



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



A * T * A * I * C
Association of Tax Authorities of Islamic Countries
اتحاد السلطات الضريبية للميلاد الإسلامية

3RD ATAIC TECHNICAL CONFERENCE
FINAL REPORT

Islamabad – Pakistan – 2006



Association of Tax Authorities of Islamic Countries

November 22-25, 2006, Islamabad-Pakistan

Final Report
3rd Technical Conference of ATAIC

*With special thanks to the respected guests of
the 3rd Technical Conference*

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In the Name of Allah the Almighty and Merciful

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Some Verses from the Holy Qur'an

الَّذِينَ آمَنُوا وَعَمِلُوا الصَّالِحَاتِ وَأَقَامُوا الصَّلَاةَ
وَأَتَوْا الزَّكَاةَ لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ
وَلَا هُمْ يَحْزَنُونَ

إِنَّمَا الصَّدَقَاتُ لِلْفُقَرَاءِ وَالْمَسَاكِينِ وَالْعَامِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ
وَفِي الرِّقَابِ وَالْغَارِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ
وَاللَّهُ عَلِيمٌ حَكِيمٌ

Those who believe, and do deeds of righteousness, and establish regular prayers and regular charity, will have their reward with their Lord: on them shall be no fear, nor shall they grieve.

Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the cause of Allah; and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom.



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



**LOGO
OF
THE THIRD
TECHNICAL CONFERENCE**

**ISLAMABAD – PAKISTAN
2006**



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



3rd ATAIC Technical Conference

Association of Tax Authorities of Islamic Countries

November 22-25, 2006, Islamabad-Pakistan



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



**AN INTRODUCTION
TO
“ATAIC”**

Association of Tax Authorities of the Islamic Countries (ATAIC)

Introduction

The ATAIC was established and launched in Putrajaya Malaysia on October 15, 2003, and representative of the Islamic countries were invited to participate in the preparatory meetings of ATAIC during 13 – 14 October 2003, prior to this launch. Its first conference was held at Malaysia Kuala Lumpur. Thereafter the second annual meeting was held at Tehran Iran and the third Conference from 22nd to 25th November, 2006 at Islamabad, Pakistan.

The mission of the Association is to facilitate the improvement of tax administration and promote Sharia Taxation with particular reference to Zakat within the Islamic countries, in order to meet the challenges/changes rapidly taking place in the world.

Issues such as administration, collection and distribution of tax and Zakat accordingly, are the main subjects to be dealt with by the ATAIC

Objective and Activities:

The purpose of the Association is to facilitate the improvement of tax and zakat policies and administrations in all their aspects within member Islamic countries in order to meet the challenges of rapidly changing world. To this end the activities of the Association may include:

- Holding meetings including an Annual Technical Meeting in related tax/zakat issues for the exchange of ideas and experiences.
- Organizing seminars, workshops and training courses on aspects of tax/zakat organization.
- collecting, analyzing and disseminating information on tax/zakat issues.
- Providing directly or collaborating with, and generally facilitating the work of, bilateral and multilateral agencies that provide technical assistance and research facilities in the field of tax administration.
- Generally carrying out functions related to overall improvement of the capabilities of tax/zakat administration through functional cooperation between and among Islamic countries.
- Keeping abreast all member Islamic countries with development of tax and related regimes in non-Islamic countries as well as activities of regional tax associations.

The ATAIC Formation

The agreement for the formation of ATAIC was signed by the representatives of 11 Islamic countries at the meetings held in 2003 (13-15 October) based on the ATAIC agreement, an annual technical meeting should be held once a year in one of the member countries.



The 1st ATAIC Technical Conference 2004

The 1st ATAIC Technical Conference was held in Putrajaya, Malaysia in 2004 (4-7 October). Sixteen Islamic countries were the members of ATAIC, out of which eleven attended the 1st conference. Topics of discussion at that conference included:

- 1) Taxpayer Service – Improvement in Tax Administration towards Better Services to Taxpayer.
- 2) The Role of Zakat in Development of the Muslim Ummah and Modernization Strategies in Collection and Distribution.

ATAIC Member Countries October 2004

- | | |
|--------------------|----------------|
| 1) Bangladesh | 9) Malaysia |
| 2) Brunei Darussal | 10) Morocco |
| 3) Egypt | 11) Pakistan |
| 4) Indonesia | 12) Qatar |
| 5) Iran | 13) Senegal |
| 6) Jordan | 14) Sudan |
| 7) Kuwait | 15) Tajikistan |
| 8) Lebanon | 16) Yemen |

■ ■ ■

The 2nd ATAIC Technical Conference 2005

The 2nd ATAIC Technical Conference was held in Tehran, Iran in 2005 (29th November to 2nd December). Twenty Islamic countries were the members of ATAIC. Topics of discussion at that conference included:

Topic-1 Tax Issues in Cross-Border Transactions.

Topic-2 Value Added Tax (VAT) – Practice and Implementation.

2005-2006

- | | |
|--------------------|------------------|
| 1) Bangladesh | 11) Lebanon |
| 2) Brunei Darussal | 12) Malaysia |
| 3) Comoros | 13) Morocco |
| 4) Egypt | 14) Pakistan |
| 5) Guyana | 15) Qatar |
| 6) Indonesia | 16) Senegal |
| 7) Iran | 17) Sierra Leone |
| 8) Iraq | 18) Sudan |
| 9) Jordan | 19) Tajikistan |
| 10) Kuwait | 20) Yemen |

2006-2007

- | | |
|----------------------|------------------|
| 1) Bangladesh | 11) Lebanon |
| 2) Brunei Darussalam | 12) Malaysia |
| 3) Comoros | 13) Morocco |
| 4) Egypt | 14) Pakistan |
| 5) Guyana | 15) Qatar |
| 6) Indonesia | 16) Senegal |
| 7) Iran | 17) Sierra Leone |
| 8) Iraq | 18) Sudan |
| 9) Jordan | 19) Tajikistan |
| 10) Kuwait | 20) Yemen |



The 3rd ATAIC Technical Conference 2006

The main objective of the ATAIC Technical Conferences is to provide for the meeting of tax administrators and policy makers from Islamic countries in order to share their knowledge and experiences regarding taxation and related matters.

Following the first and second ATAIC Technical Conferences, held in Malaysia and Iran, **the Islamic Republic of Pakistan was the host of the 3rd ATAIC Technical Conference 2006** in Islamabad from November 22 – 25, 2006. Active participation of all tax authorities from Islamic countries and observers from international tax organizations made the 3rd ATAIC Conference a resounding success for the Islamic world.

Participants discussed the following topics at the conference, 2006:

1. Strategies for resource mobilization through:
 - a. increase in tax to GDP ratio; and
 - b. expansion in tax base.
2. Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.
3. Shariah Taxation with particular reference to Zakat

Presentations on the above topics focused on fundamental steps towards the development of Islamic economic thoughts among Muslims tax scholars and administrators.

Islamic Republic of Pakistan warmly welcomes any response, suggestion or proposal in this regard. For further details you can communicate with the Conference Secretariat at the following:

Mrs. Farida Amjad
Chief (International Taxes)/
Conference Coordinator
Central Board of Revenue
Islamabad – Pakistan
Tel: 92-51-9202771
Fax: 92-51-9206265
Email: faridaamjad@yahoo.com





3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



**AGREEMENT OF
FOUNDING MEMBERSHIP
MALAYSIA
OCTOBER 2003**

Founding Membership:

Whereas a meeting held on 13th and 15th October 2003 of the representatives from the following tax/Zakat authorities agreed that an Association of Tax Authorities of Islamic Countries (ATAIC) be established, we the undersigned under the Chairmanship of the Honourable Tan Sri dato Zainol Abidin bin Abd. Rashid of Malaysia, do now constitute ourselves THE ASSOCIATION OF TAX AUTHORITIES OF ISLAMIC COUNTRIES and hereby adopt the annexed GUIDING PRINCIPLES.

Signed by the representatives of:

Country	Name Designation	Signed
Bangladesh	Mr. K. M. Sakhawat Hossain Member (Tax Survey & Inspection) National Board of Revenue	Sd/
Brunei Darussalam	Pg Hj. Ismail PLW Pg. Hj. Yussof Acting Senior Taxation Officer Revenue Division Ministry of Finance	Sd/
Indonesia	Mr. Hasan rachmany Head of Regional Office XVII Denapasar Directorate General of Taxes	Sd/
Jordan	Mr. Ahmad Khraisat Assistant Director General Income Tax Department	Sd/
Kuwait	Mr. Nabil Al-Abdul Jalil Deputy Director of Tax Department Ministry of Finance	Sd/
Lebanon	Mr. Walid El-Khatib Director of Revenue	Sd/
Malaysia	Dato hj Abu Hassan Hj Md. Akhir Deputy Director General Inland Revenue Board	Sd/
Morocco	Mr. Brahim Kettani Director of Legislation Legal Affairs & International Cooperation General Tax Administration Ministry of Finance	Sd/
Pakistan	Mr. Vakil Ahmad Khan Member (Direct Taxes) Central Board of Revenue	Sd/
Tajikistan	Mr. Gulomjon Babaev Minister of State Revenues and Duties	Sd/
Yemen	Mr. Noman Taher Al-Suhaibi Deputy Chairman Tax Authority	Sd/

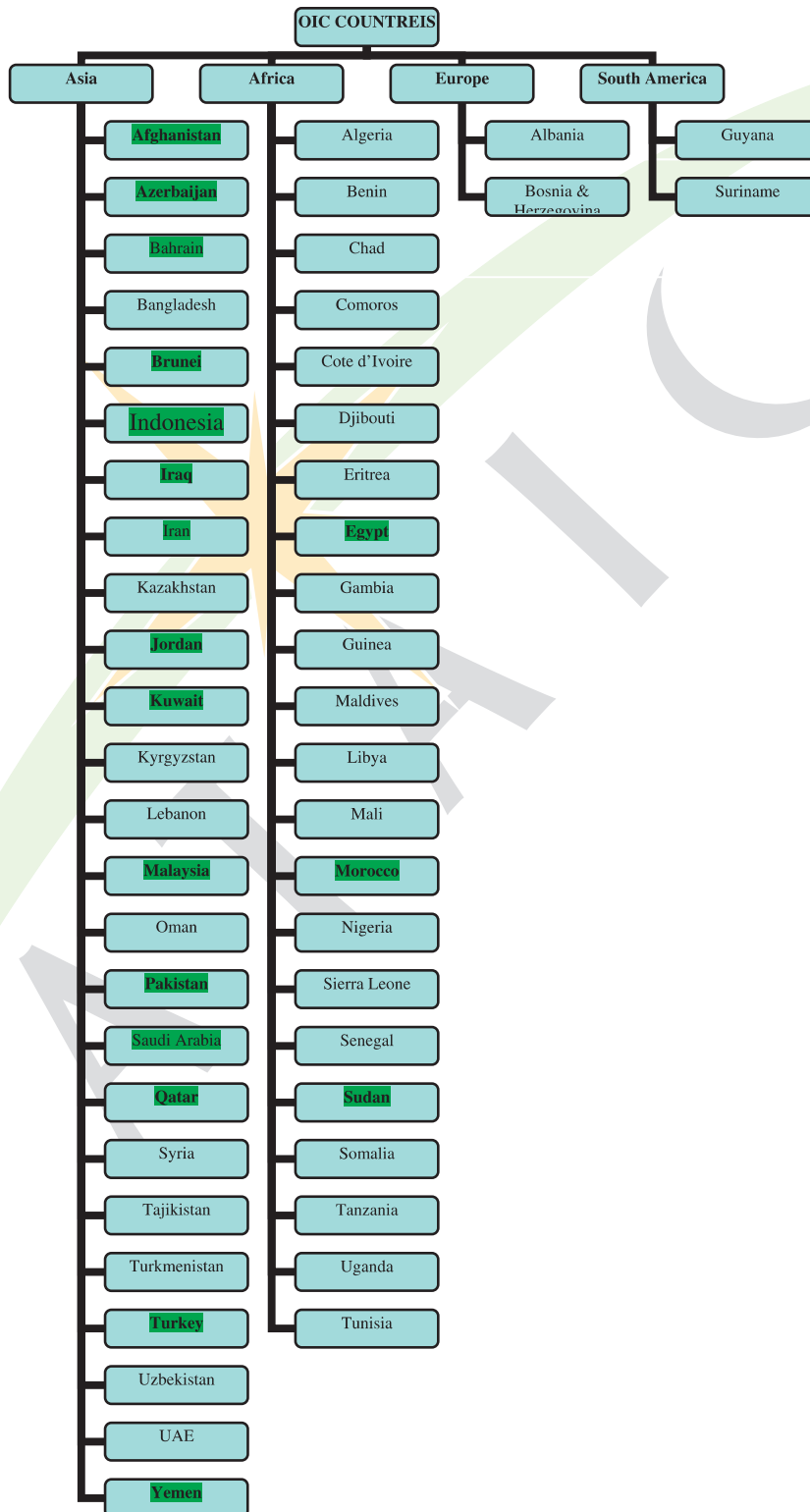
14th October 2003



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
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**THE COUNTRIES THAT ACCEPTED
THE INVITATION EXTENDED BY THE
ISLAMIC REPUBLIC OF PAKISTAN
TO THE 3RD ATAIC TECHNICAL
CONFERENCE 2006**

The invitation to the 3rd Technical Conference of ATAIC extended to OIC Countries and accepted by the following countries:





3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



COUNTRIES AND THEIR DELEGATIONS
TO THE 3RD ATAIC TECHNICAL
CONFERENCE 2006
ISLAMABAD - PAKISTAN

S.No.	Country	Names/designation of delegates
1.	Afghanistan	1. Mr. Bashir Ullah Najimi, Expert of Islamic Economy
2.	Azerbaijan	1. Mr. Latif Polad Jahangirov, Head of Division. The Ministry of Taxes 2. Mr. Vahid Mahaddin Namazov, Deputy Head of Tax Policy, The Ministry of Taxes
3.	Bahrain	1. Mr. Abdul Rahman Ismail Al-Awadhi, Head Public Administration & Economic Service 2. Mr. Ebrahim Rajab Ahmed Nasaif, Acting Head of Revenue Section.
4.	Brunei Darussalam	1. Mrs. Chairani Haji Sulaiman 2. Mr. Haji Md Shamsul Riza Haji Sulaiman 3. Mr. Muhammad Yusuri Majid
5.	Egypt	1. Mr. Mostafa Mahmoud Abdel Kader. 2. Ms. Sabah Labebe Mohamed – First researcher. 3. Ms. Hanan Khalaf El Sayed, First researcher. 4. Mr. Atef Sayed Ramadan Mohamed, Researcher
6.	Iran	1. Mr. Arabmazar Ali Akbar, President of State Tax Organization, Iran 2. Mr. Asgari Masoud, Head of Int. Group. 3. Ms. F. Hosseini Sadr, Adviser to the President of STO. 4. Mr. Morteza Asadi, General Director 5. Syed Zia-Odin Kia Al-Hosseini, Faculty Member, MOFID University 6. Syed Kazem Sadr, Prof. Shahid Baheshti University.
7.	Indonesia	1. Mr. Neilmaldrin Noor, Head of Income Tax Division 2. Mr. Darmawan, Section Chief for Value Added Tax Potential.

8. **Iraq**
 1. **Mr. Talib M. Jabber Ab-Juala,**
General Director, General Commission for Taxation

9. **Jordan**
 1. **Mr. Adnan Abdarhim Alatoon,**
Head of Policy Section.
 2. **Mr. Nisam Mahmoud Barhouma,**
Officer Policy Section.

10. **Kuwait**
 1. **Mr. Fawzi. S. A. Al-Qassar,**
Assistant Undersecretary.
 2. **Mr. Abdulla Shehab,**
Director of Inspection & Tax Claims
 3. **Mr. Nabil Al-Abduljalil,**
Director of Tax Liability
 4. **Mr. Abdulaziz Al – Sallal,**
Controller of Tax Treaties
 5. **Mr. Ibrahim, Al Qasaimi,**
Head of Collection Section.

11. **Malaysia**

IBRM;s Office:

 1. **Dr. Mohd. Shukor Haji Mahfar**
Deputy Director General
 2. **Mr. Mat Lazim Bin Salleh**
 3. **Mr. Yusof Daud**
 4. **Mr. Md. Seniman Selamat**
 5. **Ms. Tengku Shahariatun Tg. Adnan**
 6. **Ruedah Karim**
Ministry of Finance Malaysia
 7. **Mr. Khazali Ahmad**
Deputy Undersecretary
 8. **Mr Mohd Fauzi Mustafa**
Zakat Collection Centre Malaysia
 9. **Dato' Abdul Rahim Abu Bakar**
Chairman
 10. **Mr. Mohd Rais Bin Alias**

12. **Morocco**
 1. **Mr. Brrahim Kettani,**
Director of Legislation,
Studies and International Cooperation.

2. **Mr. Omar Al-Madani,**
Head of Multilateral Cooperation Unit.
 3. **Mr. Mohamed Bouchareb,**
Head of Communication and Studies Division.
13. **Pakistan**
1. **Mr. Salman Nabi,**
Member (Direct Taxes)
 2. **Mr. Haji Ahmad**
Regional Commissioner of Income
Eastern Region, Lahore
 3. **Syed Aqeel Zafar-ul-Hassan**
Regional Commissioner of Income
Corporate Region, Karachi
 4. **Mr. Usman Khalid Mirza**
Director General (Inspection & Audit)
Islamabad
 5. **Mr. Munir Qureshi**
Director General,
Directorate of Inspection & Audit
Islamabad.
 6. **Mr. Omar Farooq**
Director General
Large Taxpayer Unit, Lahore
 7. **Mr. Mukhtar Ahmad Gondal**
Director General,
Large Taxpayers Unit, Karachi
 8. **Mrs. Farida Amjad**
Chief (International Taxes)/Conference Coordinator
 9. **Mr. Muhammad Riaz**
Secretary (International Taxes Policy)
 10. **Mr. Ali Husnain**
Secretary (International Taxes Ops)
14. **Qatar**
1. **Mr. Yousif Abdullah Bilal,**
Head of Survey and Follow Up Section
 3. **Mr. Meteab Mubarak Al-Kubaisi,**
Tax Inspector
 4. **Mr. Ali Mohamed Al-Khayat,**
Management Section.

