

Top Technology Trend



Technology Tools and the Future of Tax Administration in Pakistan



business and market demands. The evolution requires a mindset change for organizations, employees, and members, as well as an organizational culture change, before deciding what digital tools to use and how to use them.

This process requires the organization to envision its future and use that future to drive technology, not the other way round. This transformation requires continuous improvement.

As the transmission of the information moved from physical paper to digital formats communicated through desktop computers, and now laptops and increasingly smartphones, the reliance on linear, centralized paper-technology based methods and processes has remained, and with it, some of the flexibility for which it allows.

One crucial point about digital records from an administrative perspective is that they are infinitely reproducible. Thousands of lines of information can be shared at the push of a button, while the same data can be interrogated automatically by software in a tiny fraction of the time it would take to review and analyze the physical records.

Types of Administration in Taxation

There are three types of administration in taxations as under:

- By Department [FBR in case of Pakistan]
- By Consultants
- By Clients

By digitization, use of technology tools, and programming many things are fixed. For instance, in BlockChain, data cannot be changed but can be rectified or adjusted, if required. It is not possible humanely to dig out the huge data available with the organizations and we need technology tools to perform that task. With the help of artificial intelligence (AI), we can identify and analyze suspicious transactions.



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The technology trends include Big Data, Analytics, Artificial Intelligence (AI), Machine Learning, The Internet of Things (IoT); Mobility, and Cloud Computing. All these tools have a huge impact on tax administration.

Taken individually or together, these trends have the power to increase taxpayer satisfaction; empower tax agency employees; optimize operations and modernize services. This is where digital transformation comes in. With Cloud computing services and adoption becoming increasingly mature, many different entities of all shapes and sizes are turning to the cloud as a core engine of their infrastructure. However, the process within the public sector environment tends to be somewhat slow.

Use of Technology by Tax Administration

With technology tools and digital transformation, the Tax Administration can:

- a) Turn data into a business asset using predictive modeling
- b) Analyze macro-economic trends and policy changes to help develop workforce capabilities.

- c) Simplify the level of tax compliance
- d) Prevent tax errors and frauds
- e) Improve taxpayer services by facilitating payment methods, issuing faster refunds, and giving easier access to relevant information.

Benefits to Tax Administration

The Tax Administration can have the following benefits by using different technology tools:

- a) Reduce operation times
- b) Decrease costs, in some cases
- c) Improve risk management techniques
- d) Audit efficiency and
- e) Better incentivize (inter) national priorities

Technology tools and transformation can help the tax administrations in the following primary areas:

- a) Increase the transparency of strategy, processes, and investments through extremely structured and/or visually-supported data
- b) Increase taxpayer satisfaction and voluntary compliance
- c) Help in initiatives such as country-by-country reporting
- d) Enhance collaboration and exchange of information with local and international organizations.

This opens the door to enhanced data analytics and governance. More than 32 tax administrations worldwide have changed their strategies from a traditional data-oriented audit to a 'Risk-based' cooperative compliance approach that heavily relies on analytics during the assessment process.

Tax administrations and taxpayers expect the same easy access and real-time sharing of tax information similar to the facility provided to them by other data holders such as banks and consumer-facing businesses. Such capabilities increase the connection and collaboration between tax administrations and taxpayers (businesses and individuals). It also helps tax administrations to securely exchange relevant data with banks, employers, stock exchange committees, chambers of commerce, and more.

A new trend within the Finance industry is that tax administrations are automatically exchanging taxpayer information across jurisdictions. In this context, the taxpayers want assurances from the tax administrations about their personal information such as:

- The right level of Privacy
- Security and Protection
- Personalized, real-time, reliable services

This would help in maintaining compliance, empowering tax policymakers to make decisions that drive growth, and improving their public image by enhancing transparency and accountability.

Most capacity-building efforts focus on tax law such as Double Tax Treaties, protecting and broadening the tax base, transfer pricing, and other technical tax issues.

Budgetary constraints

Many developing countries, especially their public sector organizations, are facing budgetary constraints. Budget constraints and lack of proper resources often pressure tax administration to do more with less.

As administrations continue to accumulate increasing volumes of taxpayer data, they will want to convert that information into actionable insight that helps them increase revenue, retain their country's investment attractiveness, and ease their tax compliance burden. In the backdrop of recent financial leaks, they also need to take action about money laundering, tax avoidance, and tax evasion.

Hence, to accomplish all the above targets, the tax administration needs to invest in technology to properly manage the data growth. This includes attracting and recruiting people with the right set of skills in data analytics/data mining; forensic auditing; risk management and tax technology to be able to generate actionable insight.

In developing economies, there is a growing need to include more taxpayers within the formal economy (through registrations), reduce tax evasion, and counteract money laundering. As the tax administration's agenda becomes more comprehensive, so too does the need to invest in technology to properly and securely manage the growth of taxpayer data.

Challenges and Technology Limitations

Cash Economy:

In our region, the cash economy and undocumented sector cannot be tapped unless paper money is converted into electronic money, like China and Europe who are moving towards this revolution.

The challenge is Crypto currencies. They are facing it without the backing of the Central Bank and only the online transactions without information about any client. It should be owned by countries like China who have introduced their cryptocurrency. Even a tax collector is not ready for all these challenges.

Dark Web:

Dark Web is an internet of underworld having its browsers and world and cannot be tapped easily.

