

**Hon'ble Federal Tax Ombudsman's Remarks on the TI-Pakistan's
Launch of Citizen Report Card Study,
Karachi, 25 June, 2011**

Hon'ble Dr Abdul Hafeez Shaikh, Federal Minister for Finance, Revenue, Economic Affairs, Statistics & Planning and Development;

Mr. Shaukat Tareen, Advisor to Chairman, Silk Bank;

Syed Adil Gilani, Chairman, Transparency International, Pakistan;

Excellencies;

Dignitaries;

Distinguished Guests;

Ladies and Gentlemen:

We have come together here today to demonstrate that not everything is wrong with us. We are here today to acknowledge that there are jewels, some discovered and others yet to be discovered, in the governance crown of our homeland that we can proudly compare with the best in the world. We are here today to see for ourselves that the institutions comprising the National Integrity System of Pakistan, given the right leadership, are capable of fulfilling the people's long-cherished democratic aspirations: effective and transparent accountability of our public servants. We are here today to appreciate the fact that with vision and dedication and commitment to our assigned public service roles, we can really win the trust and confidence of our citizens. We are here today to mark the launch of the outcome of a third party independent audit - Citizen Report Card Study - of the Office of Federal Tax Ombudsman Pakistan.

Ladies and Gentlemen!

Taxation has been at the very heart of civilization from times immemorial. Throughout ages, tax and its administration have shaped and reshaped states and statehood. At the same time, tax issues have profoundly influenced our ideas about citizens and citizenship. Revolts have been roused and revolutions stoked over questions such as "No taxation without representation".

A fair and just tax system cannot be achieved unless income is taxed irrespective of its source, and unless there is enough deterrence for tax evaders. I was in Sweden in November 2010. There are 6.5 million taxpayers in a population of 8 million, with a tax to GDP ratio of 54. When I did my PhD in 1988, our tax to GDP ratio was 13.8, and

there was a fierce debate that it needed to go up – closer to the world average of around 25. Last year our tax to GDP ratio was barely 9, with hardly 1% population registered as paying income tax. Had we maintained the 1987-88 tax to GDP ratio, we would be collecting additional Rs 700-800 billion in tax revenue, let alone bringing the millions of tax evaders into the tax net. Obviously, we would not have needed any Kerry-Lugar support to sustain ourselves.

No government can sustain herself without an effective, well-managed, responsive, fair and accountable tax administration. Even when taxes are just, there remains the critical question of their fair and humane administration.

The Office of Federal Tax Ombudsman was established in year 2000 to bring about precisely that much-needed procedural fairness to the tax system of Pakistan, by addressing taxpayers' complaints involving illegal, arbitrary, oppressive, perverse, biased, or discriminatory actions by tax officials. Even actions based on corrupt motives or actions betraying neglect, inattention, delay, incompetence, inefficiency and ineptitude would fall within the definition of tax maladministration. When a citizen files a complaint of tax maladministration, it is the Federal Tax Ombudsman's statutory duty to decide it promptly, justly, fairly, and independently. The whole idea is to diagnose, investigate, redress and rectify any injustice done to a person by functionaries administering tax laws that fall within the purview of the Federal Board of Revenue.

Let me say that over the past ten years, the FTO Office has made significant progress. While setting up the Office, the government knew that our work would be critically impacting the old – anachronistic – attitudes of tax officials. I am glad to say that we have started making a difference in the lives of the taxpayers, as originally envisaged.

When I took oath of office in June 2009, we had complaints filed during 2005-08 still pending. So the first challenge we gave ourselves, and met, was that we liquidated those 3-4 year-old cases by 31 December, 2009. During 2010, in particular, we really brought about a paradigm shift in the way taxpayers were treated. We reduced the average time per complaint from 117 days in 2009 to just 67 days in 2010. Over 80% complaints were decided in less than two months, while the remaining less than 1 in 5 complaints took 60-90 days.

Even more significantly, for the first time, under his *suo moto* jurisdiction, the FTO proactively settled over 195,000 taxpayers' complaints involving systemic issues of maladministration.

Our intervention resulted in tax refunds exceeding Rs7 billion, which was 32 times more than the average of previous 9 years.