15. **Sudan**
 1. **Mr. Ahmed Adam Salim,**
General Secretary.
 2. **Mr. Mohamed Adam Abaker,**
Executive Manager.
 3. **Mr. Ibrahim Abdel Raouf,**
General Director
 4. **Mr. Fadl Abdalla Fadl**
International Relation (Taxation)

16. **Saudi Arabia**
 1. **Mr. Saud A Al Melhem**
 2. **Mr. Mansour Mohammad Al Mohayya**

17. **Turkey**
 1. **Mr. Fazıl ÇYFTÇY**
Head of Department
 2. **Mr. Metin Kayrak,**
Deputy Chairman of the Revenue
 3. **Mr. Aziz Ozbek,**
Head of Group

18. **Yemen**
 1. **Mr. Ahmed Ahmed Ghaleb Saeed,**
Deputy Chairman.
 2. **Mr. Ahmed Mohamed Abdo Rajeh,**
General Manager of Large Taxpayer Office
 3. **Mr. Yaha Mohamed Al-Osta,**
General Manager of Legal Department.

19. **CATA**
 1. **Mr. Zahir Kaleem,**
Executive Director

20. **IBFD**
 1. **Mr. Ridah Hamzaoui**





3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
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PROGRAMME
3RD ATAIC TECHNICAL CONFERENCE
2006
MARRIOTT HOTEL, ISLAMABAD
22 – 25 NOVEMBER 2006

Tuesday 21 November 2006

Whole day	Arrival of delegates/registration	Senator Room
06.00 (pm)	Meeting of the Steering Committee/ Heads of Delegation.	Conference-2
08.00 (pm)	Dinner hosted by the Central Board of Revenue.	Kohe Noor, Marriot Hotel

Wednesday 22 November 2006

09.00 (am)	Opening ceremony (Formal/National Dress) • Arrival of delegates & Guests	Marquee Hall
10.00 (am)	• Arrival of Chief Guest	-do-
10.10 (am)	• Recitation from Holy Quran	-do-
10.20 (am)	• Remarks by the outgoing Chairman and announcement of handing over of Chairmanship from Iran to Pakistan. Handing over ATAIC Flag & Book.	-do-
10.30 (am)	• Welcome address by the new Chairman	-do-
10.35 (am)	• Address by the Chief Guest	-do-
10.55 (am)	• Photography session & end of opening ceremony	-do-
11.00 (am)	<i>COFFEE/TEA BREAK</i>	-do-
11.30 (am)	3rd ATAIC Technical Conference 2006 • Plenary Session • Opening remarks by the Chairman of the 3rd ATAIC Technical Conference.	Marquee Hall
11.45 (am)	Commencement of Parallel Sessions of Topic-1 & 2	Ambassador Hall (1&2)
01.00 (pm)	<i>LUNCH/PRAYER BREAK</i>	Kohi Noor Hall
02.30 (pm)	• Continuation of Parallel Sessions Working Grp. 1 – Hall (1) Working Grp. 2 – Hall (2)	Ambassador Hall (1 & 2)
03.45 (pm)	<i>COFFEE/TEA BREAK</i>	Ambassador Hall-3
04.00 (pm)	• Parallel Sessions Cont'd	Ambassador Hall (1&2)
04.55 (pm)	• Announcements regarding evening program and schedule for tomorrow	
05.00 (pm)	<i>ADJOURN</i>	
07.30 (pm)	Assembly	Lobby, Marriott Hotel
07.45 (pm)	Departure for Serena Hotel	
08.00 (pm)	Cultural program	Shamadan-III Hall, Serena Hotel
09.00 (pm)	Dinner (Dress – informal)	Shamadan-III Hall, Serena Hotel

Thursday 23 November 2006

90.30 (am)	<p>Announcements</p> <ul style="list-style-type: none"> • Resumption of Parallel Sessions Working Grp.1 – Hall (1) Working Grp. 2 – Hall (2) 	Ambassador Hall (1 & 2)
11.00 (am)	<i>COFFEE/TEA BREAK</i>	Ambassador Hall-3
11.30 (am)	<p>Continuation of Parallel Sessions Working Grp.1 – Hall (1) Working Grp. 2 – Hall (2)</p>	Ambassador Hall (1 & 2)
01.00 (pm)	LUNCH/PRAAYER BREAK	Kohin Noor
02.30 (pm)	Shahriah Taxation with particular reference to Zakat (combined session)	Crystal Ball Room
03.45 (pm)	COFFEE/TEA BREAK	Crystal Ball Room
04.00 (pm)	Continuation of combined session Crystal Ball Room	
04.55 (pm)	<ul style="list-style-type: none"> • Announcements regarding evening programme and schedule for tomorrow 	
05.00 (pm)	ADJOURN	
06.45 (pm)	Assembly	Lobby, Marriott Hotel
07.00 (pm)	Departure for Daman-e-Koh	
07.30 (pm)	Arrival at Daman-e-Koh	
08.00 (pm)	Departure for Pir Sohawa	
08.30 (pm)	<p>Dinner (<i>Dress – informal</i>)</p>	Pir Sohawa

Friday 24 November 2006 – Whole day - Visit to Murree/Bhurban.

09.00 (am)	Assembling of the delegates	Lobby, Marriot Hotel
09.30 (am)	Departure for Murree	
11.30 (am)	Arrival at Murree	
12.30 (pm)	Departure for Bhurban	
01.00 (pm)	Arrival at PC Bhurban Refreshments	
01.15 (pm)	Jumma Prayer	PC Bhurban (Mosque)
01.45 (pm)	Lunch	PC Bhurban Lawns
03.00 (pm)	Departure for Bhurban Golf Club	
03.15 (pm)	Arrival at Bhurban Golf Club Tea/Coffee	
04.30 (pm)	Departure for Islamabad	
06.30 (pm)	Arrival at Islamabad	

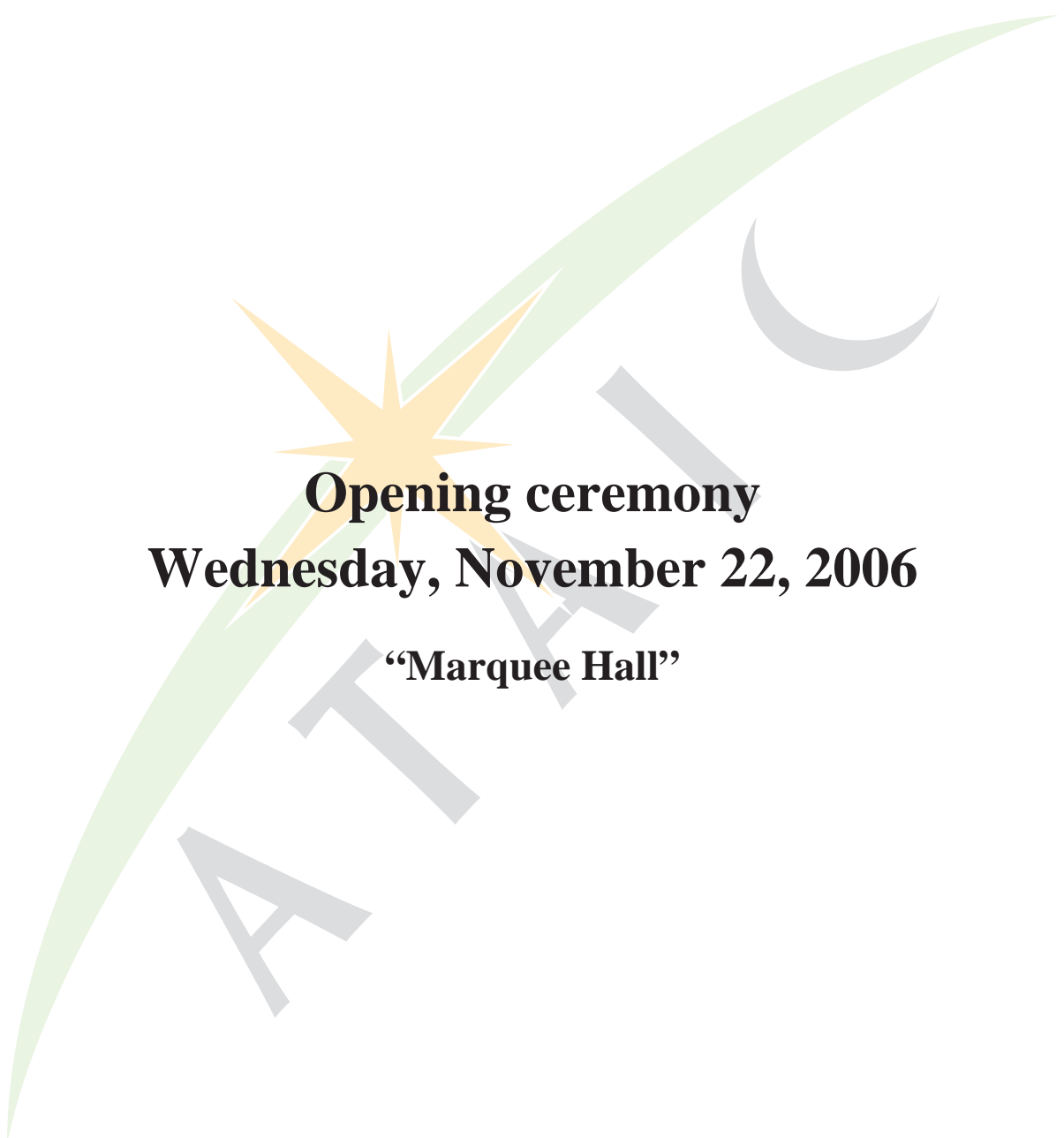
Saturday 25 November 2006

09.30 (am)	• Announcements	Ambassador Hall (1 & 2)
09.35 (am)	• Reports of Parallel Sessions on topic-1 & 2	-do-
11.30 (am)	<i>COFFEE/TEA BREAK</i>	Ambassador Hall-3
12.00 (noon)	Closing session • Adoption of the Final Report • Summing up Remarks • Vote of Thanks • End of Technical Conference	Crystal Ball Room
01.00 (pm)	LUNCH/PRAAYER BREAK	Kohe Noor
02.00 (pm)	Heads of Delegations Meeting	Crystal Ball Room





3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan



Opening ceremony
Wednesday, November 22, 2006
“Marquee Hall”

In the Name of Almighty Allah

ATAIC 3RD TECHNICAL CONFERENCE

Opening Ceremony

The 3rd ATAIC Technical Conference was launched on Wednesday, November 22, 2006. Sixty Six participants from nineteen OIC countries attended the conference and two participants from CATA and IBFD also attended in the capacity of observers. The respected guests from the Embassies of participants' countries, universities, parliament, public and private organizations, government organizations and institutions were present in the opening ceremony.

The formal proceedings started with recitation from the Holly Quran. Mrs. Farida Amjad, Chief (International Taxes)/Conference Coordinator acted as stage Secretary. She briefly introduced the ATAIC forum and invited the former and new Chairmen of ATAIC to address the audience. The Conference was inaugurated by H.E. Mr. Shaukat Aziz, the Prime Minister of the Islamic Republic of Pakistan who delivered his key note address and welcomed the visiting delegates.



ADDRESS BY

H.E. Dr. Aliakbar Arabmazar

**PRESIDENT OF THE STATE TAX
ORGANIZATION ISLAMIC REPUBLIC OF
IRAN**

CHAIRMAN OF THE ATAIC

SECOND TECHNICAL CONFERENCE 2005

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

وَجَعَلَنِي مُبَارَكًا أَيْنَ مَا كُنْتُ وَ أَوْصَنِي بِالصَّلَاةِ وَالزَّكَاةِ
مَا دُمْتُ حَيًّا (سوره مريم آيه 31)

*And he hath made me blessed wheresoever I be, and hath enjoined on me prayer and
Zakat As long As I live. (Sura-e-Marriyam, Ayah 31)*

H.E. Dr Shoukat Aziz, Honorable Prime Minister of the Islamic Republic of Pakistan,
His Excellencies,
Distinguished Guests,
Ambassadors of OIC Member Countries,
Representatives of ATAIC member Countries,

Ladies and Gentlemen,

I hereby appreciate and warmly welcome the presence of honorable distinguished guests and participants to the 3rd ATAIC Technical Conference in Islamabad.

- **As you all know the agreement for formation of the Association of Tax Authorities of Islamic Countries**, signed in October 2003 was the initial step towards the establishment of the ATAIC.
- Based on the founding objectives and in order to exchange information on the tax systems of the member states, to analyze the Islamic taxes and their implementation aspects, to introduce new approaches and to apply advanced technologies, the annual meetings of ATAIC should be held regularly in one of the member Countries.
- **The first Technical Conference** held by the Inland Revenue Board of Malaysia in 2004, was an important gathering of eleven representatives of Islamic States. Improvement of the services provided to taxpayers through adoption of better techniques in Tax Administration, which was the main issue at that conference, was very helpful in introducing new approaches to the tax authorities of Islamic countries.

Also, the role of Zakat in economic development of the Muslim countries as the 2nd important issue was considered by the participants, mainly those countries in which Zakat has an important role in their tax systems. In this regard the strategies of modernization in collecting and distributing Zakat were discussed extensively with the aim of promoting integrated Islamic Tax Policies.

- **The second Technical Conference** was held by the National Tax Administration of the Islamic Republic of Iran in November 2005, in Tehran.

The representatives of 22 Islamic States participated actively in the Conference, exchanged their experiences on developing appropriate strategies towards improvement of tax policies and administrations, domestically and internationally.

At that conference, subjects such as Treaties on Avoidance of Double Taxation, new techniques of audit and control, and exchanging Tax information were discussed under the topic of Tax issues in Cross-Border Transactions.

However, under the topic of Value Added Tax, Practice & Implementation, and with the aim of mapping the appropriate environment for adapting VAT Tax system with the economic development process of the Islamic economies, the participants exchanged views on how to draw up necessary measures, to apply new information technology, to expand the tax base and to increase the share of tax revenues in the government budget.

- **The main outcomes of the second Technical Conference were as follows:**
 1. The membership of two countries, namely Sierra Leone and Comoros was approved.
 2. The members agreed that subjects for discussion in future conferences should be in line with at least one of the following general topics a- Direct taxes, b- Tax-issues on cross-border transactions, and c- Zakat

In fact discussion on Zakat is the only characteristic which distinguishes the ATAIC from other similar bodies. So it should be discussed regularly at the annual conferences.

- **The main activities of the ATAIC Secretariat in Tehran during the year 2006 were as follow:**
 1. Officially informing all OIC member States about the important outcomes of the 2nd Technical Conference.
 2. Finalizing the host country for holding the 3rd Technical Conference. After withdrawal of Sudan the host for the 3rd Technical Conference was not determined in Tehran. Hence, after many correspondences with member countries, finally, the Islamic Republic of Pakistan accepted to host the 3rd Technical Conference.
Hereby, I would like to thank the Government of Pakistan especially the authorities of the Central Board of Revenue for their highly appreciable offer to hold the Conference in Islamabad.
 3. Communicating with all the ATAIC member countries about their views on the topics which they would like to be discussed in the 3rd Technical Conference. After receiving all the responses, ATAIC Secretariat summarized the views and informed the tax authorities of the Islamic Republic of Pakistan. At last the following topics were scheduled for discussion:
 - a. Strategies for resource mobilization through:

- (i) increase in tax to GDP ratio; and
 - (ii) expansion in tax base.
- b. Promotion of Voluntary Compliance, specially among small traders and tax audit as an effective deterrence for tax compliance;
 - i. The Shariah taxation with particular reference to Zakat.
4. Preparing the final report of the 2nd Technical Conference and providing it to all OIC Ministries of Finance and Tax Administrations.
5. Introducing the ATAIC activities to the "Committee of International Organizations for Tax Administration (CIOTA)" and the "International Tax Dialog (ITD)" with regard to the important position of ATAIC in integrating the economies of Islamic countries.
6. Proposing the membership of ATAIC in the "CIOTA" and the "ITD" and requesting the ATAIC member countries' opinions in this regards. Pakistan, Indonesia, Morocco, Iraq, and Sudan have accepted this proposal. This issue needs to be finalized in the 3rd Technical Conference.
7. Preparing the grounds for establishing a Data Bank for the ATAIC in order to facilitate the exchange of information among the ATAIC Tax Authorities, as a platform for exchange of information among member countries.



"ATAIC" and future

Increase in ATAIC membership and in the number of delegations attending these Technical Conferences indicate the need for expansion of economic and fiscal cooperation among Islamic countries.

- In fact, financing the government expenditures out of the tax revenues and applying new techniques in the administrative systems of collecting revenues ,and gradually decreasing the degree of reliance on other sources of financing require adoption of the optimum tax system reforms. Design of better tax policies, imposing appropriate tax laws and regulations, promoting tax culture and tax compliance and improving the tax administration, certainly require a new attitude towards tax system by our top policy markers and politicians, and also, adoption of new arrangements and approaches by Tax Administrators. Of course interactions among tax authorities of Islamic countries will facilitate this process.
- Hopefully, the Technical Conferences of "ATAIC" will provide opportunities for exchange of ideas and viewpoints among Muslim scholars and scientists to reform the tax policies and administrations of the Islamic countries in a way to achieve the advanced economic goals of their countries.
- However, in order to provide the grounds for implementing the final decisions made by the tax authorities at these conferences, **the ATAIC action plan** should be formulated and approved by the member countries.

- In order to develop the human resources of the tax administrations, and to promote the skills and knowledge of the tax officials of the Islamic countries, special training courses, in particular, courses for the training of trainers should be arranged regularly.
- At the end, I would like to thank the Government of Pakistan and in particular the Tax Authorities of the Central Board of Revenue for their warm hospitality and great efforts to provide this opportunity to all Muslim countries to participate in the 3rd ATAIC Technical Conference. I am sure that the ATAIC Technical Conferences will lead to improvement of fiscal systems of Islamic governments and more cooperation among ATAIC member states.
- I wish this Conference will be fruitful and enjoyable for all of the participants.

