

## Tax Reforms and Mindset Change in Tax Personnel and Taxpayers

By:  
M. Munir Qureshi  
DG (DOT)(DT)



The 21st century bureaucrat is increasingly being visualized as a sophisticated, highly motivated, super efficient, squeaky clean, 'client' friendly, almost robot like creature programmed as it were to 'perform' and 'deliver'—quite unlike his / her grasping, domineering, haughty, dependent, highly adversarial predecessor, able and willing mainly to assert authority and show importance. This transformation, if indeed possible, would be nothing short of a sea change.

In any work environment the buzzword today is 'productivity.' That is what really matters. For personnel in the taxation services this means of course the amount of tax that they are able to assess and collect. But that is certainly not all that is expected of them.

The corporate culture in government organizations is a

new phenomenon. A new improved pay package, better working conditions, merit based assignments, functional specialization, fast track career possibilities for high performers, dispersal and delegation of authority from the top down all these are seen as part of the 'make over.' But none of these changes can actually lead to a significant enhancement in worker productivity unless there is also a concomitant change in the mindset of tax personnel.

What is this 'mindset?'

A mindset refers to a set of assumptions, methods or notations held by one or more people or groups of people which is so established that it creates a powerful incentive within these people or groups to continue to adopt or accept prior behaviors, choices, or tools. This phenomenon of cognitive bias is also sometimes described as mental inertia, "groupthink", or a "paradigm", and it is often difficult to counteract its effects upon analysis and decision making processes.

An 'entrenched mindset' that develops over time given little or no change in the underlying assumptions on which an organization work procedures are based thus inevitably leading to a perpetuation of existing attitudes. This can lead to serious problems when the ambient circumstances have changed. It is then that the organization will find itself on a plateau with regard to productivity of its' workforce or maybe even a diminution of its existing productivity and regression back to an earlier stage of even lower productivity. This change in the external

environment often necessitates workforce mindset change if the organization is to continue to exist as a viable entity.

In Pakistan all government functionaries inherited a mindset bequeathed to them by their erstwhile British colonial masters. This was based largely on the use of procrustean methods to achieve given targets. The public at large was usually seen as an 'adversarial entity' that it was necessary to dominate and keep cowed down to ensure obedience to the Master's diktat. Such a mindset did appear to have served the interests of the colonial authorities well. Their colonial administration based on a few thousand civil servants was able to control effectively a population of many hundreds of millions. It levied and collected taxes, including tax on income, policed the realm and opened up the vast expanse of the Indian sub continent with a presence that was both feared and respected.

After the partition of India in 1947 and the creation of Pakistan and India as independent, sovereign States, the ambient circumstances changed dramatically. However the consequential changes in Pakistan in the administrative framework were either slow to come or even non existent. The result was that a free public continued to be dealt with by an administration that was still largely mired in the old colonial mindset.

Tax collection is a difficult and sensitive task at the best of times. In a newly independent country with limited financial resources, low per capita income, a large population, deficient infra structure,

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serious external military threats and the overly optimistic expectations of a free people, tax collection is especially challenging.

Given the exigencies of the situation one would have expected that serious attempts to address the fairly obvious problems that beset tax administration would have been taken soon after independence. That however did not happen. Inertia is probably partly to blame. Vested interests of the entrenched bureaucracy are probably more significant as a causal factor. Whatever the reason, the fact is that the negative mindset of tax functionaries officers and support staff—persisted and there was no meaningful improvement for almost fifty three years ie till 2000.

A key initiative taken up by the new government that took office in October 1999 was Tax Reform. A Task Force set up

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PATRON  
M. Muneer Qureshi  
Director General

EDITOR-IN-CHIEF  
Amna Faiz Bhatti  
Deputy Director

LAYOUT & DESIGN  
Asad Ali

Directorate General of Training & Research (Direct Taxes), Lahore.  
Ph: +92-42-7842710  
PABX: +92-42-7830211  
Fax: +92-42-7842702  
Web: www.dgtrdt.gov.pk  
email: dg@dgtrdt.gov.pk

# DOT Gazette

## EDITORIAL

The commencement of new financial year has brought fresh challenges for our Directorate.

