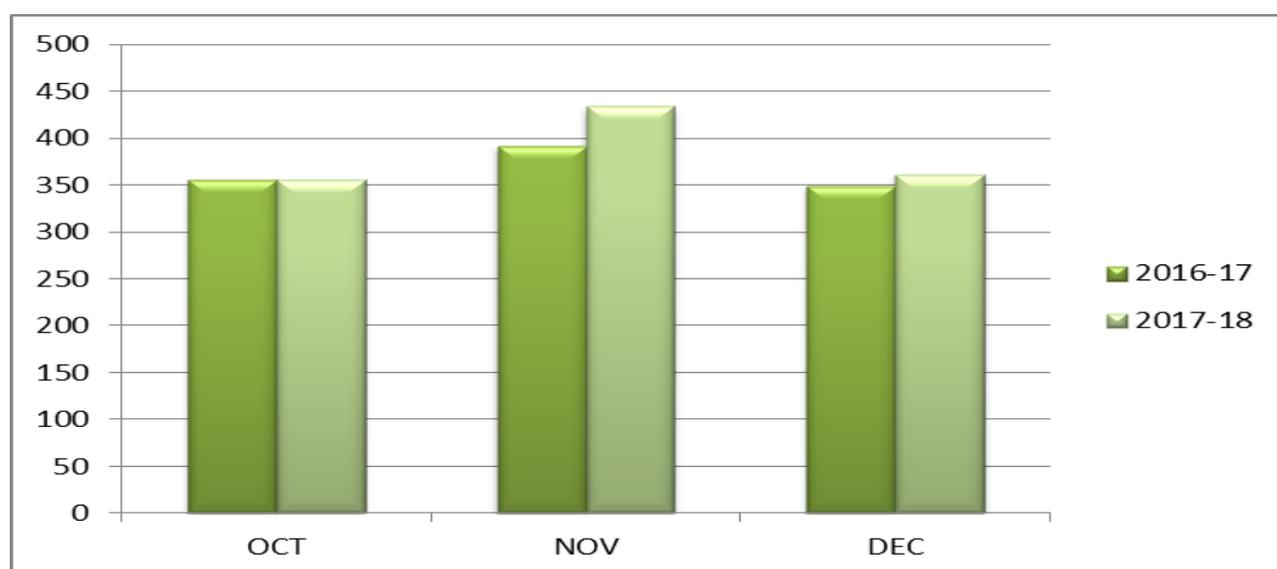
Table 1.3

SECOND QUARTER			
S.NO	MONTH	2016-17	2017-18
1	OCT	356	356
2	NOV	392	434
3	DEC	349	361
TOTAL		1,097	1,151

Currently SRB is creating an independent unit of "Survey and Development" whose main objective initially is to further expand the tax base. This wing will look for entities that are providing taxable services but are not registered with SRB. Moreover, reduction in standard tariff rate has also significantly increased the number of taxpayers.

INCREASE IN REGISTRATION

Fig 1.3





As a result of the Constitution (Eighteenth Amendment) Act, 2010, the Concurrent Legislative List of the Fourth Schedule to the Constitution of Pakistan ceases to exist. The matters enumerated and described in the said Concurrent Legislative List came into provincial domain. Accordingly, the provincial assembly of Sindh carried out various legislation related to workers including:

1. Sindh Workers Welfare Fund Act, 2014.
2. Sindh Companies Profits (Workers' Participation) Act, 2015.

Sindh Revenue Board (SRB) was entrusted with the functions of collection of these two fund contributions. It started collecting the Sindh Workers Welfare Fund (SWWF) and Sindh Companies Profits Workers' Participation Fund (SWPF) from December, 2015 after the assignment of Object Code (Head of Account) by the office of the Controller General of Accounts, Islamabad.

In the second quarter of the current FY 2017-18, an amount of Rs. 647,083,821/- an increase of 95% over first quarter collections of Rs. 331,304,162.