Wassalamualaikum warahmatullahi wabarakatuh.

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3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan

ADDRESS BY

H.E. Mr. M. Abdullah Yusuf

Secretary General Revenue Division/
Chairman, CBR

**CHAIRMAN OF THE ATAIC
3rd TECHNICAL CONFERENCE 2006**

Welcome address by:
Mr. M. Abdullah Yusuf
New Chairman of Association of Tax Administration
of Islamic Countries (ATAIC)

Honourable Prime Minister of Pakistan,
Distinguished delegates,
Representatives of international organizations,
Excellencies; Ladies and gentlemen!

It is a matter of great honour for Pakistan and for myself to assume the Chairmanship of the Association of Tax Authorities of Islamic Countries. The vision to create the association in 2003 at the time of OIC summit in Kuala Lumpur, Malaysia is by the grace of Allah, materializing. Its membership now spreads over 20 countries. Sixty eight delegates are attending Conference this year from 14 member and 9 non-member countries. The biggest intergovernmental tax organization i.e. Commonwealth Association of Tax Administrators is represented at this forum by its Executive Director, Mr. Zahir Kaleem, who is an officer of our income tax department. We also welcome International Bureau of Fiscal Documentation, which is being represented here, in observer's capacity.

We have come a long way after holding the first technical conference in Malaysia in 2004 and the 2nd in Tehran, Iran in 2005.

The first Conference was attended by eleven Islamic countries. The topics of discussion were:
(i) Taxpayer Service – improvement in tax administration towards better service to taxpayers; and
(ii) The role of Zakat in development of the Muslim Ummah – Modernization Strategies in collection and distribution.

The issues discussed in the second Conference were:

- (i) Tax Issues in Cross-border Transactions; and
- (ii) Value Added Tax (VAT) – Practice and Implementation.

Participants now attending this third Conference will discuss the following topics:

- (i) Strategies for resource mobilization through:
 - a. Increase in Tax to GDP ratio; and
 - b. Expansion in Tax base
- (ii) Promotion of voluntary compliance, especially among small traders and tax audit as an effective deterrence for tax compliance; and
- (iii) Sharia Taxation with particular reference to Zakat

Our interaction with the delegates since their arrival here clearly brings out the earnest desire of all member countries to accelerate mutual cooperation in all possible spheres. Among the Member States, some have been pioneers in tax reforms and they have excelled in the field of human resource management. Officers from the tax department regularly attend the training courses in various areas of human resource, international taxation and treaties on avoidance of double taxation and taxation of properties etc. Central Board of Revenue, Pakistan is also in consultation with some of brotherly countries regarding finding out ways and means to improve tax to GDP ratio and also learning to improve our customer service centres.

The initiatives taken in Pakistan under the Tax Administration Reform Program include the implementation of universal self-assessment scheme, creation of a functional organization, building of a taxpayer service function, use of modern work layout for conducting tax administration, creation of database for management reporting, audit selection, statistical analysis, and automation in CBR and its field formations.

We have adopted segmentation approach and in its implementation. We have already established 2 Large Taxpayers' Units – first in Karachi and another one at Lahore. The third unit is now being established in Islamabad. For other taxpayers, we have experimented with the establishment of 6 model Medium Taxpayers' Unit – after their success, we have now reached the stage of final roll out, which will be in the form of establishment of 13 Regional Tax Offices, all over the country.

In April 2005 Pakistan offered a workshop on “Tax Analysis and Revenue Forecasting” to ATAIC Member States. 17 participants from 9 Member States benefited from this course. It is our proposal that such facilities may be extended and cooperation in these areas be expanded. We are also looking into the possibility of working out modalities of mutual assistance in other areas. Pakistan volunteers to do the necessary work at the initial stage and the time Inshallah will not be far when we may have at least initiated tangible initiatives to bring ATAIC as a close-knit, not only large but effective tax forum also.

Excellencies and distinguished delegates: We recently had the opportunity to represent Pakistan in 2nd session of the meeting of the United Nations Committee of Experts for cooperation in tax matters and Pakistan's initiative regarding offering of training facilities in various areas of tax administration was extremely appreciated. Pakistan in its tenure of holding ATAIC Secretariat intends to conduct training programs, in collaboration with the UN where we will welcome participants not only from ATAIC Member States but also from other developing countries of the Muslim World.

In order to move effectively in the international arena, we need to expose ATAIC at all important forums. Pakistan had the honour of first time introducing agenda of ATAIC at the UN level in the recently held meeting of UN Committee of Experts. We now propose and intend to raise the voice of

ATAIC in International Tax Dialogue, which is rapidly assuming the status of highest forum on tax issues, because of serious involvement of international organizations like World Bank, IMF and OECD etc. This link up will enable us to benefit from the international best practices.

Pakistan has recently signed Tax Treaties with Jordan, Morocco, Bahrain, Saudi Arabia and Yemen. Treaty with Brunei Darussalam has been initialed and is expected to be signed soon.

I take this opportunity to welcome all the participants of the conference especially those who have travelled from far-off places. We have taken all the care to look-after you well. We wish you have a comfortable stay here and pray for the deliberations during the next few days to be useful. I am also grateful to the honourable Prime Minister of Pakistan who has taken out time inspite of his very busy schedule, to be with us and guide us in our endeavors during the proceedings of the conference. I also assure the honourable Prime Minister that the Association of Tax Authorities of Islamic Countries will continue its endeavours but all these endeavours are subject to the respective governments' support and patronage which may be available to the Association through consultation with your counterparts.

I thank you Mr. Prime Minister and the honourable delegates.

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3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan

ADDRESS BY

H.E. Mr. Shaukat Aziz

PRIME MINISTER OF ISLAMIC REPUBLIC OF PAKISTAN

**THE GUEST OF HONOUR TO THE
3rd TECHNICAL CONFERENCE 2005**

*In the Name of Allah
The Compassionate, The Merciful*

**The Honourable Chairman of the Conference
Distinguished Delegates
Ladies and Gentlemen**

Assalamoalaikum

Let me first of all extend a very warm welcome to all of you to our country and to this conference. It is indeed a great honour for us to host this conference organized by the Association of Tax Authorities of Islamic countries.

You may be aware that we had the honour of hosting the World Islamic Economic Forum early this month. The forum was very well attended and provided a great opportunity to discuss the challenges faced by the Muslim Ummah, especially in the economic field. We deeply cherish our relationship with Islamic countries and always welcome opportunities of interaction with our Muslim brethren.

Ladies and Gentlemen

Before I turn to the subject of tax reform, which is the specific focus of this conference, I would like to briefly dwell upon the main issues and challenges confronting the Islamic world.

Firstly, our economic performance, with the exception of a few success stories, is not commensurate with our real potential. We constitute one-fifth of humanity, spread over a vast geographical area from Morocco to Indonesia and having a rich diversity of races, languages and cultures. We are endowed with vast natural resources including 70% of the world's hydrocarbon reserves. However, nearly 39% of Muslims in the world live in poverty. We account for only 6% of the world output and our share in global trade is barely 8%, while only 13% of our total trade is amongst ourselves. None of us has so far become a member of the developed industrialized group. We need to formulate an effective strategy for harnessing our economic potential.

Secondly, the Muslim world suffers from insecurity arising from mutual discord and dissensions. Within our own societies, social inequities as well as ethnic, tribal and linguistic divides are in some cases generating unrest and uncertainty. There is a need for forging unity within and amongst ourselves. We should evolve an effective dispute resolution mechanism and a sound framework for mutual cooperation.

Thirdly, another serious challenge facing us all is the growing divide between the Muslim world and the West, wrongly projected by some as a clash of civilizations. In some circles, Islamic is wrongly equated with terrorism, while the fact is that terrorism has no faith and knows no boundaries. This

syndrome is rooted in misperceptions about our faith which embodies the pristine values of moderation, tolerance, social justice and interfaith harmony. Islamic also underscores a dynamic way of thinking and lays down the principle of Ijtehad for interpreting its basic principles in terms of changing realities and requirements of life.

Fourthly, Muslims in many parts of the world, including Iraq, Afghanistan, Palestine, Lebanon and Kashmir, continue to face a very difficult and complex situation. The Muslim countries have to work together and urge upon the world community to address the causes of injustice and oppression being perpetrated against Muslim populations in some parts of the world.

Lastly, we should have a very clear perception about the current global environment, characterized as it is by economic integration, technological advancement and predominance of the knowledge economy. Globalization presents opportunities as well as challenges. It presents opportunities for growth through expansion in trade and capital flows as well as freer exchange of ideas and technologies across national boundaries. The process of globalization has made the world not only interdependent but also highly competitive. Benefiting from the opportunities of globalization requires better governance, higher efficiency, and greater productivity and competitiveness. We must, therefore, undertake necessary political, economic and social reforms to create an enabling environment for harnessing our individual and collective potential. We should approach the current day realities with open minds and adopt a futuristic vision to resolve our issues and problems. The way forward for us really is through improved governance and reform within our own countries on the one hand and by exploring new avenues of cooperation based on commonality of interests on the other. That in my view is the main task before us.

Ladies and Gentlemen

Turning now to the subject of tax reform more specifically, let me first of all highlight the importance of fiscal policy as a tool of economic development. In my view the central thrust of our economic strategy should be to create an enabling environment for the private sector to become an engine of growth and at the same time put in place policies and mechanisms whereby the fruits of economic activity reach all segments of society. Maintaining a stable macroeconomic framework and implementing structural reforms to unleash the full potential of the economy are indispensable to the fulfillment of these objectives. Macroeconomic stability depends to a large extent upon consolidation which requires an efficient, well-functioning and investor-friendly taxation system. Generating sufficient public revenues to enable the

State of discharge its obligations and designing progressive tax structures which address both efficiency and equity considerations are indeed challenging tasks. It is in this context that tax authorities have onerous and important responsibility to perform, particularly in the context of developing countries like ours.

The taxation systems in many of our countries suffer from a number of structural weaknesses. First, tax bases are narrow and punctured due to exemptions and concessions. Second, as a consequence of this, tax rates are high, creating a vicious circle of tax base erosion and higher tax rate. Third, there is an over-reliance on trade-related taxes which generate inefficiency and distort allocation of resources. Fourth, multiplicity of taxation hampers private investment. Fifth, tax systems are complex, hamstrung by cumbersome procedures which breed evasion and malpractices. Last but not the least, tax administrations are weak, inefficient and lack professionalism. The combine effect of these structural weaknesses is often a low tax-to-GDP ratio and inadequate fiscal effect. I believe many of our countries are diligently pursuing economic reform programmes, including tax reform, to address these structural problems.

Ladies and Gentlemen

Over the last seven years we in Pakistan have successfully implemented a macroeconomic stabilization and wide-ranging structural reform programme, including a ambitious component of tax reform. As a result of economic reforms, our economic is now growing at 6-8% and we are one of the faster growing economies of Asia. Our poverty levels several years ago were close to 35% of the total population. Today we are down to 24% and 13 million people have come out of poverty in the last five years.

Our tax reform initiatives, broadly speaking, include restructuring of tax administration along functional lines, business process re-engineering and automation, and establishment of one-window outfits in major cities for facilitation of taxpayers. The use of technology in a paperless environment without human inter-face has made the process transparent and made life easy for taxpayers.

The outcome of our tax reforms is well known. There has been a buoyant growth in revenue. Substantial progress has been made in moving the base of taxation from trade and investment towards income and consumption. The share of direct taxes in total taxes has increased significantly while within indirect taxes, the structure has changed profoundly with the share of trade-related taxes going down and that of sales tax increasing substantially.

Ladies and Gentlemen

The path of reform is always difficult and arduous as it involves changing the mind set of the stakeholders. I still remember that when we were introducing the universal self-assessment scheme, nagging doubts were expressed by some that the new system would result in a decline in revenues. But we always believed that the taxpayers had to be trusted and facilitated. We had a vision and we took the step forward. And now results of the last three years have vindicated the reform strategy adopted by the Government. I am happy to see that the bold initiative taken at that time has yielded positive results and become the cornerstone of our reform programme. All the stakeholders have now a sense of ownership and voluntary compliance has improved significantly.

It is encouraging that as a result of these efforts, there has been a qualitative change in the whole complexion and culture of tax system in the country. Traditionally, the tax machinery and the business

community were locked in an adversarial relationship. That equation has now undergone a sea-change. I am sure many other countries represented here in this gathering have similar stories to tell and it would be a great learning experience for all of you to exchange ideas and best practices in your respective fields.

Ladies and Gentlemen

Reform is a continuous process. In a rapidly changing world, no one can afford to stand still. Life moves on and we have to move with it. We have to address new challenges as they arise. We have to keep abreast of new ideas and innovative ways of doing things.

Let me conclude by making a few points about how the process of tax reform can be deepened to facilitate fiscal consolidation in our countries.

Firstly, tax authorities must address rampant malpractices by reducing human inter-face and taking away the discretionary powers of tax collectors.

Secondly, there is a need to raise the level of fiscal effort by broadening the base of income and sales tax. This is crucially important for enabling the government to meet the rising demand for social and development spending while continuing to reduce the debt burden.

Thirdly, tax administration reforms must focus on fundamental changes in human resource management and increased application of information technology to achieve greater efficiency and transparency in business processes.

Lastly and most importantly, efforts should be made to develop and efficient, transparent and client friendly taxation system based on international best practices and under-pinned by a relationship of trust between taxpayer and tax collector.

Ladies and Gentlemen

In conclusion, let me say that a lot of progress has been made by strengthening cooperation among the Muslim countries but a lot more needs to be done. We must deepen and broaden economic cooperation amongst ourselves. Depending upon our individual comparative and competitive advantage, we should try to specialize and carve out niches for ourselves in vital economic sectors such as energy, telecom, IT, banking, mining, agriculture, services and so on. We can thus create complementarities and by sharing best practices help each other to help ourselves. Our eventual goal should be to create an Islamic Economic Union towards which we can begin by entering into multilateral free trade agreements as well as promoting the free flow of capital, labour, goods and services. We can also create world-class capital markets to attract international capital, which would enable us to finance our growth and development. I am confident that the Muslim world by the grace of All Almighty and through concerted action will overcome its challenges and open up new avenues of progress and prosperity not only for Muslims but for entire humanity.

PLENARY AND PARALLEL SESSIONS

After the opening session, the members were divided into two working groups to deliberate upon the topic-(1) and (2). In the afternoon, two workshops started detailed deliberations. All the participants who had been divided into two groups according to their interest and experiences attended the workshops, in order to express their opinion on the following two topics:

- (1) Strategies for resource mobilization through:
 - (a) increase in tax to GDP ratio; and
 - (b) expansion in tax base.
- (2) Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

On 23rd November 2006 at 02.30 p.m. a combined session was held to discuss the 3rd topic i.e. (3) Shariah Taxation with particular reference to Zakat. Mr. Ijaz-ul-Haq, Minister for Religions Affairs, Zakat and Ushr presided the session.



3rd ATAIC Technical Conference
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**THE TOPICS OF THE PAPERS PRESENTED
TO THE ATAIC
3RD TECHNICAL CONFERENCE
ISLAMABAD – PAKISTAN 2006**

THE PAPERS PRESENTED TO THE 3RD TECHNICAL CONFERENCE

The Papers Presented by the Islamic countries' delegations to the conference secretariat for the 3rd Technical Conference:

1) **Egypt:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

2) **Kingdom of Jordan:**

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

3) **Republic of Indonesia:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

Topic-3 Shariah Taxation with particular reference to Zakat

4) **Islamic Republic of Iran:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

5) **Malaysia:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

Topic-3 Shariah Taxation with particular reference to Zakat

6) **Kingdom of Morocco:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

7) **Republic of Sudan:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

8) **Islamic Republic of Pakistan:**

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic-2 Promotion of Voluntary Compliance, especially amongst small traders and tax audit as an effective deterrence for tax compliance.

Topic-3 Shariah Taxation with particular reference to Zakat

9) **Republic of Yemen:**

Topic-1 In Arabic



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TOPIC OF DISCUSSIONS AND THEIR OUTLINES

3RD ATAIC Technical Conference

NOVEMBER 22 to 25, 2006

“Outline”

Topic-1 Strategies for resource mobilization through:

- (a) increase in tax to GDP ratio; and
- (b) expansion in tax base

Topic Outline:

OUTLINES

- a) **Increase in tax to GDP ratio.**
 - i) Which sectors contributing to the GDP are exempt from income tax in your country?
 - ii) Whether these sectors could be brought in the tax net?
 - iii) What could be the positive implication of the same if these are brought to the tax net?
 - iv) What are the main impediments to bring the untaxed sectors into the tax net?
- b) **Expansion in the tax base.**
 - i) What is the population of taxpayers in your country and is your organization satisfied with the same or the need to expand the tax base in your country still exists?
 - ii) What strategies have been adopted to expand the tax base?
 - iii) What would be the possible revenue impact of the expanded tax base in your country?
 - iv) What has been the outcome of efforts made so far?
 - v) What has been the relative impact of voluntary compliance vis-à-vis effective enforcement?

The other two topics i.e. Voluntary Compliance amongst Small Trades and Shariah Taxation with particular reference to Zakat are specific and need no further elaboration.