The year has started off with hectic pace, as DOT pays host to Capacity Building Training Programs for grade 17-19 officers organized in collaboration with Centre for Executive Excellence (CEE), IBA, Karachi. The purpose of these Capacity Building Programs is to impart unified training to all offices of both Income Tax as well as Customs & Excise group. Three such consecutive Capacity Building Programs were organized in the first three weeks of July this year. Thanks to the efficient and professional DOT Administration, all three events were managed successfully to the satisfactions of both trainers from IBA and the participants of these trainings.

The last week of July was devoted to the 2<sup>nd</sup> National Audit Workshop held from 24-26<sup>th</sup> July at the Directorate. The event was organized by the Audit Wing, CBR with an aim to develop a unified Audit Program applicable throughout the country. Member Audit, Mr. Abdur Razzaq & Ms. Yassie Hodges, Consultant CBR actively participated in the deliberations and working sessions throughout the three days event.

DOT also welcomed the Probationary Officers of 34<sup>th</sup> Specialized Training Batch on 27<sup>th</sup> July, 2007 in a formal Inaugural Ceremony graced by the Director General DOT / Director General Regional Tax Office Mr. Haji Ahmed.

DOT Gazette wishes the young officers best of luck for successful completion of their training and for a bright future as officers of Income Tax Group.

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under World Bank specialist, Shahid Hussain, identified critical areas in tax administration that were in need of a drastic overhaul and made specific recommendations in this regard. The CBR then set about implementing the recommendations.

A fundamental change in mindset and attitudes was seen as an essential prerequisite to the success of the far reaching tax reform program. To some extent this change was expected to follow consequentially in the wake of the structural, procedural and legal changes introduced in the CBR and its field formations through the reform measures. However it was recognized that it would also be necessary to take action independently and educate and re-educate tax personnel at all levels to bring home the necessity of mindset and attitude change in the changed work environment.

One of the most far reaching changes introduced through the Tax Reform measures, is the scheme of universal self assessment incorporated in the new tax statute ie the Income Tax Ordinance of 2001. This scheme of truly universal self assessment available to all entities has acted as a catalyst in provoking positive mindset change in Direct tax personnel as well as taxpayers. This has happened in a number of ways. Firstly, the self assessment provisions are couched in a language that makes it abundantly clear that they are truly applicable to 'all' tax entities and there is no room or scope for making exceptions on frivolous grounds. This statutory 'finality' went a long way in deterring any 'adventurer' tax officer / official from making an attempt to circumvent the Scheme. Self Assessment of Income put an end to casual contact between tax personnel and taxpayer that was almost the norm previously and this easy familiarity was the

cause of much taxpayer harassment and corruption in the tax deptt. Secondly, the all encompassing scope and finality of the self assessment provisions has inspired confidence in the taxpayer and this is reflected in the dramatic upturn in the declarations of taxable income and the resultant tax paid in the tax Returns filed.

Tax personnel have now seen for themselves that they can actually collect more tax simply by placing trust in taxpayers and without any need to resort to coercive measures. The positive response of taxpayers over a fairly significant timeframe has convinced a very large number of tax officers and support staff that the tax reform measures taken are indeed beneficial so far as revenue mobilization is concerned. True there are still some intractable, chronic 'doubters' and reactionary elements who miss the 'good old days' when thanks to the constant interaction between tax personnel and taxpayers there was much scope for taxpayer harassment and resultant extraction of extra legal 'benefits.' Hopefully, these obstinate elements will change and learn from experience and from the example of others. If they do not then they will be seen as 'misfits' and will either have to leave the deptt on their own initiative or will have to be weeded out perforce.

It is clear that a 'paradigm shift' has taken place within the CBR and its' field formations in which the departmental personnel have themselves become 'agents of change.'