During 2010, on a reference received from the Supreme Court of Pakistan, we also investigated 'ISAF Container Scam'. The scam involved huge - en-route - pilferage of containers purportedly meant for Afghanistan and hence cleared by Pakistan Customs without charging custom duty and other applicable taxes. The minimum estimated figure of pilfered containers that we gave was 7,922 for 2007-10, although with a caveat that it could be just a tip of the iceberg. We now understand that the actual rip-off involves more than 20,000 containers. Not only has this massive fraud seriously impacted our local industry, in addition to the government losing billions in revenue, it has ominous implications for our national security. Let me here congratulate Dr. Hafeez Shaikh, Minister Finance, and Mr. Salman Siddique, Chairman FBR, for supporting an in-depth and thorough investigation into this scam, and also for new countermeasures that the government has been able to put in place in the new Afghan transit trade regime.

Starting with 2010, we have added special focus to monitoring of implementation of our Findings / Recommendations. Let me admit that this was a really weak aspect of our working. I was horrified to note that cases as old as 2005 were still pending implementation. We hope to overcome this lapse through the increased use of automation, leading ultimately to a paperless environment, hopefully by end of the year, depending on the funds availability for our E-Enablement Project. Our web-based complaint filing and monitoring system, enabling a taxpayer not only to file his / her complaint but to monitor its progress online from the comfort of his desktop / laptop, is currently being tested as a pilot run.

Ladies and Gentlemen!

My purpose in proposing a third-party audit to TI-Pakistan was to seek independent review of what we do, and how we could improve our service delivery. That TIP embraced the idea enthusiastically is a matter deserving our appreciation for the TIP. I find it heartening that the researchers the TIP engaged went with the 'Citizen Report

Card model' for the study – incidentally the first of its kind for a public sector organisation in Pakistan. While striving to hold errant FBR officials accountable, I was determined to hold FTO staff even more responsive and accountable. Without ensuring higher public service standards for the FTO staff, it would have been well nigh impossible to meet up the taxpayers' expectations.

To carry out the study, the TIP brought in the Islamic Countries Society of Statistical Sciences (ISOSS) – an independent and reputable research firm based at Lahore. I take this opportunity to voice my appreciation for their work. They completed the study in less than three months – a relatively short period of time considering that they not only had to deal with large number of randomly selected taxpayers who had actually interacted with the FTO Office over the past two years from across Pakistan, and either won or lost their cases, but also with the concerned officials of the FBR and numerous trade bodies.

Ladies and Gentlemen:

It is not my remit to dwell on the findings of the study. Others, more qualified than I for this purpose, are on hand, and are having their say. The report itself belongs to the public. Everybody is free to draw their own conclusions – and form their own opinions. What I can assure you of is that I will continue to do whatever it takes to further improve the FTO's handling of taxpayers' complaints. I must, however, thank you for your high approval of the measures that I have been able to put in place over the past two years for ensuring that your grievances are dealt with fairly and expeditiously. If the findings of similar studies are anything to go by, improving the quality of interaction between the taxpayer and the tax collector is a must for growth in tax revenue.

Ladies and Gentlemen!

Taking strides to address real and genuine problems faced by taxpayers is good news for Pakistan. This was not possible without strong commitment and exceptional leadership of the Minister Finance and his predecessor, Mr. Shaukat Tarin. Let me express my gratitude to both of them for their valuable support for the FTO's mandate. The Chairman FBR has also played a very positive role in strengthening both internal and external accountability regimes of FBR functionaries. Without his willing cooperation, the FTO Office would not have achieved what it did.

Ladies and Gentlemen!

Statehood in this day and age is all about winning hearts and minds of citizens. In this paradigm, justice is the currency with which a state buys loyalties of its citizens. There is no better yardstick to measure this citizen-state bonding than the degree of voluntary tax compliance. Not only is justice in taxation the glue that holds a state together, a just state is the only state that deserves to exist.

Is it not wonderful then that in the performance of FTO, the people of Pakistan, the Government of Pakistan, and the international community can rejoice that Pakistan is indeed that state that has started making real progress in achieving substantial justice for its citizens?

On a related note, this study is a glowing precedent of public sector and the civil society working closely together. This is how it should be – and this is how democracy works.

Ladies and Gentlemen!

I should like to conclude by asking you to guide me to further improve the services of FTO Office. I should also like to see a more robust complementary effort between the FTO Office and the FBR to fix tax maladministration. I should hope that more research on various aspects of FTO's functioning will follow. The challenge for the FTO is not only to sustain the high standards already achieved, but to improve them further.

I thank you all.