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Association of Tax Authorities of Islamic Countries
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WORKING GROUP REPORT ON TOPIC-1

3rd ATAIC Technical Conference

NOVEMBER 22 to 25, 2006

“Ambassador Hall-1”

Participants

Chairperson:	H.E Dr. Aliakbar Arabmazar	Iran
Rapporteurs:	Mr. Munir Qureshi	Pakistan
	Mr. Abdulaziz Al-Sallal	Kuwait
Members:		
1.	Mr. Latif Polad Jakougirov	Azerbaijan
2.	Mr. Vahid Muhaddin Namazov	Azerbaijan
3.	Mr. Ebrahim Rajab Ahmed Nasaif	Bahrain
4.	Mrs. Chairani Haji Sulaiman	Brunei Darussalam
5.	Mr. Zahir Kaleem (observer)	CATA
6.	Mr. Neilmaldrin Noor	Indonesia
7.	Mr. Talib M Jabir	Iraq
8.	Mr. Asgari Masoud	Iran
9.	Mrs. F. Hosseini Sadr	Iran
10.	Syed Zai-Odin Kia Al-Hosseini	Iran
11.	Mr. Fawzi S.A. Al Qassar	Kuwait
12.	Mr. Abdulla Shehab	Kuwait
13.	Mr. Mat Lazim bin Salleh	Malaysia
14.	Mr. Mod Fouzi Mustafa	Malaysia
15.	Mr. Khazali Ahmad	Malaysia
16.	Mr. Md. Seniman Selamat	Malaysia
17.	Mr. Mohamed Bouchareb	Morocco
18.	Mr. Salman Nabi	Pakistan
19.	Syed Shabbar Zaidi	Pakistan
20.	Mr. Mukhtar Ahmad Gondal	Pakistan
21.	Mrs. Farida Amjad	Pakistan
22.	Mr. Ali Husnain	Pakistan
23.	Mr. Ahmed Adam Salim	Sudan
24.	Mr. Mohamed Adam Abakar	Sudan
25.	Mr. Fazyl Cyftcy	Turkey
26.	Mr. Aziz Ozbek	Turkey
27.	Mr. Yousif Abdullah Bilal	Qatar
28.	Mr. Mateab Mubarak Al Kubaisi	Qatar
29.	Mr. Ahmed Ghaleb Saeed	Yemen
30.	Mr. Ahmed Rajeh	Yemen
31.	Mr. Yaha Mohamed Al-Osta	Yemen

Working Group Report and Resolutions

Mr. Shabbar Raza presented the country paper from Pakistan and dilated on various aspects having a bearing on resource mobilization.

Under the constitution, federal government has the constitutional right to levy a wide range of direct and indirect taxes. The major and the most significant direct tax is income tax which is levied through Income tax Ordinance 2001.

Tax revenues constitute about 70% of overall national revenue receipts, one third of which are contributed by taxes on income.

In Pakistan Income tax contributes about 31.56% of the total federal tax revenues whereas remaining 68.44% is contributed by Indirect taxes like Custom duty, Sales tax and Central Excise duties.

The Tax GDP ratio in Pakistan is presently about 9.7 (overall) and it's position in previous years is summarized below:

TABLE - 1: TAX / GDP RATIO IN PAKISTAN

YEAR	TAX / GDP RATIO (%)		
	TOTAL DIRECT TAXES	TOTAL INDIRECT TAXES	TOTAL TAXES
1	2	3	4
1999-00	2.98%	6.17%	9.15%
2000-01	2.99%	6.43%	9.42%
2001-02	3.24%	5.94%	9.18%
2002-03	3.15%	6.40%	9.55%
2003-04	3.02%	6.52%	9.54%

TABLE -2: TAX / GDP RATIO DIRECT TAXES

YEAR	TAX / GDP RATIO (%)		
	INCOME TAX	OTHER DIRECT TAXES	TOTAL DIRECT TAXES
1	2	3	4
1999-00	2.78%	0.20%	2.98%
2000-01	2.82%	0.17%	2.99%
2001-02	3.10%	0.14%	3.24%
2002-03	3.02%	0.14%	3.15%
2003-04	2.88%	0.14%	3.02%

As per a study conducted in CBR revenue contribution of different sectors of economy in the year 2004-05 was as under:

Description	GDP-MP	Share in GDP	CBR Revenues	Share in Taxes
Agriculture	1,322,641	20.2	7,308	1.2
Mining & Quarrying	121,836	1.9	23,573	4
Manufacturing	1,118,391	17.1	367,648	62.2
Construction	143,916	2.2	17,033	2.9
Electricity & Gas Distribution	156,301	2.4	31,479	5.3
Transport, Storage & Communication	902,247	13.8	26,606	4.5
Wholesales & Retail Trade	1,107,296	16.9	16,383	2.8
Finance & Insurance	210,683	3.2	23,150	3.9
Ownership of dwelling	165,456	2.5	1,688	0.3
Public Administration & Defense	337,560	5.2	29,831	5
Services	543,349	8.3	46,376	7.8
T-S (Correction for GDP at FC & MP)	417,914	6.4	0	0
Grand Total	6,547,590	100	591,085	100

Tax Administration is the responsibility of the Central Board of Revenue placed under the Ministry of Finance. It has approx 30,000 employees with about 1500 officers while the remaining are support staff in various categories.

The total number of registered taxpayers in Pakistan aggregate 1.7 [m] and given the total population of 164 [m], this translates into a rather narrow tax base [just over 1% of total population].

After the presentation, the delegate from Iraq opined that tax should be a voluntary levy and should be charged without any element of coercion. The delegate emphasized that it was obligatory to explain the tax system in detail to the public at large.

The delegate from Afghanistan was of the view that levy of zakat and income tax amounted to double taxation. He enquired whether it was possible to adjust zakat against income tax.

The delegate from Pakistan replied first to the query raised by the delegate from Iraq and said that his observations were on all fours with the position as it obtained in Pakistan after the launch of the reform process.

As regards the query raised by the delegate from Afghanistan, he said that zakat and income tax are not the same. He explained that levy of zakat was sanctioned by religion [Islam] whereas income tax was sanctioned by man made law. Furthermore, it was explained that there was no specific bar in Islam to levy of tax over and above zakat if the same was necessary to meet State expenses. Additionally, he explained that zakat could not be set off against expenses but was adjustable against Income Tax demand.

The delegate from Malaysia appreciated the in depth presentation by the Pakistan delegate and raised three queries:

What specific steps have been taken in Pakistan to bring the informal sector into the regular economy?

What measures have been taken to create tax awareness in the public at large?

How is tax exemption accorded to exports in Pakistan?

Mr. Abdullah Yusuf, Chairman of the CBR / Secretary General (Revenue Division) [Pakistan] replied to the queries and explained that multi dimensional initiatives had been taken by CBR to bring as much of the informal sector into the regular economy within a reasonable time frame and also to counter any further expansion of this sector. In the first place a new Income Tax Statute had been enacted in 2001, the Income Tax Ordinance 2001, in which for the first time ever in Pakistan, Self Assessment of income had been given a truly universal coverage and all categories of taxpayers were placed in it's ambit. The present government had aggressively pursued legislation to make self assessment a reality in spite of the fact that there were many who had serious reservations on the practicality of the measure and who were apprehensive that it might lead to a serious loss in revenue as taxpayers exploit universal self assessment to the detriment of revenue. In contradistinction, the CBR however was convinced that universal self assessment of income would go a long way in 'building bridges' between government and the public at large and in significantly enhancing the credibility of government in the eyes of the people. This would hopefully create an atmosphere of 'trust' and induce those placed in the informal/irregular economy to move over to the regular/formal economy. We now know that this belief was not misplaced and people have in fact reacted favorably to universal self assessment and this is evident from the fact that income tax revenues have increased consistently since the new enactment in 2001 and the much feared fall in tax revenues has not happened. Furthermore, the 'taxpayer population' has increased and many 'new taxpayers' have filed Returns of Income and a significant proportion of these 'new filers' are those previously placed in the informal sector. Secondly, CBR has launched a well thought out initiative of 'taxpayer facilitation' based on 'educating' the public through the media on the nuances of tax law and procedure. Practical steps have been taken to make it possible for the taxpayer to easily fill in a simplified Return of Income himself rather than be forced to go to so called tax 'experts' who more often than not would create many more problems than they resolved and would make the taxpayer woefully dependent on them. User friendly Software has been developed by CBR and made freely available to the public that makes filling in a Return of Income- including the often problematic tax calculations- a simple matter. Electronic filing of Returns has also been made possible.

Most importantly, the mindset of tax personnel has been targeted so that they move away from the hitherto adversarial relationship with the public to one based on mutual trust and respect in which tax functionaries see themselves as providers of an important ‘service’ and not as authoritarian collectors of a harshly assessed tax levy. In this context it is important to note that since the launch of the new fiscal initiatives by CBR, tax rates, both personal and corporate, have come down significantly. The three tiered corporate tax structure for Banking, Public and Private Companies has been phased out and from tax year 2007 there is only one tax rate for all corporate entities pitched at 35% flat. Similarly, in personal income taxation the highest marginal tax rate has come down to 25%. In the not too distant past [the late ‘50’s] this was pitched at a now unbelievable 98%!! Little wonder then that the urge to move to the informal sector was so pressing. Simultaneously, considerable investment is being made to use Business Process reengineering to improve work methods, especially through the imaginative use of Information Technology. A fully computerized Tax management System [TMS] has been developed indigenously by Pakistan Revenue Automation Ltd [PRAL]- a wholly owned subsidiary of CBR-and CBR personnel are being trained to use the same in all areas of Tax Assessment and Collection. Also, the compensation package for selected tax personnel has been enhanced that would finally make a ‘living wage’ a possibility and hopefully keep tax functionaries away from resorting to corrupt practices to make ends meet. Additionally, significant investment is being made to improve their training with a view to enhance their skill level so that they are able to detect tax evasion and successfully assess such income to tax . This is bound to improve public perception of tax personnel both with regard to their efficacy and integrity.

As for sales tax treatment of exports, Mr. Yusuf Abdullah explained that in Pakistan these were accorded exemption by the mechanism of ‘zero rating’ inputs.

Mr. Shabbar Zaidi from Pakistan who presented the paper observed that there should be disincentives for those who do not pay due taxes and there should be transparency in the use of tax revenues.

The delegate from Malaysia then presented the country paper on resource mobilization. A feature of significance with regard to Malaysia is that against a total population of 25 million, Malaysia has a taxpayer population of 5 million registered taxpayers i.e. 20% which is quite impressive. The Tax:GDP ratio is about 11%.

Mr. Yusuf Abdullah, Chairman CBR (Pakistan) enquired about the modalities of levy of petroleum income tax especially as to how it is worked out.

In reply, the Malaysian delegate advised that the petroleum Income Tax is governed by a separate statute and only those companies involved in upstream activities are subject to such levy. In the case of companies engaged in downstream activities they are subject to corporate tax levy.

Mr. Abdullah Yusuf then enquired about the Data Warehouse system in Malaysia; how long used; how organized and how was the system set up.

In reply the delegate from Malaysia advised that the data was gathered through different agencies and legally the tax deptt had a vested right to access 3rd party data.

Mr. Abdullah Yusuf then wanted to know how the data was analyzed for purposes of audit.

IN reply, the delegate from Malaysia advised that analysis and collation of data was ultimately to be done through the use of computerization / Information technology using specialized software but that was the ultimate objective and presently manual procedures were largely being used.

Mr. Abdullah Yusuf further enquired as to the different tax incentives offered to attract FDI?

In reply the delegate advised that the principal incentive was a 10 year tax holiday for selected sectors usually those engaged in manufacturing. The delegate further advised that in Malaysia export income in general was taxable but regional exemption was granted to certain geographical 'corridors.'

The delegate from Sudan then posed a question and enquired to what extent was Information Technology used in Malaysia and how effective was the system.

In reply the delegate from Malaysia advised that Information Technology was being used in conjunction with business survey in order to get good feedback and use the information to broaden the tax base.

The Chairman commented that business survey was needed in any case.

In the afternoon session the delegate from Turkey made his presentation.

Mr. Abdullah Yusuf observed that the personal income tax in Turkey was more than twice the corporate income tax and enquired whether there was any special reasons for this as usually the position was the other way round and the corporate income tax was more than the personal income tax.

In reply the delegate from Turkey advised that maybe there were very few big companies in Turkey and furthermore the existence of the informal sector/unregistered economy was also a relevant factor in this context. He opined that the situation was expected to change in the future.

A question was then raised as to the number of registered taxpayers and how many were actually filing Returns of Income.

The delegate advised that there were 40 million registered taxpayers but only 4 million filed Returns.

Mr. Yusuf Abdullah then enquired about the degree of autonomy for Tax Administration in Turkey.

The delegate advised that in Turkey Tax Administration enjoyed good autonomy and had direct access to the Ministry of Finance. Tax Administration enjoyed reasonable autonomy and had direct access to the Ministry of Finance.

Mr. Yusuf Abdullah further wanted to know the position regarding 'call centers.'

In reply the delegate advised that the call centers were in place for the last 15 years and were fairly but not fully automated.

Mr. Habib Fakhrudin, Member F.A.T.E facilitation and tax education) CBR [Pakistan] then presented a paper giving a comprehensive update on the Tax Administration Reform Program (T.A.R.P) in Pakistan.

The delegate from Iraq wanted to know whether there were any incentives available for those tax functionaries who played a positive role in increasing tax revenues.

Mr. Habib Fakhrudin replied in the affirmative and explained that good and efficient workers were identified through a special selection process and those who made the grade were given a special incentive by way of one extra basic salary over and above the normal compensation received. Additionally, there was also a system of giving rewards to such personnel who showed extraordinary efficiency and commitment in the discharge of their duties.

A query was then made as to whether all tax personnel qualified for grant of incentive irrespective of their position in the administrative hierarchy?

In reply the Pakistan delegate advised that incentive was normally linked to salary scale of the functionary and the position in the hierarchy was relevant.

The delegate from Iraq stated that in Iraq there was a system of reward linked to individual effort.

Mr. Yusuf Abdullah replied that in the Customs Deptt in Pakistan there was a system of giving reward on the basis of individual effort. Thus a certain percentage of the amount recovered in a tax raid for instance may be disbursed among members of the successful raiding party.

The delegate from Saudi Arabia enquired as to how it had been possible to reduce pending Income Tax Appeals so dramatically in a very limited timeframe.

Mr. Yusuf Abdullah advised that this had been made possible due to a well thought out strategy. CBR had accorded very high priority to this problem as it had poisoned the deptt's relations with the taxpayer population in the country.

The delegate from Malaysia commended Mr. Fakhrudin's presentation and commented that integrity management was a rather subjective matter and wanted to know if CBR had evolved any objective criteria to appraise the same when identifying deserving tax personnel for grant of reward / special incentive and whether it had been possible to avoid any charge of nepotism.

Mr. Yusuf Abdullah advised that every effort was made to be as fair as was humanly possible and a number of sources / agencies were usually tapped to ensure that selection of deserving tax personnel was based on sound intelligence and was not whimsical.

The delegate from Malaysia then wanted to know what was the relationship between CBR and the tax deptt in Pakistan. Further, he also wanted to know why salary income was accorded different treatment for tax purposes in Pakistan. He said that there was no such difference in the Malaysian tax system.

In reply Mr. Yusuf Abdullah advised that the CBR in Pakistan laid down Policy for the Direct and Indirect Tax jurisdictions. It therefore had a central role to play in fiscal policy formulation and implementation in the country. Mr. Abdullah further explained that internal taxes were collected by the deptt's of Income Tax, sales tax and federal excise while external taxes [such as on foreign trade] were collected by the deptt of customs.

As regards the different tax treatment of salary income vis-à-vis business income in Pakistan, Mr. Abdullah said that this was because the salaried class of taxpayers was considered to be a 'captive class' as it had very little room for maneuver in the context of tax evasion and usually due tax was realized on the salary income earned. This was not so in the case of those enjoying say business income and experience had shown that the business class usually did not discharge their due liability faithfully.

A query was then made as to whether it was necessary for a salary earner to file Return of Income.

Mr. Abdullah advised that it was not necessary and the certificate of tax deduction issued by the employer usually was sufficient evidence to document a salaried person's tax liability. However when there was other income besides salary income then the position changed and depending on the nature of the other income realized it's separate documentation through a formal Return is necessary.

The delegate from Sudan observed that the role of the media was extremely important and should be given due weightage. He further opined that the different tax systems in different countries created many problems and there was a pressing need to unify the tax systems of different countries. The delegate further opined that Tax Administration should have high autonomy as only then would it be able to discharge it's functions properly.

Mr. Abdullah agreed that the media was very important and advised that due cognizance of it's importance had been taken in Pakistan and CBR had been running special programs through the media, both print media and the electronic media. He however acknowledged that more could be done in this context.

As regards the degree of autonomy for Tax Administration, Mr. Abdullah observed that complete autonomy was not feasible as it was not a practical measure.

The ATAIC Chairman observed at this stage that all tax administrations were now moving towards functional specialization, integration of laws and policies and towards lower rates of tax. Top level autonomy was also now a fairly common feature in many tax systems. The Chairman further observed that many delegates had spoken on the need to reduce tax rates. However the exact path required to be followed was not very clear. We really cannot say with certainty how much should the tax rate be reduced in order to offer sufficient incentive to the foreign investor. However, it was clear that with

high tax rates, tax evasion was bound also to be high, as investment flow is normally directed to those jurisdictions that have low rates. Base broadening and lower tax rates do appear to have a direct correlation. The ATAIC Chairman further observed that in order to derive maximum benefit, tax administration should aim for improvements in tax administration along with lower tax rates and the size of government should also be reduced as when the government is 'top heavy' its burden also increases and this may neutralize some of the positive effects of tax rate reduction.

23-11-06.

The delegate from Indonesia presented his country paper and explained salient features of the tax system. He explained that Indonesia had taken many tax reform initiatives and had made many changes in the statute and in business processes and was making a concerted effort to modernize its tax administration through the use of Information Technology and automation. An improved compensation package for employees had also been introduced. Special attention was being paid to redressal of complaints and for providing assistance through dedicated 'Help Desks.' The appointment of an 'Accounts Representative' to look into taxpayers accounts using advanced Information Technology Systems was a unique feature.

Indonesia had categorized its taxpayers into Large, Medium and Small categories and each had arrangements for audit and collection of tax.

The cost of tax collection in Indonesia was very low [0.35%].

Mr. Mukhtar Gondal of Pakistan wanted to know how the centralized data base was actually put to use in Indonesia.

The delegate from Indonesia advised that the data base was accessed through so called data processing centers, in real time.

The delegate from Saudi Arabia raised a number of queries:

What was the total number of registered taxpayers?

What was the ratio of taxpayers to GDP?

What methods had been adopted for payment of tax?

What is the method of accountability- was it based on personal assessment or outside assistance?

The delegate from Indonesia advised that:

There were 7 million registered taxpayers.