This Paradigm Shift may thus be seen as a change from one way of thinking to another. It is indeed nothing short of a revolution, a transformation, a sort of metamorphosis and has not taken place 'suddenly' but rather has been driven by 'agents of change.'

Government has shown a great deal of sensitivity to the

undeniable fact that the available deficient compensation package was not seen as a 'living wage' by tax personnel and was a major reason for corruption in the deptt. The scheme of enhanced compensation for those officers and support staff who are able to meet specific performance and integrity criteria has removed much misgiving in departmental personnel and has created an environment in which Tax Reform measures are much more readily acceptable.

Tax personnel now understand that given the changes introduced through the Tax Reform measures, henceforth, the only way to improve their career prospects in the deptt will be through performance based on professional expertise and integrity. Tax personnel and taxpayers are both keenly aware of the fact that self assessment does not amount to a license given to taxpayers to declare any income that they wish. In fact rigorous Audit of a limited number of Tax Returns on the basis of well defined criteria goes hand in hand with self assessment and is bound to be an effective deterrence to the chronic under-declaration of income that was commonplace in the past.

Taxpayers are also aware that the deptt is putting a great deal of emphasis on meaningful training of tax personnel which is bound to enhance their professional expertise and their ability to detect tax evasion. They also know that given the enhanced compensation package, tax personnel will be much less inclined to overlook tax evasion when detected simply because of the extra legal inducements offered by tax evaders. Taxpayers thus now have a healthy respect for tax personnel and their entire outlook vis a vis the deptt has changed for the better.

Besides self assessment law,

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## Computer Related Staff Training Organized by the Directorate

**C**entral Board of Revenue is going through fast paced reforms aimed at modernization and up gradation of facilities along with provision of quality service to taxpayers through a professionally trained workforce.

The implementation phase of these reforms include establishment of newly created Regional Tax Offices and Large Taxpayer Units. In these refurbished offices efforts have been made to introduce office automation at all levels.

The need for Information Technology related training of Income Tax officials from grade 5 to 16 in these newly created offices was being felt for quite

some time, as this small step could lead towards a giant leap of completely automated and paperless environment.

For achieving the objectives of developing basic IT skills of officials from grade 5 to 16, our Directorate organized a series of Information Technology related trainings aimed at imparting basic computer skills. These trainings comprised of a crash program course of 18 days (3 weeks) challenging the enthusiasm of trainers as well as trainees. First such batch of officials completed its three weeks training in the first week of July. A group of 70-80 officials from Lahore region participated in this course.

Information Technology basics, MS. Windows, MS. Word, MS. Excel, MS. Power Point and Web Browsing skills are being taught in course of these three weeks training program with a vision to fill the knowledge gap between the non IT people and IT skills. On completion of this training the officials will be able to operate their PC's independently not only for word processing and web browsing but also for preparing animated presentations, work on spread sheets, manage their E-mail accounts and perform other related operations. The course outline for this training is designed keeping in view the non IT background of the

participants and the IT need analysis with a view to develop much needed time based IT skills. At the end of these trainings the trainees shall be able to figure out IT based solutions in a real world scenario

In continuation of the first training, the second phase of this three weeks computer related training was commenced from 16th July 2007 and 48 officials from Lahore Region are participating in this training. As the course content of these training is very relevant to the actual job performance, the participants are displaying an active interest in this training.



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Besides self assessment law, other changes introduced through the new tax statute like the statutory requirement for maintenance of records by 'all' taxpayers and stipulation of stiff penalties for those who violate the law have also gone a long way in deterring under-declaration of income and instilling confidence in tax personnel in their ability to detect and bring to tax unre-

ported income. Coupled with this is the integration of modern technology, especially 'information technology,' in the work procedures within the deptt. This has heightened the sense of confidence in tax personnel in the command that they have over their work environment and has simultaneously led to an increased awareness in taxpayers of the much improved capability of tax personnel, deterring taxpayers from

routine under declaration of income in the Returns of Income filed by them periodically.