Table below shows the collections of second quarter comparing with first quarter of current FY 2017-18:

Table 1.4

SWWF Collection		
Q1	Q2	% Comparison
331,304,162	647,083,821	95.3%

Still a huge potential exists in the collection of these funds which cannot be boosted due to several pending litigations in High Court. The FBR and Federal Government continue to demand funds contributions under the repealed laws.

Sindh Revenue Board, with the cooperation of Labor and Human Resource Department, Government of Sindh, has taken up the matter with FBR and the Federal Government to resolve the collection issues and is also pursuing court cases diligently. Once these issues are resolved, the collection of SWWF and SWPF will further increase. Resultantly, welfare activities for the labor in Sindh will also increase.





World Bank Group HR Assessment

The World Bank is providing technical assistance to the Government of Pakistan through a Bank Executed Trust Fund for Accelerating Growth and Revenue (TAGR). An integrated plan was created to help, under a programmatic approach, the activities under Component III of the Program. This component envisages a series of analytical and advisory activities on taxation in Pakistan, including SRB. HR Assessment is one of the analytical parts of this component.

A 3-member World Bank Group team of experts comprising Charles Blanco-Senior Public Sector Specialist, Veronique Kabongo-Lead HR expert, Ivan Krsul-IT expert visited the HR Wing from Oct 9, 2017 to Oct 20, 2017.

The team identified the strengths and limitations of Human Resource landscape in SRB and obtained data and information to advise on how standard international good practices are implemented, using the Diamond Resource Assessment tool. Later the WBG team shared a report on HR Assessment.

World Bank Group Employee Engagement Survey

The Government of Sindh, in partnership with the World Bank, has initiated a reform agenda for bringing out improvements in public sector delivery, with particular focus on revenue mobilization and expenditure management. The Sindh Revenue Board is an integral part of the reforms process.

A survey on SRB Employee Engagement was conducted by the two enumerators appointed under the supervision of the World Bank. They interviewed all SRB employees based on a set of questionnaire to:

- (i) Assess the quality of tax administration
- (ii) Assess the bottleneck to effective tax management
- (iii) Understating the motivation of tax employees
- (iv) Awareness of HR policies and strategies

SRB HR team helped enumerators in planning and organizing the interviews during the month of Dec 2017 – Jan 2018.



Health Insurance Awareness Sessions

In order to ensure the best health care facility for employees, SRB implemented health insurance policy through United Insurance Company. The Health insurance provider conducted awareness session for all SRB employees in the month of Oct 2017.

Performance Evaluation Report [for SRB Scale 16, 17 & 18]

Performance evaluation of SRB employees is conducted annually. Employees are required to submit a form to their immediate supervisors who in turn submit the performance evaluation report to the HR/Admin Department. To make the evaluation fair and free from any sort of bias, another officer senior to the immediate supervisor countersigns the evaluation report by reporting officer.

Corporate Grooming

Recognizing crucial role of visual appearance and etiquettes in today's corporate world and workplace grooming, separate sessions for SRB male and female employees were organized where one of the renowned trainers Ms. Uzma Bashir from Engage HR, conducted interactive sessions with SRB employees.

SIFM Activities

Sindh institute of Fiscal Management is an in-house training facility where SRB employees are trained to enhance their skills and abilities, and help them perform more effectively. The institute has conducted trainings on soft skills, sales tax enforcement and audit etc.

The following sessions were conducted at SIFM during the second quarter of FY 2017-18:

- Workshop on strengthening the Audit Function
- General Training Course for new SRB Interns
- Workshop on Corporate Grooming

Several important meetings of SRB with its stakeholders were also arranged at SIFM.





Tax system in Pakistan is operating on self-assessment basis. In such a system, taxpayers are allowed to make assessment of their taxable income and tax liability on their own. In order to monitor compliance, tax audits are done to ensure the correctness of taxpayers' own assessment of their due tax liabilities.

The Audit wing of SRB, with the help of World Bank and close attention of its management is now more organized, manned and managed to ensure timely compliance of taxpayers with laws, rules and regulations. Currently, SRB is in process of recruiting auditors to further strengthen its audit functions.