The Tax: GDP ratio was about 12.5

Tax collection was through withholding of tax and through the machinery of presumptive taxation.

For accountability, the self assessment system was found to be efficacious.

At this stage, the delegate from Malaysia enquired as to what was the amount actually payable through the special remuneration package.

The delegate from Indonesia advised that it was 400% higher than the normal compensation level.

In response to a query about the Complaint Center, the delegate from Indonesia advised that these centers simply forwarded complaints onward for further action to the appropriate jurisdiction but did not take any action on their own.

Mr. Muneer Ahmad Qureshi enquired as to what was the size of the Informal Economy in Indonesia and was advised that it was about 25% of GDP.

The ATAIC Chairman observed that as tax reform initiatives took hold, efficiency of Tax Administration would increase and this would greatly facilitate the ability of tax administration to control the size of the informal sector.

The Delegate from Yemen then made his presentation.

Like many developing countries it was explained that Yemen too is plagued by a rather narrow tax base and low tax GDP ratio. The statute allowed many exemptions [partial as well as total] to different categories of taxpayers and this eroded the tax base significantly.

No questions were asked after the presentation.

Topic 1: Important Results

(Resource Mobilization: Improvement in the Tax: GDP ratio & Base Broadening)

- ✓ Strategies used by almost every country for resource mobilization are categorized in two basic lines of reform:
 1. Reforming Legal Framework
 2. Tax Administration Improvement
- ✓ *Important Results:*
 1. Most countries are moving to lower tax rates, removing exemptions, and generally simplifying the law and regulations and,
 2. Changing tax administration structure from geographical arrangement to taxpayer type organization. So, Large Taxpayers Units (LTUs), Medium Taxpayer Units (MTUs), and Small Taxpayer Offices (STOs), are becoming more common and used in member countries.
 3. Human resource development is the core part of these reform plans. Human resource development is an important factor in improvement of administrative structure.
 4. The use of computer especially **integrated tax information systems** is planned.
 5. Various methods for promoting public acceptability and taxpayer confidence in tax administration are pursued. These methods include public relation programs and self assessments schemes, etc.



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan

WORKING GROUP REPORT ON TOPIC-2

3rd ATAIC Technical Conference

NOVEMBER 22 to 25, 2006

“Ambassador Hall-2”

Chairperson:	Mr. Brahim Kettani	Morocco
Rapporteurs:	Ms. Shahariatun Tg. Adnan	Malaysia
	Mr. Haji Ahmad	Pakistan
Members:		
	Mr. Abdul Rahman Ismail Al Awadhi	Bahrain
	Mr. Muhammad Yusri Majid	Brunei Darussalam
	Mrs. Hanan Khalaf e Isayed	Egypt
	Mrs. Sabah Habib Mohammad	Egypt
	Mr. Mostafa M Abdul Kader	Egypt
	Mr. Atef Sayed Ramadan	Egypt
	Mr. Ridha Hamzaoui (observer)	IBFD
	Mr. Darmawan	Indonesia
	Mr. Morteza Asadi	Iran
	Syed Kazem Sadr	Iran
	Mr. Nizam Barhouma	Jordan
	Mr. Adnan Alatoom	Jordan
	Mr. Nabil AlabdulJalil	Kuwait
	Mr. Ibrahim Al Qasaimi	Kuwait
	Dr. Mohd. Shukor Mahfar	Malaysia
	Mr. Abdul Rahim Abu Bakar	Malaysia
	Mrs. Ruedah Karim	Malaysia
	Mr. Yusof Daud	Malaysia
	Mr. Mohamd Rais Bin Alias	Malaysia
	Mr. Omar Al-Madani	Morocco
	Mr. Umar Farooq	Pakistan
	Mr. Usman Khalid Muza	Pakistan
	Syed Aqeel Zafar ul Hassan	Pakistan
	Muhammad Riaz	Pakistan
	Mr. Mansour Mohammad Al-Mohayya	Saudi Arabia
	Mr. Saud Al-Melhem	Saudi Arabia
	Mr. Fadl Abdulla Fadl	Sudan
	Mr. Ibrahim Abdul Rauf	Sudan
	Mr. Matin Kayrak	Turkey
	Mr. Ali Mohamed Al-Khayat	Qatar
	Mrs. Yassimine L Hodges	Audit Consultant CBR

Working Group Report and Resolutions

The following countries presented their papers on the subject Jordan, Malaysia, Pakistan, Iran, Brunei, Morocco, Indonesia and Egypt.

1.0 Introduction

The concept of voluntary compliance refers to the willingness of a taxpayer to comply with the tax laws on his own. It has been emphasized that concept of voluntary compliance places three primary obligations on tax payers. Firstly, to file timely returns. Secondly, to make accurate reporting on those returns, and to pay tax voluntarily and timely. In this respect, the tax payers are responsible to assess their tax liability.

The topic of voluntary compliance amongst small traders has been selected due to its importance since major part of the business community belongs to this group. Individually, the tax generated may be considered small but, based on large number of these businesses in operation; the overall impact could be tremendous. It is also widely recognized that small business activities may greatly exceed large firms in many countries, both in numbers and the share of labour they employ. This is particularly true for the developing countries. *According to the studies carried out by OECD 2002, small scale activities comprise 90 percent of all enterprises in the most developing and developed countries.*

2.0 Definition

Voluntary means by choice, will, or wish, intention, done one's free will.

Tax means a compulsory and required payment to the government, a contribution to the state revenue levied on individuals, property or business.

Compliance means act of yielding to pressure, demand or coercion, readiness to yield to the demand of others. The voluntary tax compliance is also defined as the degree to which a taxpayer complies or fails to comply with the tax rules and laws of his country.

3.0 Problems & Issues faced by the Tax Authorities

According to presentations of delegates, some of the problems faced by the tax authorities are as follows:

1. Low level of compliance amongst small traders, therefore a big challenge is ahead for tax administrations to handle the non-filers.
2. Their incomplete and improper business record, makes accounting and audit procedures difficult.
3. Distrust of business community on taxation system.

4. Lack of awareness, level of illiteracy and insufficient knowledge of tax obligations.
5. Weak enforcement and deterrence.
6. Negative mindset problem
7. Narrowness of tax base
8. Small traders in large number but little revenue significance with frequent changes in respect of their location which makes monitoring difficult.

4.0 Practices and Efforts made to address the problems/ issues

To eliminate these problems and in order to remove the deficiencies, the action that could be initiated or already have been taken by some countries are;

First of all, an important step towards the voluntary compliance especially in case of small trades has been taken to introduce a Self – Assessment Scheme in countries like Pakistan, Malaysia, Sudan and Egypt. The main reason behind introducing such schemes is to facilitate the compliance for taxpayers and to repose confidence on them. This system has successfully been running in a number of countries in spite of some encountered problems.

Further, legal measures as well as organizational measures have been introduced in many countries. The basic concept behind these measures is also to facilitate compliance amongst taxpayers by adopting some modern techniques such as management information system.

Training of tax officers along with reinforcement of logistic and human resources is also another area which has been targeted by many countries including Pakistan, Morocco, Malaysia and Jordan.

Increased Field Presence through Survey is another area in which countries like Pakistan and Malaysia have achieved good progress.

Projects of upgrading Taxpayer's information, improving the quality of Customer Service Program and Taxpayer's education program have been launched in various ways. Providing the Advisory Services & Electronic Services etc, as have been initiated by countries like Malaysia, Indonesia and also being introduced by Pakistan and Morocco. Automation of records, assessments and refunds is another area which has been focused by countries like Pakistan where TMS (Tax Management System) has successfully been implemented.

5.0 Recommendations

Much is required to be done in order to improve voluntary tax compliance such as:

1. Education of Taxpayer through use of media by conducting more and more workshops, seminars and visiting the small tax units in their market places. This measure has been stated by all the participating delegates, many of them have already implemented it. The idea of establishing

Taxpayer Facilitation Centres, as in case of Pakistan, and small *Business Support Unit (BSU)* like Malaysia. This could be an effective tool to achieve the goal of taxpayer's education. The objective of BSU is needed to be adopted by all. In Morocco, there has been established Certified Management Centers of Accounting (CMCA) that give the right of 15 percent tax relief on the tax base.

2. It is also suggested that tax education should also be provided to the school children at grass root level following the model of some countries and higher level as well.
3. The electronic service facilities such as e-filing should be made popular. Similarly, the idea of e-payments should also be implemented in order to avoid unnecessary hassles faced by the taxpayer in payment of his dues.
4. A closer relationship between tax collector & taxpayer shall enhance the voluntary tax compliance. It is necessary to improve the public relations and tax consultation between tax officials and taxpayers. The idea of partnership with tax agents will prove a corner stone in establishing the confidence of taxpayers on the tax machinery.
5. Clarity and simplification of laws/ procedures and transparency will have great help to promote the voluntary compliance. Documentation of economy will play key role in the success of voluntary tax compliance.
6. Speeding up the process of development of database and matching of information.
7. Changing the negative mindset amongst taxpayers towards tax issues.
8. The tax system should keep pace with the development of Information Technology.
9. The tax audit, a pre-requisite for the success of voluntary compliance system should be effectively carried out. It should not be expected as source of revenue but as a deterrent effect to encourage a tax compliance culture. In the presence of universal self assessment scheme it is essential to create such like deterrence.
10. Good and effective efforts are required to deal with non-compliance/non-filers.
11. It is also necessary to enhance the capacity of tax administration to detect the tax evaders. Workforce should be trained with the updated knowledge of the changes in law, investigative audit techniques and are expected to know the principles of accountancy.
12. Besides two non-economic factors; (i) Legislative Will and (ii) Administrative Efficiency shall also be contributive towards tax compliance culture.

6.0 Conclusion

There are three major elements that form the basis of the efficiency of a tax system: rationalization, simplification and modernization. These should be included in any adopted tax policy as well as in its good governance.

An appropriate balance between rigorous compliance to tax obligations and the guaranty of different rights of small taxpayers in developing economies is strongly recommended.

THANKS

Please allow me to thank all delegates that participated in the workshop on topic 2 for their interesting presentations and rich and active participation during discussions. The exchange of different points of view in a friendly atmosphere has distinguished our work sessions.

In this occasion, I send my thanks to Ms. Shahariatun Tg. Adnan from Malaysia and to Mr. Ahmed Haji from Pakistan for their participation in the elaboration of the final report on topic 2.

My special thanks go to our dear colleagues from the CBR of Pakistan for their excellent organization of the 3rd ATAIC Technical Conference, and for their warm greeting and hospitality during our stay in this wonderful country and we shall never forget the honor that we have had to be received by His Excellency Mr. Pervez Musharraf, the President of the Islamic Republic of Pakistan.

Mr. Brahim KETTANI

Head of Moroccan delegation
Chairman of parallel session on topic 2
Islamabad, Saturday, November 25th, 2006



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan

WORKING GROUP REPORT ON TOPIC-3

3rd ATAIC Technical Conference

NOVEMBER 22 to 25, 2006

“Crystal Ball Room”

Chairperson:	Dato Abdul Rahim Abu Bakar	Malaysia
Rapporteurs:	Mr. Muhktar Ahmad Gondal	Pakistan
1.	Mr. Bashir Ullah Najimi	Afghanistan
2.	Mr. Latif Polad Jahangirov	Azerbaijan
3.	Mr. Vahid Mahaddin Namazov	Azerbaijan
4.	Mr. Abdul Rahman Ismail Al-Awadhi	Bahrain
5.	Mr. Ebrahim Rajab Ahmed Nasaif	Bahrain
6.	Mrs. Chairani Haji Sulaiman	Brunei Darussalam
7.	Mr. Haji Md Shamsul Riza Haji Sulaiman	Brunei Darussalam
8.	Mr. Muhammad Yusuri Majid	Brunei Darussalam
9.	Mr. Mostafa Mahmoud Abdel Kader	Egypt
10.	Ms. Sabah Labebe Mohamed	Egypt
11.	Ms. Hanan Khalaf El Sayed	Egypt
12.	Mr. Atef Sayed Ramadan Mohamed	Egypt
13.	Mr. Aliakbar Arabmazar	Iran
14.	Mr. Asgari Masoud	Iran
15.	Ms. F. Hosseini Sadr	Iran
16.	Mr. Morteza Asadi, Gen. Dir	Iran
17.	Syed Zia-Odin Kia Al-Hosseini	Iran
18.	Syed Kazem Sadr	Iran
19.	Mr. Neilmaldrin Noor	Indonesia
20.	Mr. Darmawan	Indonesia
21.	Mr. Talib M. Jabber Ab-Juala	Iraq
22.	Mr. Adnan Abdarhim Alatoon,	Jordan
23.	Mr. Nisam Mahmoud Barhouma	Jordan

24.	Mr. Fawzi. S. A. Al-Qassar	Kuwait
25.	Mr. Abdulla Shehab	Kuwait
26.	Mr. Nabil Al-Abduljalil	Kuwait
27.	Mr. Abdulaziz Al - Sallal	Kuwait
28.	Mr. Ibrahim, Al Qasaimi	Kuwait
29.	Dr. Mohd. Shukor Haji Mahfar	Malaysia
30.	Mr. Mat Lazim Bin Salleh	Malaysia
31.	Mr. Yusof Daud	Malaysia
32.	Mr. Md. Seniman Selamat	Malaysia
33.	Ms. Tengku Shahariatun Tg. Adnan	Malaysia
34.	Mrs. Ruedah Karim	Malaysia
35.	Mr. Khazali Ahmad	Malaysia
36.	Mr. Mohd Fauzi Mustafa	Malaysia
37.	Mr. Mohd Rais Bin Alias	Malaysia
38.	Mr. Brrahim Kettani	Morocco
39.	Mr. Mohamed Bouchareb	Morocco
40.	Mr. Omar Al-Madani	Morocco
41.	Mr. Salman Nabi,	Pakistan
42.	Mr. Haji Ahmad	Pakistan
43.	Syed Aqeel Zafar-ul-Hassan	Pakistan
44.	Mr. Usman Khalid Mirza	Pakistan
45.	Mr. Munir Qureshi	Pakistan
46.	Mr. Omar Farooq	Pakistan
47.	Mrs. Farida Amjad	Pakistan
48.	Mr. Muhammad Riaz	Pakistan

49.	Mr. Ali Husnain 1	Pakistan
50.	Mr. Yousif Abdullah Bilal	Qatar
51.	Mr. Meteab Mubarak Al-Kubaisi,	Qatar
52.	Mr. Ali Mohamed Al-Khayat,	Qatar
53.	Mr. Ahmed Adam Salim,	Sudan
54.	Mr. Mohamed Adam Abaker,	Sudan
55.	Mr. Ibrahim Abdel Raouf,	Sudan
56.	Mr. Fadl Abdalla Fadl	Sudan
57.	Mr. Saud A Al Melhem	Saudi Arabia
58.	Mansour Mohammad Al Mohayya	Saudi Arabia
59.	Mr. Fazyl ÇÝFTÇÝ	Turkey
60.	Mr. Metin Kayrak,	Turkey
61.	Mr. Aziz Ozbek,	Turkey
62.	Mr. Ahmed Ahmed Ghaleb Saeed,	Yemen
63.	Mr. Ahmed Mohamed Rajeh,	Yemen
64.	Mr. Yaha Mohamed Al-Osta,	Yemen
65.	Mr. Ridah Hamzaoui (observer)	IBFD

Report on Shariah Taxation with particular reference to Zakat

The session was chaired by Dato Abdul Rahim Abu Bakar of Malaysia. Three papers each from Islamic Republic of Iran, Malaysia and Islamic Republic of Pakistan were presented by the delegates from each country for discussion in a combined session of over 56 delegates from 14 members of ATAIC besides 10 delegates from non-member countries and one each from CATA and IBFD. The common features of these papers were the organizational structure for collection and distribution of Zakat, evaluation of progress made, weaknesses of their existing systems and attempts at improvement.

Islam, being a complete code of life, encompasses social and economic aspects of life with a comprehensive Economic System of receipts and expenditure. Islamic Taxation System provides 5 types of taxes i.e. i) Zakat; ii) Khums; iii) Ushr; iv) Fa and Khiraj; and v) Jizia. Zakat and Ushr are currently most relevant to the Muslim Ummah. They have specific role to play in achieving economic and social justice by fulfillment of basic needs of the poor, needy and destitute. This system is effective in distribution of wealth, reducing unjustifiable inequalities in the society, inculcates love, affection and brotherhood among the people. Its Macro- Economic impacts in terms of consumption, savings and investment, stability and growth are also very important. The short run impact of zakat on aggregate demand can be seen since its very objective is to fulfill immediate consumption needs of the poor section. It directly increases aggregate demand via the consumption function and multiplier effect in the long run. A persistent elevation of aggregate demand will certainly encourage investment and trade activities in commodities most often needed by the general masses. It is a powerful fiscal instrument against holding of idle wealth for long, thus compelling people to invest their savings in business and other fruitful activities. It is comparable to proportional tax where the rate is fixed and not liable to change through any parliamentary decision and has built-in stabilization mechanism. With increase in income and savings level Zakat revenue shall also increase. The system of zakat aims at seeking pleasure of Allah, helping the poor, the needy, the destitute, the invalid, and the unemployed helping reduce the gap between haves and have-nots.

The Iranian delegate dilated upon the economic structure of collection of various taxes and their application during the period of Prophet Muhammad (PBUH). The detailed rates of collection of different taxes were also presented. His thesis was that the foundation laid down by the Prophet (PBUH) was so comprehensive that it covered the tax structure of the modern taxation system. It envisages tax on annual income as well as tax on accumulated assets. He, therefore, proposed that Islamic Tax Model can be evolved to substitute the present taxation system.

The Malaysian delegate representing Zakat Collection Centers for Federal Territories which is one of the 14 States of the Federation of Malaysia explained the mechanism and organization for collection

and distribution of zakat. The Zakat and Ushr system has considerably improved in the last 16 years through corporatization of activities of collection. Serious and concerted efforts aiming at zakat collection on voluntary basis, awareness programs, assistance to the zakat payers and facilitation like computer payment of zakat and establishment of Zakat Collection Centers besides incentive of allowing zakat credit against personal income tax showed salutary results. The country was able to collect 137 million Ringgits of zakat last year. He posed two questions to the audience i.e. whether zakat should be collected through law or voluntary basis and whether the Muslim Ummah can have an International Zakat Organization to cope with calamities like Tsunami in Indonesia and earthquake in Pakistan.