The net effect of the tax reform measures has been to lead to the beginnings of an almost symbiotic relationship between tax official and taxpayer. Taxpayers are actually showing their eagerness to declare good income in their annual Tax Returns because they see this as being effective in keeping the

tax auditor away from them. At the same time, tax personnel are eager to show their positive conduct and enhanced professional capability because they see these qualities as essential to an improvement of their career prospects within the deptt and an inducement to taxpayers to declare good income.

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## Two Days Course on Corporate Financing in Kuala Lumpur, Malaysia Organized by IBFD (International Bureau of Fiscal Documentation)

Since 1938, tax practitioners from all over the world rely on the International Bureau of Fiscal Documentation (IBFD) for authoritative expertise on cross-border taxation. IBFD is the portal to high quality independent tax research, international tax information and education with the aim to enable customers to do their work more quickly and efficiently. The wealth of IBFD experience and knowledge is reflected in the make-up of the organization. IBFD employs over 50 research specialists and teacher's staff from around 25 different countries. IBFD has

grown from a tax documentation centre into a contemporary online research institute. It caters for both the private and the public sector. It fulfils the information needs of tax advisory firms, multinational enterprises, international organizations, ministries of finance, tax administrations, universities and other tax practitioners in over 150 countries.

IBFD operates on a not-for-profit basis and is completely independent. IBFD organization is divided into IBFD Products and Services, which

covers all publishing, educational, research and consultancy activities, and IBFD Foundation which executes several Academic Activities.

Directorate General of Training & Research (Direct Taxes) Lahore (DOT) has recently joined the Galaxy of IBFD members. As a good will gesture IBFD had sent a complementary invitation to Central Board of Revenue for its two days (July 24th to 25th, 2007) course on Corporate Financing in Kuala Lumpur, Malaysia. CBR nominated Mr. Shahid Bashir Additional

Director (DOT) to participate in the course and represent Pakistan in the discussions.

Almost twenty participants from all over the world attended the course. This course was very elaborate and covered many aspect of Corporate Financing in a concise and precise manner. The course content included topics such as Types of Corporate Financing, Debt versus Equity, Thin Capitalization, Hybrid Instruments, Derivatives, Financing Structures etc.



View from Sky Bridge of Twin Towers (Kualalumpur)



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## 2nd National Audit Working Session

[Held In The Directorate General Of Training & Research [Direct Taxes], DOT  
From 24th 26th July, 2007

**T**he Directorate General of Training & Research [Direct Taxes], DOT has the honor of facilitating various functional wings of Central Board Revenue [CBR] in providing the necessary material and infrastructural support in their various assignments and tasks.

The Audit Wing, CBR since last year, initiated a series of efforts aimed at strengthening the role of audit in Income Tax as well as in Sales Tax Group. Three Integrated Audit Trainings were organized in our Directorate which trained 128 audit officers / officials belonging to Income Tax and Sales Tax Group in the last financial year. Through these trainings, audit officers were trained in developing their analytical skills through case studies, group discussions, spot tests etc.

Side by side with developing the skills of audit workforce, there was a need to develop the necessary techniques for conducting successful audits.

In this backdrop, the Audit Wing, CBR under the leadership



of Mr. Abdur Razzaq, Member [Audit] held a three days National Audit Working Session from 13th 15th December, 2006 in our Directorate. The purpose of this Working Session was to arrive at a consensus for developing a unified Audit Program throughout the country. The importance of developing a unified audit program applicable throughout the country for both Income Tax as well as Sales Tax Wings of CBR cannot be over-emphasized. In wake of promulgation of Income Tax Ordinance, 2001, Universal Self Assessment Scheme [USAS] is

available for all classes of tax-payers. As a result, strong audit programs would ensure correct and true filings of returns by taxpayers in spite of existing of USAS. The detailed audit of certain cases filing returns under USAS would ensure compliance of statutory provisions as well as discourage incorrect / incomplete declarations.