During the second quarter of FY 2017-18, the wing continued tax audits started in the month of April 2017 with the help of records provided by selected taxpayers. The problem of continuation of these audits is mainly due to delayed/piecemeal/incomplete/unintelligible provision of records by taxpayers that resulted in lost time and hampered the overall audit disposal.

Table below shows the overall progress of Audit wing up to second quarter of FY 2017-18.

Table 1.5

Progress of Audit Wing (Second Quarter of FY 2017-18)	
No. of Audits undertaken	50
No. of Audit observation issued	21
Amount observed (Rs. In Million)	902.363
No. of Contravention Reports (CRs) issued	2
Amount involved in the CRs (Rs. In Million)	112.2
No. of Audit Reports issued	3

Remaining audits are under scrutiny and observations in this regard and shall be finalized and issued in the upcoming quarters of FY 2017-18.





The IT wing goes hand in hand with revenue collection activities of SRB. It provides skeleton support in terms of information and communication technology functions as most of the Sindh Sales Tax collection services are online.

IT support is like an integral back bone. IT department looks after online services to the tax payers as well as internal management of SRB. The public domain is maintained in coordination with FBR. The internal domain for management support services are maintained in-house.

On a daily basis, the IT department prepares and generates on-demand reports for its internal users. The reports cover various segments such as withholding tax portion and Invoice Management systems, etc. In addition to the daily maintenance and support, the IT department also develops its own in-house applications.

In second quarter (Oct-Dec 2017), IT department worked to add value to the R&D Reports such as WHT Summary, initiation of Sales Tax Invoice Management System (STIMS) to improve complex report generation, integration of SIFM Training Dashboard with SRB website, enhanced HRMS and improved application security. It also designed SRB Annual Report 2016-17.



Tax Policy Wing deals with Sindh Sales Tax (SST) policies, which include formulation of resource mobilization for the annual provincial budget, amendment in the Sindh Sales Tax on Services Act, 2011, in the Sindh Sales Tax on Services Rules, 2011 and in the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014. Tax Policy Wing also examines various tax-related and exemption-related proposals received from various Chambers of Commerce & Industry, and Trade/Taxpayers' Associations or from the taxpayers and sends its views/comments to the decision-makers. The Chief Minister's directives, received from time to time, on tax matters are also examined and processed and compliance reports are prepared in this wing. It is also responsible for issuing Rulings/Clarifications/Notifications/Standing Orders for the benefit of the taxpayers and tax collectors and also pertaining to for resolution of disputes or removal of doubts.

NOTIFICATIONS ISSUED:

During the 2nd Quarter of 2017-18, Tax Policy Wing issued 4 notifications No.SRB-3-4/29/2017 to No.SRB-3-4/32/2017, all dated 08th December, 2017, specifying the jurisdictions and functions of the various officers of the SRB in terms of sections 34, 35 and 36 of the Act, 2011.

CIRCULARS ISSUED:

Tax Policy Wing issued Circular No. 06/2017 dated 20th October, 2017, clarifying the long outstanding issue of treatment of "Out of Pocket Expenses" to determine the value of taxable services in terms of section 2(99) of the 2011-Act, read with section 5 thereof.

On the recommendation of the Ministry of Petroleum & Natural Resources, Islamabad, the Wing issued a Circular No.07/2017 dated 01st November, 2017, extending the period of holding in abeyance of the SST on the services of inter-city transportation or carriage of goods by road for a period upto 31st December, 2017.



MEETINGS WITH TAXPAYERS & TAXPAYERS' BODIES:

A number of meetings were organized with various taxpayers and taxpayers' bodies to resolve issues faced by the taxpayers in general. The Wing also attended the joint meeting of the Federal and Provincial Sales Tax Administrations held in FBR Headquarters at Islamabad on 19th October, 2017. Several issues like sales on toll manufacturing services, restaurant services, and issues of sharing of tax data and matters of forensic audit and joint audit were discussed at length.