The Pakistan delegate explained the main features of law and procedure relating to collection and distribution of zakat since the year 1980. Zakat by virtue of constitutional provisions is obligatory in Pakistan. He also gave organizational chart and distribution methodology of zakat through 40,000 local Zakat committees and 400,000 volunteers under subsistence and permanent rehabilitation schemes, marriage assistance, health care and educational programme. The compulsory collection of zakat on specified assets with the banks and companies excluding a large number of exemptions under these two categories constituted 4.5 billion rupees. However, it was estimated that about 70 billion rupees were distributed by the individuals and the companies directly to the Musthaqeen. It means serious deliberations are required to channelize the direct payment of Zakat towards a comprehensive and widely acceptable system of collection and distribution of Zakat. A Committee constituted two years ago to review Zakat system in Pakistan has formulated its recommendations which are under active consideration of the Government.

The common problems faced by almost all the Muslim countries managing collection and distribution of zakat was mistrust in state organization where people shun voluntary payment of zakat to state organizations. They prefer to pay zakat on their own.

All the three presentations were opened to the house for discussion. The issues raised by different members can be summarized as under:

Whether zakat should be collected on voluntary basis or enforced through law. The consensus was that the spirit of religion was for voluntary payment of zakat. Sudanese experience of 100% collection through legal means and Pakistan experience of partial enforcement of law to limited number of assets did not yield desired results. The need for facilitation and service to the zakat payers was felt as Malaysian initiative in this behalf gave better results. The role of the government should be only regulatory and facilitatory.

The concept of Ijtehad for application of zakat funds towards general public welfare besides nine categories prescribed for distribution of zakat was also discussed. It was opined that Fatwah Committees in each country should interpret Amil and Masarifs according to peculiar situation and circumstances of each Muslim country.

Whether other taxes can be imposed in the presence of Islamic Taxation System, was another issue that cropped up during discussion. It was considered that both the systems may co-exist till the time that modern taxation system is replaced by an effective Islamic Taxation System.

The session was concluded with the reassurance that much needs to be done for proper collection and distribution of zakat. The need for mobilization of economic resources in the Islamic way and pooling of the sources for their common utilization by Ummah, in accordance with the injunctions of Islam, was deeply felt. The idea of developing Islamic Taxation Model proposed by the Iranian delegate was appreciated with the understanding that the said model, after detailed research, would be presented in the forthcoming technical conference. The Malaysian proposal for establishing a Zakat Fund by the ATAIC was also considered a good idea to be translated into reality. It was emphasized that experiences, initiatives and development made by a country need to be shared with other members of ATAIC throughout the year instead of waiting for annual conference.

The session ended with vote of thanks



3rd ATAIC Technical Conference
Association of Tax Authorities of Islamic Countries
November 22-25, 2006, Islamabad-Pakistan

**SPEECH OF “MR. IJAZ-UL-HAQ”
MINISTER FOR RELIGIOUS AFFAIRS,
ZAKAT AND USHR
ISLAMIC REPUBLIC OF PAKISTAN
(PAKISTANI PERSPECTIVE OF SHARIAH TAXATION
ESPECIALLY ZAKAT)**

Excellencies, Members of 3rd Technical Conference, Ladies and Gentlemen.

I am thankful to the organizers of this conference for inviting me to share my views on the important topic of Zakat. Their efforts for holding such conference is commendable.

Ladies and Gentlemen:

Islam requires every Muslim, having resources in excess of a certain basic amount to pay Zakat as a given proportion of his or her net worth or agricultural output, for the benefit of mainly the every poor and the destitute. What would be a stronger rationale for making the needed sacrifice to meet one's social obligations than the belief that all resources are a trust from God and must be used for the well-being of all human beings who belong to the one human family of the One God before whom account has to be given about how resources are utilized.

Since it is the obligation of a Muslim to earn his livelihood it would be desirable to give preference even in Zakat disbursements to the objective of enabling the poor to stand on their own feet. Zakat should become a permanent income supplement of only those who cannot be enabled to earn enough through their own effort. This requirement, implemented in a socio-economic environment which encourages small businesses should make a valuable contribution to the expansion of self-employment opportunities and to the reduction of inequalities.

In Pakistan the system of Zakat was introduced through an Ordinance titled "Zakat & Ushr Ordinance 1980" in June, 1980. Zakat Fund is utilized for the following:

- a. Assistance to the needy person affected or rendered homeless due to natural calamities.

The Zakat System in Pakistan is recognized at International level. Islamic Research and training Institute of Islamic Development Bank selected Pakistan as a case study along with Malaysia for eradication of extreme poverty and hunger in the light of Millennium Development Declaration 2000 of the United Nations.

Excellencies

The Central Zakat Council headed by a Judge of Supreme Court of Pakistan is the apex body to provide policy guidelines, general supervision and control, management of Zakat funds and maintenance of accounts. In each Province, Provincial Zakat Council headed by a Judge of High Court has been established for implementation of policy guidelines of Central Zakat Council, exercise control over

Zakat matters, management of Provincial Zakat Funds, arrangements and maintenance of accounts. Instead of Federal and Provincial Governments, only the District and Local Zakat Committees are empowered to disburse the funds, which take the system to grass root level with the help of 114 District and 39,445 Local Zakat Committees, functioning across the country dedicated to Zakat disbursement system. District Zakat Committees' function is to oversee the administrative organization of Zakat in the district, disbursement of Zakat in Local Zakat Funds, maintain District Zakat Funds accounts and arrange audit of Local Zakat Funds. Local Zakat Committees determine Istehqaq and prepare Local Zakat Fund accounts.

Ladies and Gentlemen:

Zakat in Pakistan is collected @ 2.5% by Banks and Financial Institutions on valuation date of 1st Ramadan-ul-Mubarak from the saving bank accounts. Zakat is deducted by Zakat Collected Zakat Collecting Agencies on the following 10 assets:

- Notice Deposit Accounts and Receipts.
- Fixed Deposit Accounts and similar receipts and accounts.
- Savings/Deposit Certificates and similar Certificates/Accounts/Receipts on which return is receivable and is received by the holder on maturity or encashment.
- National Investment Trust Unit.
- Investment Corporation of Pakistan – Mutual Funds Corticated.
- Government Securities on which the return is receivable by the holder periodically.
- Securities including shares and debentures of companies.
- Annuities
- Life Insurance Policy Provi8dent Funds.

Excellencies

The Central Zakat Council (CZC) every year approves Zakat Budget for disbursement through various programmes. As per approval of the budget by the CZC, the Zakat Funds are distributed among the provinces on population basis.

The budget approved by the CZC is disbursed by the provinces on the following Zakat programmes:

S.No.	Name of Scheme	Eligibility Criteria	Ceiling of Assistance
i)	Guzara Allowance Rs.670/- p.m.	i) An adult Muslim, having monthly income less than year through crossed cheque. ii) Unemployed iii) Should not be habitual beggar iv) Istehqaq is to be determined by the Local Zakat Committee.	- Rs.500 p.m. - Payment is made twice in a
ii)	Educational Stipends	v) Payment of scholarship to Mustahiq students through school, college, university, institution. vi) Istehqaq is to be determined by the Local Zakat Committee	- Primary to Middle - Rs.75/- p.m. - High School - Rs.112 p.m. - Inter and Graduate - Rs.375 p.m. - Post Graduate - Rs.750 p.m. - Engineering/Medical - Rs.874/- p.m. - Colleges/universities Computer Sciences Rs.784/- p.m.
iii)	Stipends to students of Deeni Madaris	vii) Payment of scholarship to mustahiq students through Madrassh. viii) Istehqaq is to be determined by the Local Zakat Committee	Deeni Madaris imparting Religious Education - Hifz-o-nazira - Rs.150 p.m. - Mouqoof Aleh - Rs.375/- p.m. - Daura hadith - Rs.750 Model Deeni Madaris Registered with PMEB - Primary to matric - Rs.500 p.m. - Above Matric & upto - Rs.750 p.m. - B.A or equivalent - M.A or equivalent - Rs.1000 p.m. and above.
iv)	Health Care	ix) Istehqaq is to be determined by Local Zakat Committee. x) Payment should not be made in cash.	- in door patient - Rs.2000/- - Outdoor patient - Rs.1000/- Relax-able with the approval of Health Welfare Committee of the Hospital/Institution.
v)	Social Welfare / Rehabilitation	xi) An adult Muslim, having monthly income less than Rs.670 p.m. Unemployed xii) Should not be habitual beggar xiii) Istehqaq to be determined by	- One time grant of Rs.5000/- for rehabilitation Orphanages and similar institutions Rs.500/- p.m. mustahiq.

		the Local Zakat Committee xiv) Orphanages/disabled/destitute/ abandoned babies/old and infirm etc. are eligible.	- Darul Amman etc. Rs.700/- p.m. per mustahiq
vi)	Marriage Assistance to unmarried women	xv) Itehaq of the women is to be determined by the Local Zakat Committee xvi) The beneficiary should be an adult Muslim, who is dependent upon her parents, guardian or social welfare institutions.	Rs.10000/- as one time grant.
vii)	Educational Stipends (Technical)	xvii) Un-employed adult Muslim living below poverty line xviii) Possesses minimum qualification set for admission xix) Capable of self-employment xx) Age between 15-35 years xxi) Itehaq is to be determined by Local Zakat Committees	- Scholarship maximum of Rs.1000/- p.m. per trainee, relaxable for the reasons to be recorded in writing by MORA scholarship Committee subject to approval of District Zakat Committee. - On successful completion of training, Rs.5000/- as one time grant for purchase of tools/ equipment.
viii)	Permanent Rehabilitation Scheme of Zakat	xxii) An adult Muslim having monthly income less than Rs.670 p.m. xxiii) Possessing educational qualification as prescribed for various packages.	- Rs.10000/- to Rs.50000/- per mustahiq for 43 different small trades/business.

Ladies and Gentlemen:

In pursuance of the Cabinet decision the Prime Minister was pleased to constitute a Committee headed by the Minister for Religious Affairs, Zakat and Ushr for revamping of Zakat and Baitu-ul-Mal Systems. The Committee thoroughly deliberated on Zakat system. In-puts from other stakeholders including Standing Committees of National assembly and Senate, Ulema, Provincial Governments and financial experts were obtained and recommendations were submitted for approval of the Cabinet. This effort will, Insha-Allah, bring some positive improvements.

Excellencies:

At the end I am again thankful to all the Speakers who presented the valuable papers on the topic and all the participants of the conference. I hope that the recommendations made in the conference will contribute tremendously in improving the Shariah taxation especially Zakat.



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BACKGROUND PAPERS ON TOPIC-1
3rd ATAIC TECHNICAL CONFERENCE
ISLAMABAD – PAKISTAN
2006
“Ambassador Hall-1”



TOPIC-1

Strategies For Resource Mobilization Through:

- a) Increase in tax to GDP ratio**
- b) Expansion in tax base**

Table prepared by the researcher

Year	Tax revenue to GDP	Per Capita GDP in \$	Agri. Percent in GDP	Industry Percent in GDP	Petrol Percent in GDP	Import Percent in GDP	Export Percent in GDP	External Debt Percent in	Government Expenditure Percent in GDP
1981	28.1	563.6	18.8	12.7	12.6	35.85	13.2	72.65	57.7
1982	27.5	648.9	18.8	12.7	12.6	30.45	10.45	75.35	66.3
1983	26.7	771.6	19.9	12.0	11.1	28.95	9.05	68.2	57.3
1984	24.05	844.2	19.0	13.5	10.7	27.03	7.9	64.4	56.3
1985	23.2	957.7	17.9	14.8	10.0	11.83	3.95	62.5	54.5
1986	22.6	1036.7	18.5	15.3	7.7	17.5	4.35	61.55	58.3
1987	19.9	1507.4	20.5	16.5	3.8	10.3	2.75	45.9	36.2
1988	19.6	1728.6	19.0	17.7	4.4	9.85	2.4	43.15	38.2
1989	18.7	2141.2	19.7	18.1	3.3	10.8	3.75	52.35	36.1
1990	16.0	1774.4	19.4	17.8	4.3	19.2	5.4	57.01	32.9
1991	14.01	875.7	17.4	16.4	10.0	23.55	10.95	106.9	31.9
1992	18.55	782.2	16.5	16.6	9.9	19.9	7.3	77.9	39.3
1993	18.7	859.5	16.7	16.7	9.5	17.6	6.65	64.6	35.7
1994	19.25	931.3	16.9	17.2	8.2	18.6	6.75	59.9	37.35
1995	17.95	1057.6	16.8	17.45	7.9	19.4	5.7	54.8	33.5
1996	17.85	1162.7	17.25	17.65	6.9	19.35	5.25	45.9	32.6
1997	16.4	1272.8	17.00	17.6	7.1	17.4	5.15	36.7	30.65
1998	16.5	1362.4	16.9	18.2	5.8	19.9	3.85	33.2	32.65
1999	16.45	1437.1	19.6	19.5	4.6	18.0	7.35	31.2	33.15
2000	15.7	1569.9	16.2	19.4	7.4	15.15	5.9	28.2	33.1
2001	15.45	1490.0	16.2	19.1	7.9	15.2	4.95	28.5	26.75
2002	14.6	1299.5	16.3	19.2	7.7	16.3	7.9	32.6	26.4
2003	14.8	1174.0	16.0	19.0	7.7	17.0	9.4	35.6	27.05

The table shows, generally, as per capita GDP increasing the total tax revenue to GDP is decreasing and vice versa. In the beginning of the period under study the relationship between tax revenues and agriculture, industry and petrol as share of GDP was conversed, however, in the period of the reform it is consistent. As the openness decreases total tax revenue decreases, except the period 1989: 1991 in which the openness was increasing whereas the total tax revenue ratio was decreasing. Generally, as the exports ratio decreases the total tax revenue ratio decreases. The relation between external public debt ratio in GDP and total tax revenue ratio in GDP is consistent, as the external public debt ratio decreases the total tax revenue decreases. Also, we could notice that, as the government expenditure percentage of GDP decreases the total tax revenue percentage of GDP decreases.

b) Expansion in the tax base

Although the population of taxpayers in Egypt is increasing, the Egyptian Tax Authority is not satisfied it needs to expand the tax base. The Egyptian Tax Authority adopted strategies, drawn in the new Income Tax Law No.91 for year 2005 to expand the tax base, for examples:

- i) Reducing the tax rate.
- ii) Encouraging the informal sector to be adopted in the formal sector.
- iii) Facilitate the procedures of tax examination and tax collection.
- iv) Resolving the tax cases before the tax courts.
- v) Expanding the taxation on nonresident taxpayers.

Those strategies have a great effect on the increase of tax revenues in Egypt, this is clear when we know that tax revenues in 2005 increased by about 5% than the preceding year. It is expected to be 7% in this year 2006.

Iran

Tax policy reforms initiated by I.R. Iran (2001/2002) in order to Increase T/GDP ratio

Summary:

Tax ratio may be considered an important criterion for examining the level of development in an economy. Statistical tested observation proves the hypothesis that there is a strong correlation between per capita income and T/GDP ratio in general. Comparison of least developed countries with 13.3 percent T/GDP with developed economies which enjoy average 28.3 percent T/GDP may help us to explain the case. However the T/GDP ratio may deviate from optimal level in an Islamic oil-based economy. The main factors of low T/GDP in Iran are summarized as follows:

- Domination of oil revenues in govt. budget,
- Relative low per capita Income.
- Exemption of agricultural sector, due to its vulnerability and desert climate
- Inflationary effects of regressive taxation which may harm social justice
- Existence of high degree of tax avoidance and evasion among the taxpayers,
- Underground market and similar conditions

The following measures are taken to raise T/GDP ratio in Iran

- Expanding tax base by introducing value added taxation,
- Additional Taxation on oil product consumption, omitting irrelevant exemptions and granting no new – exemption,
- Levy Excise tax as a complement of VAT,
- Tax Administration Reform and Automation plan,



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STRATEGIES FOR EXPANDING TAX BASES IN IRAN

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Strategies for expanding tax bases in Iran

In any tax system, the composition of resources and the proportional share of any kind of taxes, are among the most popular discussion topics of tax policymakers and authorities, as can be said that it reveals the main tendencies of policymakers on economic-social preferences. For example, when in a tax system, consumption tax has higher share of total taxes than that of income taxes, this reveals that such society's tax policymakers aim to support production sector, thus the main pressure of taxes is on society's consumption.

Generally before drafting a comprehensive strategy for the tax system, it is necessary to specify the basic approach to the definition of tax resources and proportional share of any of the income, consumption and wealth bases should be considered in it.

It is obvious that the tax policymaker's point of view to this issue can be under effect of factors and variables such as economic and social circumstances and operational possibilities and constraints. Also following to drafting a comprehensive strategy for the tax system, an efficient tax rate should be determined. Governments should notice that they should not raise taxes to finance their costs and expenditures. According to Peacock and Wiseman hypothesis, governments tend to spend more but people prefer to pay less and governments inevitably consider people's demands.

Therefore when governments make decisions about their costs should pay enough attention to people's attitude about taxes that they are intended to pay. Governments should not make such costs that impose over-payment to taxpayers.

Also *Clarc* in his theory appoints the acceptable limit of tax as 25 percent of GNP. He believes that if taxes become more than this limit, some deficiencies will appear in economic environment. But surely this ratio can differ depending upon country's development level, income per capita, existence of other resources and society's welfare level.

Tax ratio

One of the quantitative indicators that measure the efficiency of the tax system is *T-GDP* ratio. This indicator and its degree depends on various factors like tax bases, tax rates, government size, current quasi taxes, the degree of freedom of economy, the share of various sectors of economy in *GDP*, the degree of tax evasion, tax rules, tax culture, variety of tax bases, etc.