In our country, a lot has been done with technology such as sales tax system, input and output mechanism, costing is also as like as Artificial Intelligence (AI). Standards can be set out and analyzed for better results. Transfer of property and vehicles and deduction of tax to tap the transactions and income of those who are not registered with tax authorities.

Similarly, bank tax deduction on all transactions can be done. The money changes and jewelers who have costly items like diamonds and how they can be used with technology is also a challenge for the world.

Use of Technology Steps taken by FBR

The Tax administration in Pakistan i.e., FBR has taken several initiatives for the automation of the tax systems and procedures since 1996 such as Point of Sales (POS); Online Audits, and Appeals. The access to bank transactions by Big Data and AI

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will help the tax authorities to analyze the change in bank transactions with profits and sales declared.

FBR has recently signed an MoU with NADRA for real-time verification of CNICs and associated details. It would help improve FBR's service delivery standards for taxpayers and automate tax refunds prefill data in withholding statements and tax returns. It would further promote ease of doing business by saving time spent in regulatory compliance. It will also facilitate onward linking of FBR's system with other organizations.

There is huge potential for the identification of persons who are either outside the tax net or conceal their income and assets. Pakistan, home to more than 64 million internet users and 62 million people connected to mobile data, is no exception. As they become more digital-savvy, Pakistanis are now expecting better digital services from their Government.

Reducing the difficulties faced by the SME Sector

With the use of digital tools and technology, the difficulties being faced by the SME sector in exporting their goods and ease of doing business can be reduced to a great extent. The FBR, an e-commerce automated clearance facility for Customs Wing in collaboration with the State Bank of Pakistan (SBP), Ministry of Commerce, and e-commerce operators will facilitate the e-commerce trade and documentation as well as e-commerce exports from Pakistan. This system allows commercial banks to register e-commerce traders in the WeBOC system of Pakistan Customs. FBR has also launched the Maloomat Tax Ray Application to facilitate the taxpayers and the general public. This application has been uploaded on FBR's website. The Application will help the taxpayers in filing their annual tax returns correctly.

FBR has also introduced the online FASTER system so that refund claims are processed without the involvement of tax officials. Mobile App to enable a Sales Tax Refund claimant to view the status of refund claim at each stage of processing has been made part of the FASTER Plus system. FBR is in the process to automate the Commissioner IR (Appeals) to enable the taxpayers to e-file appeals against orders by income tax authorities on the Iris Web Portal and facilitate the Commissioner IR Appeals to efficiently dispose of the appeals using Iris Portal. It will also minimize the physical contact with the taxpayer, facilitate the filing of an appeal, reduce the cost of filing an appeal, and will ensure efficient service delivery with transparency.

FBR has targeted to deploy around 8,500 electronic devices like POS at retail outlets by end of December 2020 to bring the vendors into the taxpayers' net and document financial transactions and the economy.

Some other measures for increasing automation in tax administration in Pakistan are as under:

- Online Registration of Taxpayers
- Online Modification of Registration
- Online Return Filing System
- Online Filing of Exemption Certificates
- Online Active Taxpayers List - Income Tax and Sales Tax
- Online Application for Refunds

- Online Sales Tax Refund Payments
- Online Receipt of Notices/ Correspondence
- Online Applications for Adjudgment etc.
- Online Verification System for Notices /Orders Exemption Certificates
- Online List of Black Listed Taxpayers (Sales Tax)
- Online Verification of Tax Payments
- Online Verification of Rebate Status (Customs)
- Online Reporting for Import/ Export by Commodity
- Online Verification of Import General Manifest
- Online System for Export General Manifest
- Income Tax Return in Off-Line Mode as well as bulk filing Iris-ADX
- Sales Tax Real-time Invoice Verification System (STRIVE)
- Online Automated Customs Processes (WebOC)
- Automation of Income Tax Business Processes - Iris Module

The basic objective of all these measures by the FBRO is to minimize the physical contact between the tax collector and taxpayers and to explore the non-taxable areas. FBR is using technology tools to bring those individuals and organizations into the tax net which are either paying no taxes at all or paying fewer taxes as against their earnings or income. According to a statement by the IMF Resident Representative in Pakistan, the tax collection by FBR is 62 percent below its potential but this level of collection is equivalent as compared to peer regional economies. Around 50% of the revenues are collected by FBR at the import stage including Customs Duty, Withholding Tax, GST, Additional Customs Duty, and Regulatory Duty.

Real-time access to NADRA and Immigration Databases (Section 56A)

To increase the tax base and to reduce tax evasions, it was proposed to FBR to make arrangements to have real-time access to information and database for Sales Tax and FED purposes of NADRA, FIA, Bureau of Emigration and Overseas Employment, ICT and Provincial and local land record and development authorities, ICT and Provincial Excise and Taxation Departments, all Electricity suppliers and gas transmission and distribution companies, any other agency, authority, institution or organization notified by the FBR.

The detail from FIA, Emigration and Overseas Employment was related to details of international entry and exit of all persons and information about work permits, employment visas, and immigration visas. The Act has restricted the information from both FIA and immigration agencies to only international travel.

To conclude, the technology is speedily changing and this poses a challenge for tax administration in our region, especially to FBR to formulate an effective policy to meet these challenges in the coming next 20 to 30 years.

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