RESOURCE MOBILIZATION PROPOSALS FOR THE SINDH BUDGET, 2018:

Tax Policy Wing issued letters and e-mails on 16th December, 2017, to the FPCCI, all the Chambers of Commerce & Industry, Pakistan Business Council and various Trade and Taxpayers' Associations inviting proposals for the Sindh Budget 2018-19 related to Sindh sales tax. The proposals, when received, shall be examined and deliberated with the stakeholders before finalization and their submission to the decision-makers.





The Commissionerate of Appeals is the first appellate forum provided by the legislature as under section 57 of the Sindh Sales Tax on Services Act, 2011. At this forum the registered person being aggrieved of the Orders-in-Original passed by the Assistant/Deputy Commissioners under the Act, 2011, file first appeals.

The summary of filing and disposal of the appeals for the 1st and 2nd quarters of the year 2017-18 is given as under:-

Table 1.6

Description	1st Quarter	2nd Quarter
Appeals Filed	66	28
Appeals disposed of	35	24

The Appeals wing has tried its best to grant reliefs, wherever possible under the law and to settle the matters at this level to minimize the onward filing of 2nd appeals before the Appellate Tribunal or the references before the Honorable High Court. The quality of decisions of the Commissioner (Appeals) reflects the decisions made by the Honorable Appellate Tribunal, Sindh Revenue Board.

Table 1.7

Description	1 st Quarter	2 nd Quarter
Appeals Decided (as per this forum record)	21	26
Upheld	11	12
Partly Upheld	4	6
Set aside	4	2
Remand back	2	6





A total number of 73 cases were filed in different Courts during the quarter. The Legal Wing on its own and with close liaison and coordination with SRB counsels was able to get 11 petitions/suits disposed off by the Honorable Courts.

During the period, five Spl. Sales Tax Reference Applications were filed against the judgments passed by the Honorable SRB Appellate Tribunal. These references were admitted by SRB in the Honorable Sindh High Court and notices were issued to the relevant parties. The cases of Mondelez Pakistan Limited and Sindh Marriage Halls & Lawns Association were decided in the favor of SRB.

Legal wing sought opinion from the Advocate General Sindh and Mr. Farooq H. Naek, Senior Advocate, on the judgment dated 18-08-2018 passed by the Honorable Sindh High Court in the Constitutional petitions relating to the levy of Sindh sales tax on “Renting of immovable property services” whether:-

- (a) Government of Sindh and SRB should file appeal in the Honorable Supreme Court against the said judgment of Sindh High Court;
- (b) The Government of Sindh should consider moving an amendment Bill (with a valid clause) in the Provincial Assembly of Sindh.

In the light of the advice/opinion received from the Advocate General Sindh and Mr. Farooq H. Naek, it was decided that appeal is required to be filed before the Honorable Supreme Court of Pakistan against the aforesaid judgment and simultaneously necessary amendment was drafted by SRB in relevant section of the Act, 2011. In this regard, 20 appeals were filed by the Government of Sindh and SRB in the Supreme Court of Pakistan against the aforesaid judgment.

Legal Wing streamlined the internal procedures for smooth and proper functioning of the legal wing specially filing of Para-wise comments/written comments, to pursue the cases rigorously by filing replies in the Courts.



Tables below further elaborate the position of cases before superior judiciary:

Table 1.8

Position of Cases before Superior Judiciary		
S.No	Nature of Case	Total Pending cases in Qtr-2 Oct, 2017 to Dec, 2017
1	Constitutional Petitions	37
2	Suits	4
3	SSTRAs: i) By SRB ii) Against SRB	i) 5 ii) 6
4	WPI	1
5	ICA	0
6	Civil Appeals	20 (Filed by SRB)
	Total	73

Table 1.9

STATUS OF CASES		
S.NO	DISCRIPTION	QTR-2
1	Cases disposed off	11
2	Cases Lost	1
3	Cases Won	2
4	Decided on Technical Grounds	8
5	Injunctions granted	61
6	Cases Dismissed	1