A survey in this subject have taken in which the tax bases of 55 country of the world have been compared.

These countries are divided to four groups on the basis of income per capita and the fifth group includes Islamic countries. In these five classes, *T-GDP* ratio of these countries is identified. As noted before,

T-GDP ratio is the most important indicator to assess tax system. As we can see in table .1 after low-income countries group with 13.3%, the lowest value of tax ratio is one for Islamic countries equal to 14.11 percent. Although some Islamic countries have high income per capita, but their *T-GDP* ratio is low, most of them are oil rich states. But the highest value for the *T-GDP* ratio is one for high-income countries group which except few; all of them are euro-zone member European countries. As said before, the ratio of non-weighted average of taxes to *GDP* ratio is 14.11% for those Islamic countries.

This ratio on the average is 28.3% for high-income, 22.1% for upper-middle-income, 18.4% for lower-middle-income and finally 13.3% for low-income countries.

Table -1 reveals that there is a direct relationship between income per capita and *T-GDP* ratio as the higher the income per capita, the higher the *T-GDP* ratio. Though there are some exceptions.

Surveys carried out about 55 countries reveals that 10 countries have a *T-GDP* ratio less than 10% which nine of them are Islamic, including Iran. Also *T-GDP* ratio for 19 countries are 10% to 20% which ten of them are Islamic. *T-GDP* for 19 countries varies between 20% and 30% including 4 Islamic countries. Finally there are 7 countries including Australia, Britain, Canada, Belgium, Norway, Denmark and Algeria that all of them are high-income (except of Algeria which is a lower-middle-income country) and *T-GDP* ratio of them is higher than 30%. The highest value of *T-GDP* ratio is for Denmark which is about 47.6%.

In general, these studies indicate that *T-GDP* ratio in Islamic countries is low. Therefore increasing this ratio should be set as one of the financial targets of Muslim governments. Low *T-GDP* ratio may be related to some factors such as large size of agriculture sector, existence of small economic units, vast tax expenditures (including, exemptions, preferences and relieves) existence of natural resources, large size of hidden economy, low income per capita and low efficiency of the tax organization, etc. some of these factors can be removed in short-term and some in long – term.

Composition of tax bases

The tax base is the value or criterion on which the tax is levied. Tax system distributes tax burden in three bases on the economic sectors: income, consumption and wealth bases. Designing a suitable composition of variable tax resources regarding to the bases which mentioned above can result in maximizing the amount of collectable tax with least negative effects on economic activities and cause to satisfaction and complain of people. Although classifying of taxes and other financial sources of governments is done with different methods in various countries but to make possible comparisons between countries, this survey uses the classification of the World Bank about financial sources of government which are:

1. Tax on goods and services.
2. Tax on income and capital gains.
3. social security payments
4. tax on international trade
5. other taxes
6. other incomes (*donatives* and other returns)

With Exploring the composition of incomes in group of countries (table-2), we can observe that the share of "tax on income and capital gains and social security payments "in high-income and euro-zone member countries is higher than that of other groups including Islamic countries. On the other hand, the share of "tax on foreign trade" in high-income and euro-zone member countries is approximately zero, but this share in low-income and also in Islamic countries is noticeable. Other important issue that should be paid attention is the share of "other incomes" in total revenues of governments.

In euro-zone member and other high-income countries the proportional share of "other incomes" in total incomes of government is 7% and 16.5% in sequence.

This reveals that the share of taxes in financing the governments in Islamic and under developed countries is not satisfactory. And these governments rely upon natural resource incomes and foreign aids rather than taxes.

Although, suggesting a efficient composition of taxes same for all countries is impossible and this composition depends on development degree, income per capita, quality of wealth and income distribution, natural resources ,ability of the tax collecting organization, tax rules and regulations, level of welfare, etc; but making policies to design the best composition for similar countries, is feasible.

Experiences of Islamic republic of Iran in developing tax bases, increasing T-GDP ratio and improvement of the composition of taxes:

Following the holy Islamic revolutions in Iran, increasing reliance on the tax resources and thus reducing reliance on oil incomes was targeted by government at the first¹ and second² "*five-years development programs*". Because of failing of these programs to achieve many of the targeted goals, the issue was set as one of the main priorities of government's financial policies in the third³ development program and some measures have been carried out as follows:

1. Carrying out some preliminary measures to launch VAT
2. Introducing a "*comprehensive tax scheme*" and its main characteristics
3. Establishing a stabilizing fund for excessive oil revenues.

¹ 1989 - 1992

² 1995 - 1999

³ 2000 - 2005

4. Reducing relieves and preferences.
5. Carrying out some studies to design excise duties
6. Reforming tax rules and regulations.
7. Separating the tax-collecting office from the finance ministry and establishing an independent one.

1-VAT:

First attempts to introduce *VAT* in Iran started in 1989. In that year the cabinet presented "*VAT bill*" to parliament but that bill was taken back because of the economic effects of Iran-Iraq war. New resolution toward launching *VAT* appeared following the IMF reports and recommendations in 1990s. IMF as an international institute advised Iran to levy tax efficiently on consumption.

Launching of this system will result in:

1. Increasing tax revenue in Iran.
2. Expansion of tax bases and movement toward consumption tax with a wide base.
3. Help to discover the hidden sectors of economy and levy tax on them.
4. Developing the use of technology in Iranian tax office.

According to country's targets in the field of taxation, *VAT* bill once again presented to parliament in 2002 and its general pointes was approved by representatives and now is being approving finally at the economic commission of parliament for 5 year trial practice.

We can point some of other carried out measure as follows:

- Designing operational charts and procedures.
- Carrying out studies on economic and social effects of *VAT*.
- Introducing *VAT* to people and trying to inform them about it.
- Preparing the relative instructions and needed forms.
- Designing an educational program for *VAT* staff.

2- Comprehensive tax scheme:

This "*IT based*" scheme will facilitate and accelerate the tax work flow so taxpayers will have more satisfaction with tax system.

About 32 numbers of projects have designed to complete this scheme. Some of them are:

- Designing and implementing "the integrated tax system (ITS) software" in national level.
- Choosing the risk based auditing(short-run)
- Defining taxpayers identity number (*TIN*)
- Standardization of processes
- Re-engineering of processes

- Choosing the risk based auditing(long-run)
- Drafting of IT strategies
- Drafting of human resources strategies and a model for their services delivery
- Revising and improvement of tax policies
- Defining and implementing of taxpayers services
- Revising and reforming of rules, regulations and instructions
- Designing and implementing of "*tax information high counsel*".
- Designing a Preventing program for tax evasion

3- Establishment of a natural resource revenue fund (or account):

Non-acquired revenues especially oil revenues are in fact obstacles in the course of development of tax bases, in developing countries especially Islamic countries. Governments of such countries have insatiable appetite to use this resources in financing their costs but government reliance on such revenues decreases government responsibility and causes to economic disorders like "Dutch disease", artificial strengthening of natural currency, unfitness of this revenue for enforcement of fiscal policies, over – expansion of government, non – renewable nature of these resources and their variable prices.

So in Islamic republic of Iran reducing reliance on oil revenue and emphasis on taxes is one of the main tactics of budget reforming, and according to "*the third development program*" article no.60, oil revenue fund has established.

4- Reducing exemptions and preferences:

Excessive increase of tax expenditures cause to limit tax bases as well as complicity of tax system, untransparency of relations, increase of collection costs and expansion of administrative corruption.

In this way, one of the basic measures to reform the tax system is to reduce tax exemptions.

"*Iranian first development program*" emphasized on further abolition of exemption for public corporations. Second program determine the gradual abolition of tax exemptions as one of the main purposes of tax policies. "*Third development program*" transparently and obviously abolished all exemptions, relieves and custom duties exemption for public or governmental institutes, ministries, corporations or non – governmental public institutes.

Ultimately article no.4 in "*Forth development program*" stipulated that:

"Order of any relieves, preferences or exemptions (directly or implicitly) and custom duties exemption for real and legal persons at the years of this program is forbidden."

So we can see that Iranian government have been developing tax bases and increasing the competitiveness of economy through implementing measures to reduce exemptions.

5- Taking studies to design "*exise taxes*":

Exise taxes as a complementary to consumption tax and sometimes as a tax base, are tools that can be used by government to enforce some policies. The most important kind of these taxes is environmental tax known as "green tax", which levied to reduce pollution. some similar taxes have been in Iran since 1915 , also today tax is levied on oil derivatives, cigarette, benzene, non – alcoholic drinks and polluting industries according to a law known as "*tajmi avariz* ". Also Iranian government is studying to decide about designing and enforcement of complementary taxes as well as VAT. Some studies also have taken in this issue. According to these studies, such taxes can be ordered to reduce pollution and collect from people who create social costs. Today "*exise taxes*" have a high importance because they increase tax revenues and can encourage innovation and development of modern technologies which preserve environment. Also if the country enters " The world trade organization (*WTO*) " and if the custom duties and tariffs abolish or reduce , "*exise taxes* " can be a suitable option to repair the falling of government's financial resources.

6- Tax rules and regulations reform:

According to a bill approved at 2002/2/16 by Iranian parliament, basic reforms were done in "*the Iranian direct taxes law* ". the basic characteristic of this reforms are simplification, eliminating of non-efficient resources, reducing of rates and grades, increasing of the evasion risk, reform of the salary and occupation tax, reform of the structure of exemptions; etc.

Meanwhile, according to a law known as "*tajmi – avariz* " approved at 2002/1/11; all of the regulations related to indirect taxes collection and national charges abolished and indirect taxes get integration .

7- Forming of the independent tax organization:

The structure of tax collecting organization in Iran, once upon a time, was in the from of a section in the finance ministry which was known as "tax revenue administration" but later according to the "*Third development program*", "*state tax organization*" established to increase the efficiency of tax system and to eliminate the obstacles and also to concentrate on tax collecting, under the supervision of the finance ministry. Actually many provisions to reform tax system have done following the establishment of this organization.

Indonesia

A. Tax Revenue and Ratio



Tax ratio increases every year although it was not caused by the increase of tax rate. However, it realizes that ratio has not reflected real condition of taxation in Indonesia. There are still plenty of room to increase it.

Increasing Tax Ratio

- In Mid-term Development Plan, DGT was targeted to achieve 19% tax ratio.
- Extra effort has been done to achieve that ratio through :
 - n Tax Reform
 - n Increase the number of taxpayers especially Individual who eligible as taxpayer (to have TIN)

Tax Reform

Some efforts has been and will be done to improve tax ratio, at the same time to expand the tax base. Those efforts are :

- Amendments in Tax Law and Regulation (proposed):
 - n Income Tax of Government Bonds

- n Income Tax of Luxury Goods
- n Income Tax of State Bank's Surpluses
- o Modernization in DG Tax, to improve :
 - n Tax Compliance
 - n Efficiency
 - n Integrity and Image

Modernization

- o In 2002, establishment of Large Taxpayer Regional Tax Office (LRTO) and Large Taxpayer Office (LTO), with new organization structure based on function, not type of tax
- o In 2003, modernization of Special Regional Tax Office
- o In 2004, modernization of :
 - n Tax offices in Special Regional Tax Office : Tax Office for : Foreign Investment Corporations, Go Public Companies, SOE's, and Other Foreign Corporations and Individuals as Medium Tax Offices (MTO)
 - n Tax Office in Jakarta I Regional Tax Office as MTO
 - n 15 Tax Offices in Jakarta I Regional Tax Office as Small Tax Office (STO)
- o In 2005 – 2009, modernization of all Regional Tax Offices and Tax Offices in Indonesia

Modernization

- o Performance Indicator
 - n Quantitative Variable :
 - Tax revenue increase – revenue growth of modern tax office :
 - LRTO : 30,49% (avg. 2003 – 2005)
 - Special Regional Tax Office : 45,94 (2005)
 - Nation Wide : avg. 18.14% (2002 – 2005)
 - n Qualitative Variable :
 - Taxpayer Satisfaction Index : 81 (75 public sector)
- o The modernization process has been improved tax revenue focused on reform in administration, organization, HR and IT
- o As final goal, this process are expected to increase tax ratio

To increase number of individual taxpayers

- o As part of Modernization process, improvement in IT system has been started in order to obtain adequate data of taxpayer, both registered taxpayer and unregistered taxpayer
- o The data is very useful to analyze all transactions of taxpayers especially unregistered taxpayers
- o To increase number of taxpayers, regulation as mandatory for individual who eligible as taxpayer to register and obtain TIN has been enacted.
- o This regulation was targeted to Directors, Shareholders, and employees of all corporation who have income above the threshold.

Malaysia

STRATEGIES FOR RESOURCE MOBILISATION THROUGH

a) increase in tax to GDP ratio; b) expansion in tax base

1. INTRODUCTION

A gradual increase in a country's total expenditure is a good indicator of the country's development and progress. This will greatly affect its domestic demand for goods and services. Hence, the country needs to acquire more revenue each year so that it will be able to finance the expenditure and not running a deficit budget.

In the case of Malaysia, the income taxes or the direct taxes are the major contributors to its revenue. In the year 2005 itself, direct taxes made-up 50.4 percent of the country's total revenue in year 2005. This is followed by the Indirect Taxes which contributed about 25.4 percent to total revenue and the Non-Tax Revenue and Other Taxes make-up the rest (24.2 percent).

Collecting these direct taxes are the fundamental roles of the Inland Revenue Board Malaysia (IRBM). IRBM's main functions are to act as an agent of the government as well as to provide services regarding matters pertaining to taxes or other revenues under the legislation administered by it.

The direct taxes comprised of corporate taxes (49.3%), personal income taxes (16.1%), petroleum income taxes (27.2%) and other direct taxes (7.4%). (See Table 6 for more details). The figures again show the importance of direct taxes to the government revenue collection.

Malaysia is one of the countries in the Southeast Asian region that practices trade liberalization. This puts Malaysia in the international arena due to the close relationship between its economy and the global economy. Hence, issues pertaining to economic globalization are becoming more relevant. In addition, it also emphasized on issue related to Information and Communication Technology (ICT), particularly on new leading edge technologies.

In line with the government's continuous efforts in making the Malaysian economy more diversified and broad-based to ensure sustainable growth, IRBM at all time needs to adapt its working system and process to such changes. It has stressed the importance of knowledge and skill which are driven by the human capital, innovation and ideas. The ultimate emphasis will definitely be improving its internal productivity since that will bring about greater impact on the tax collection.

Since IRBM is the major contributor to Malaysia's development, therefore it must stay focused, efficient and be relevant by keeping up with the current pace and to accommodate the current economic challenges.

2. RESOURCES IN TAX COLLECTION

Resources are crucial in getting sufficient and efficient tax collection. So “what are resources in tax collection?” Resources in short are things that have value and are used to ensure that the yearly tax collection meet with the stipulated target.

In the case of IRBM, its resources consist mainly of the skilled manpower, integrity driven workforce and the data warehouse that it had organized. These resources are the essential elements employed in our daily work in order to achieve each unit or department’s objectives and ultimately, the objectives of IRBM as a whole.

IRBM emphasises on continuous improvement and education which is in line with the Government’s aspiration to stimulate economic development based on knowledge. Special attention had been given to the human resource management since it is the most important asset of IRBM in carrying out its functions.

The development of skill manpower has been planned and adapted to suit all the changes which are taking place in Malaysia’s tax administrative system. The number of officers related to the tax operational department had been increased. This is due to more recruitment of new officers with relevant qualifications in line with their job function. This is by putting the right people at the right place in order to sustain excellent achievement by IRBM.

Having a skilled workforce is not good enough since it must be well equipped with professional ethics and integrity. Good ethics and excellent integrity have always been the culture in IRBM since the manpower has been inculcated and reminded continuously of this good quality. IRBM is renowned for its well-disciplined and highly-trained personnel.

Setting-up the internal data warehouse is one of the pro-active measures taken by IRBM. These crucial information and data are either obtained from within IRBM or via cooperation with other government agencies. The vast information and data must be well organized, well-kept and managed for it to be available for future use.

The bottom-line is IRBM must maintain its present resources besides adding new ones in order for it to function more effectively and efficiently.

3. INCREASED IN TAX COLLECTION TO GDP RATIO

The tax collection by IRBM showed an upward trend from year 2001 to year 2005 except for the year 2003. The small drop in performance in year 2003 was due to the external phenomena which affected Malaysian economy, largely the outbreak of war in Iraq as well as the SARS epidemic. The amount of tax collected by IRBM from year 2001 to 2005 is summarized in Table 1.

Table 1: LHDN Tax Collection

Year Item	2001 ¹ RM Bil.	2002 ¹ RM Bil.	2003 ² RM Bil.	2004 ² RM Bil.	2005 ² RM Bil.
IRBM Collection	41.79	44.32	42.82	48.63	53.54
% Increase	-	6.1	-3.4	13.1	10.1

(1) Source from IRBM Annual Report 2003

(2) Source from Economic Report 2005/2006 and 2006/2007 by Ministry of Finance Malaysia

The most common approach in measuring a country's economy is by looking at its gross domestic product (GDP). The GDP of Malaysia for year 2001 to year 2005 is tabulated in Table 2. There was an increase in the GDP from year 2001 to 2004 but a sharp drop in percentage growth for year 2005. This is due to the increase in the world oil price.

Table 2: GDP of Malaysia

Year Item	2001 RM Bil.	2002 RM Bil.	2003 RM Bil.	2004 RM Bil.	2005 RM Bil.
GDP	211.2	220.4	232.4	249.0	262.0
% Growth	0.3	4.4	5.4	7.1	5.3

Source from Central Bank Malaysia Annual Report 2005

The tax collected to the GDP ratio has been calculated for the year 2001 to year 2005 and it shows a figure in the range of 0.2 percent throughout those years. This indicates a constant co-relation between the amounts of tax collected to the nation economic performance. The ratios of tax collected to the GDP are shown in Table 3.

Table 3: Tax Collection to GDP Ratio

Year Item	2001	2002	2003	2004	2005
Tax / GDP	0.197	0.201	0.185	0.195	0.201

Source from IRBM

On the contrary, by comparing the percentage increase in the amount of tax collected to the percentage growth of the GDP, we can conclude that the percentage increase in tax collection is higher than the percentage increase in the GDP for year 2004 and 2005. This is illustrated in Chart 1. The higher percentage increase in tax collection is due to the enforcement and tax education strategies undertaken by IRBM.

Chart 1: %Increase of Tax Collection to GDP% Growth (2001) to 2005)

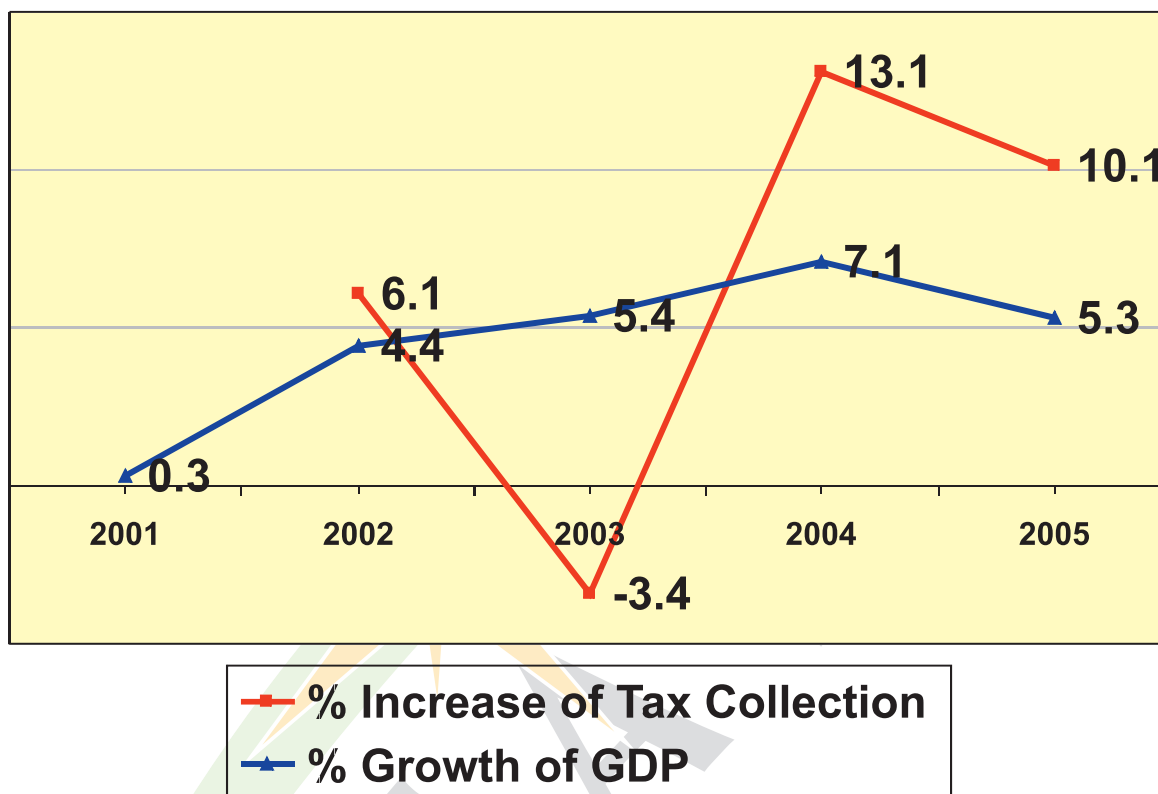


Table 4 further detailed out the sectors that contributed to the GDP from year 2001 to year 2005. By scrutinizing the sectors in year 2005, it appears that the manufacturing sector contributed the most totaling to RM82.394 billion; followed by Finance and Business services (RM39.568 billion); and next, the Wholesales, Hotel and Restaurants sub-sector (RM38.437 billion). The last two sub-sectors actually make-up the service sector of the economy. The agricultural sector contributed about RM21.585 billion to the GDP and presently, government has put greater emphasis in this sector.

All these sectors enjoyed tax incentives under the Income Tax Act 1967 and the Promotion of Investment Act 1986, either specific incentives given according to the sectors or general incentives given as and when an activity is undertaken. Those enjoying the incentives will either have their income partially or totally exempted from paying the income tax for a specified period depending on what kind of incentives they have been granted.

The reason for giving the tax incentives is to encourage and attract more business activities into the country, especially the Foreign Direct Investment (FDI). Ultimately, this will create more employment, raise the level of domestic demand, increase money circulation in the economy as well as encourage the transfer of technology and knowledge. All these will contribute to social development and economic growth.

Table 4: Gross Domestic Product by Sectors (RM Million)

Year \ Sectors	2001	2002	2003	2004	2005
Agriculture	18,551	19,064	20,134	21,137	21,585
Mining & quarrying	15,160	15,810	16,720	17,372	17,504
Manufacturing	63,299	66,019	71,544	78,558	82,394
Construction	7,108	7,251	7,359	7,248	7,133
Services: Electricity, gas & water	8,568	9,075	9,518	10,293	10,860
Wholesale & retail trade, hotels & restaurants	31,907	32,732	33,235	35,603	38,437
Transport, storage & communication	18,249	18,996	20,086	21,787	23,163
Finance, Insurance, real estate & business services	29,288	33,461	35,309	37,543	39,568
Other services	17,185	17,917	18,500	19,399	20,346
Government services	14,997	15,786	17,104	18,223	19,831
Less: Imputed bank services charge	17,678	21,073	22,431	23,205	23,876
Plus: Import duties	4,594	5,384	5,282	4,995	5,083
Gross Domestic Product	211,227	220,422	232,359	248,954	262,029

Source from Fourth Quarterly Report 2005 by Statistic Department of Malaysia

By giving foreign investors considerable tax deductible incentives in areas such as training of local employees, research and development and promotion of exports, Malaysia has been able to increase world wide competitiveness as demonstrated by an increase in the exports and GDP. Presently, Malaysia has the highest exports to GDP ratios since the economic rationale of Malaysia promoting its exports provides the nation with three important advantages. Firstly, it generates foreign-exchange that can reduce the amount of foreign debt needed to fund development. Secondly, it contributes to the development of a competitive industry infrastructure by learning from the investors - a move that brings technological excellence leading to higher value-added exports goods. The promotion of specific industries, such as the semi-conductor industry, has speeded technology acquisition and enhanced the nation's competitive worldwide positioning. Finally, FDI provides employment in the industrial sector, which to a large extent is attracted from the agricultural sector.

Giving the tax incentives will definitely create an opportunity cost to the government since withdrawing such incentives will result in more tax will be collected but in the long run this assumption might not be true. Without the tax incentives package, doing business in Malaysia might be costly and not attractive enough. Withdrawing the tax incentives can result in investors pulling out of the country which will lead to businesses or factories closing down. This will create more social problem besides accelerating the unemployment rate.

Difficulty in creating additional job will mean that the tax base cannot be expanded and this will further slow down the economic growth. Withdrawing the tax incentives is really a question of choice by the government and the choice must be cleverly made so that benefit is gained in the long term. The withdrawal of such incentives will have adverse impact on the economy and the population as a whole.

4. EXPANSION OF THE TAX BASE

IRBM is the main collector of direct taxes in the country and it has strived to improve, upgrade as well as enhance the efficiency of its tax administration so as to serve the government and the tax payers well by collecting revenue affectively.

Efforts continued to be taken by IRBM to further improve the country's tax collection. In providing continuous and adequate revenue to the government it has taken various pro-active measures such as stepping-up tax education programmes to the public, increase in-take of technical officers, facilitates international networking and establishing the internal data warehouse with the focus of expanding the tax base.

The total number of registered taxpayers in the country in year 2005 was 5.27 million as compared to the total population of 26.1 million. This indicated that about 20.2 percent of the population is a registered tax payer and they are the active workforce. Table 5 showed the country's population to the total number of registered taxpayers in Malaysia from year 2001 to year 2005.

Table 5: Malaysia Population to Number of Registered Taxpayers

Year Items	2001 Mil.	2002 Mil.	2003 Mil.	2004 Mil.	2005 Mil.
Total Population ¹	24.0	24.6	25.1	25.6	26.1
Registered Tax Payers ²	4.34	4.72	5.01	5.18	5.27
% of Tax Payer to Population	18.1%	19.2%	20.0%	20.2%	20.2%

(1) Source from Malaysian Economy in Figures 2005

(2) Source from IRBM

The table further illustrates that there was an increase of about 21.4 percent of the registered taxpayers from year 2001 (4.34 million) to year 2005. In fact we can see that there is a steady increase of registered taxpayers each year which is clearly a favourable sign.

Table 6 shows the break-down of taxes categories that make-up the direct taxes collection from year 2001 to year 2005. It is important to know the breakdown of these categories when planning for expansion of the tax base so that the targeted groups of taxpayers are known to us. Proper and correct measures can then be taken.

Table 6: Amount of taxes collected according to categories

	2000 RM Bil. (%)	2001 RM Bil. (%)	2002 RM Bil. (%)	2003 RM Bil. (%)	2004 RM Bil. (%)	2005 RM Bil. (%)
COMPANIES	13.98 (48.0)	21.58 (51.5)	27.38 (61.8)	23.16 (54.0)	24.56 (50.5)	26.38 (49.3)
INDIVIDUAL	6.14 (21.1)	7.63 (18.3)	6.09 (13.7)	7.57 (17.7)	9.47 (19.5)	8.65 (16.1)
PETROLEUM	6.00 (20.5)	9.86 (23.6)	7.64 (17.2)	8.47 (19.8)	10.72 (22.0)	14.57 (27.2)
STAMP DUTY	1.79 (6.1)	1.65 (4.0)	1.77 (4.0)	2.01 (4.7)	2.38 (4.9)	3.94 (7.4)
OTHERS	1.25 (4.3)	1.08 (2.6)	1.44 (3.3)	1.61 (3.8)	1.50 (3.1)	
TOTAL	29.16	41.80	44.32	42.82	48.63	53.54

Source from IRBM

We must bear in mind that our focus need not be solely on expanding the tax base but also we need to look into the taxpayers at hand in order to ensure that they had paid whatever dues. IRBM must also guide and educate the existing taxpayers by increasing their awareness and responsibility so as to achieve the voluntary compliance objectives.

Let us next examine the number of taxpayers to the amount of tax collected by IRBM from year 2001 to year 2005 by comparing Table 5 to Table 1. It can be seen that the amount of tax collected increases each year more than the increase in the number of taxpayers. This was due to the Self-Assessment System (STS) which was first implemented in year 2001 to the corporate sectors and subsequently, to other categories, other than corporation, in year 2004. STS fully depended on voluntary compliance since taxpayers are given the trust to compute the tax payable themselves and thereafter to pay the said tax.

Even though the tax collected for the last five years had increased due to the implementation of the STS, the field audit and investigation activities also have their fair share in contributing to the figures. The amount of tax and penalties collected by these two activities showed significant increase which implied good and effective enforcement.

IRBM hopes that the increased in the taxpayer base will create ripple effects which will result in more tax collected and, hence more revenue will be passed back to the government.

5. THE STRATEGIES FOR RESOURCE MOBILISATION

Knowing the availability of adequate and specified resources in IRBM is significant so that proper tax planning and procedures can be developed. Focus on resource utilization and mobilization must be emphasised in each of the planning stages.

Strategies need to be formulated in order to mobilize all the relevant resources to gear toward improving and enhancing the efficiency of the country's tax management system. Changes made regarding the tax system will not only affect the manpower and working process of IRBM internally, but also will give impact to the public at large.

5.1. Developed Skilled and Knowledgeable Workforce

Human resource is the most important asset of IRBM in carrying out its operation. It has given special attention to human resource management and this is in line with the Government's aspiration to stimulate knowledge-based economic development (K-Economy). Thus, the development of human resource has been planned and adapted to suit all the changes which take place in the nation's tax administration system.

The implementation of STS is a paradigm shift in the tax administration in Malaysia. It requires IRBM to change its focus and work dimensions where special attention has been given to tax education as well as monitoring the level of compliance amongst taxpayers.

The IRBM technical manpower has been given continuous and adequate training so as to equip and prepare them in facing the new challenges. The training comes in various formats, either as on the job training conducted at the officers' own workplaces; training and workshops organized by the Malaysian Tax Academy; or talks held by external parties.

Thus, IRBM has increased the number of officers in fulfilling all its technical functions. New officers who are qualified in the field of accounting, law and information technology were recruited in line with their job requirement with the objective that in return it will stimulate the maximum amount of tax collection.

In addition, all officers in IRBM have been instilled with the clean image work culture that emphasized on good ethics, honesty and integrity. These qualities are the mainstay of IRBM for years. All allegations against its officers will be well looked into and appropriate action will be taken hastily.

5.2. Establishing Data Warehouse

The current information of individual taxpayers, companies and businesses can be obtained through the database known as the Data Warehouse, which has been established by IRBM. The database is used in verifying the data obtained from within and outside IRBM. This data can be used as a cross reference for selecting cases for investigation, audit, detection as well as report preparation.

IRBM receives full support and cooperation from other government agencies such as the Land Office, National Registration Department, Employees Provident Fund, the Road and Transport Department and Companies Commission of Malaysia. Other non-government agency that contributed actively to the data warehouse is the insurance companies. Thus, the data warehouse can be one of the instruments in expanding the tax base.

5.3. Tax Education

Tax education to the public is important in enhancing their tax knowledge and awareness. The approach adopted by IRBM was to guide and educate the general public by increasing their awareness on their rights and obligations as a good tax payer. The taxpayers as well as the tax agents have their roles and respective responsibilities in supporting the effort taken by IRBM so as to improve the tax compliance level. When the tax payers and the tax agents are well tax educated then they can do their duties voluntarily.

Various ways of tax education has been taken by IRBM in trying to reach all level of the citizen such as by giving talks and briefing through the electronic media; providing printed publication such as pamphlets; rendering customer support service such as opening temporary counters; debates and essays competition for school students; and encouraging direct communication via the IRBM website.

By educating the taxpayers and the tax agents continuously, IRBM can guarantee maximum tax base expansion in the country as well as satisfactory amount of tax collection.

5.4. Business Survey Program

Business survey operations are being carried out at the taxpayer's premises in the effort to improve compliance, expanding the tax base and to collect taxpayers' basic information. Under this program, visits will be made to potential areas to check whether taxpayers comply with the tax law as stipulated. Those who have no income tax files will be instructed to go to the nearest IRBM branch for tax registration. Overall, the operations received full cooperation and support from the tax payers.

The number of business surveys conducted and the number of new registered taxpayers for year 2003 to year 2005 are shown in Table 7.

Table 7: Business Survey Program

Year \ Items	2003	2004	2005
Total Premises Visited	66,534	60,548	74,829
New Registered Taxpayers	11,037	8,704	10,178

Table 8: Settlement of Tax Audit

Year \ Items	2001	2002	2003	2004	2005
Number of Case Audited	1,826	1,926	2,679	6,439	9,405
Number of Case Settled	1,604	1,850	2,462	4,657	7,204
Tax & Penalties Collected (RM Mil)	51.25	77.03	182.59	429.31	635.40

Source from IRBM

Table 8 shows the statistic of field audit conducted based on the tax returns submitted by the taxpayers. The number of cases settled in year 2005 was 7,204, an increase of almost 55% from the year 2004. A total of 9,405 field audits were conducted on companies, sole proprietors and partnerships in year 2005. These resulted in tax and penalties collection worth of RM635.40 million compared to RM429.31 million in the previous year. The increase in the amount collected was due to the intensified audit programme undertaken by IRBM in an effort to educate the taxpayers and encourage voluntary compliance. Presently, field audits are one of the biggest contributors to the tax collection.

IRBM focuses on continuous training for audit officers to enhance their knowledge, expertise and skills in the various aspects of auditing. Hence, the setting up of the Centre for Audit Training whose main task is to teach and make sure proper audit practice is followed by all the audit officers. Besides that, the Malaysian Tax Academy also conducted audit courses from time to time. The field audits have successfully educating the tax payers which result in increase in the yearly tax collection.

5.6. Investigation

Investigation Centres are responsible in conducting intelligent and investigative activities with the main focus of preventing and deterring tax evasion. Table 9 shows the number of investigation cases undertaken by the Centres. The total tax and penalties collected from investigative activities had risen tremendously by almost 92% from 2001 to 2005. The collections were RM763 million in the year 2005 compared to RM397.26 in 2001.

Setting-up of the Intelligence Division in the Investigation Department is a pro-active action taken to oversee the planning and monitoring of intelligence activities at all the Centres. Joint Investigative Operations by zones were undertaken in the light of increasing awareness to the tax payers regarding the investigative activities.

Table 9: Settlement by Investigation Centres

Year Items	2001	2002	2003	2004	2005
Number of Case	748	656	769	794	719
Tax & Penalties Collected (RM Mil)	397.26	386.49	615.51	620.26	763.00

Source from IRBM

Presently, the format of investigative technique is moving towards criminal investigation which formally was more civil in nature. In addition, the investigation officers are given continuous training at the Investigation Training Centre so as to improve their skills and expertise. At the same time, these officers also received training from the Internal Revenue Service (IRS) and Japan International Cooperation Agency (JICA) personnel regarding the latest investigative techniques.

6. CONCLUSION

The development and progress of a country depend greatly on its economic activities which will spur more revenue to the country. More revenue will lead to an increase in the country's GDP. The task of collecting this revenue has been given to IRBM whose main function is to collect the direct taxes.

In order to increase the yearly tax collection, IRBM must be able to mobilize all the resources available. Thus, the collection methods and compliance strategies must be truly effective and efficient.

Apart from that, IRBM must also focus its attention on expanding the present tax base. The tax base expansion programme will definitely influence the increase in tax collection which on the other hand indicates a rise in revenue earning to the government. The important factors in determining the success of increasing the revenue collection and expanding the tax base is by properly implementing the strategies which had been laid down.

In order to effectively enforce implementing the strategies, a proper planning and working procedure must be in place. Hence, a good monitoring and checking system must be available in IRBM.

In addition, close cooperation and support must exist between IRBM, the government and the public at large in order to create tax awareness and responsibility. Ultimately, these will result in an increase in voluntary compliance and secure perpetual government revenue.