A strong deterrence in form of effective audit as applicable and in all developed economies is necessary for the success of any USAS Scheme.

Audit Wing CBR lead by Mr. Abdur Razzaq, Member (Audit) has made concerted efforts through holding of two consecutive National Audit Working Sessions for developing the unified audit plan. Ms. Yassie Hodges, Consultant CBR was present on both occasions and played a central role in the final deliberations leading to the conclusion of these sessions.

The 2nd Audit Working Session which was held in our Directorate from 24th 26th July, 07 marked the culmination of efforts by Audit Wing, CBR to iron out the final draft audit plan and draft audit manual applicable for both Income Tax as well as Sales Tax Wing. This

Directorate provided all the material and infrastructural supports necessary for organizing this event successfully.

During this three days working sessions, the participants after detailed discussions, submitted their comments to the draft audit manual and draft audit plan prepared by the Audit Wing, Central Board of Revenue.

In the concluding session of the 2nd Integrated Audit Training Workshop, Mr. Haji Ahmad, the Acting Director General, Directorate General of Training & Research [Direct Taxes] and Director General, Regional Tax Office congratulated both Member Audit, CBR Mr. Abdur Razzaq and Ms. Yassie Hodges, Consultant CBR, in achieving their objectives of finalization of a draft audit plan. He also lauded the efforts of the Workshop's participants who showed keen interest in the deliberations and in preparation of their presentations.

At the end, the Chief Guest, Member [Audit] Mr. Abdur Razzaq, and Mr. Haji Ahmad distributed the certificates amongst the participants of the Workshop.



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## Inaugural of IBA, Karachi led CAPACITY BUILDING PROGRAM for Officers from Grade 17-19

**T**he HRM Wing, Central Board of Revenue led by the visionary figure of Member HRM, Mr. Muhammad Talha has initiated a series of efforts aimed at enhancing the workforce capabilities of officers of Central Board of Revenue. Introduction of IJP post positions based upon merit, renewed efforts for training of workforce inside and outside the country, introduction of MBA Taxation studies in IBA, Karachi for new entrants to the Income Tax as well as to the Customs and Excise Group etc. are some of the initiatives undertaken by the HRM Wing.

Realizing the need for on job training of middle and senior level managers through standardized training programs, HRM Wing, Central Board of Revenue signed an agreement with IBA, Karachi for developing Capacity Building Modules for its officers from Grade-17 to 19.

As a result, the HRM Wing, CBR has arranged a 6 days training module for officers from grade 17-19 in collaboration with Centre for Executive Excellence (CEE),



IBA Karachi. These Capacity Building Programs will be organized at our Directorate which will be providing the necessary infrastructural, instructional and material support.

This unified and structured training module is meant for officers of both Income Tax and Customs & Excise Groups. Training in subjects such as computer technology, communication skills, presentation Skills etc. is given through interactive training

sessions. The first three days of trainings are devoted to hands on computer training skills and the next three days focus on communication skills in official settings.

Our Directorate has committed to provide all the logistics and infrastructural support for this initiative. DOT faculty is actively involved in imparting this training as well as in preparation of training manuals designed for this module.

The inaugural ceremony of these IBA related trainings was held on 2nd July 2007 in DOT Auditorium. Mr. Muhammad Talha, Member HRM was the Chief Guest at this occasion.

In his inaugural address he highlighted the importance of on job trainings and courses for enhancing the professional skills of officers of Central Board of Revenue. In line with reforms underway at CBR it was necessary to develop the needed human resource potential to achieve the goals of automation, professionalism



and quality service. He impressed upon the officers to benefit from the opportunity provided for development of their skills and capabilities in form of these capacity building programs. Only officers possessing the relevant skills and knowledge would secure a future based upon quality service, tax-payer facilitation and use of computer technology in an automated office setting.

Mr. M. Muneer Qureshi, Director General DOT in his speech welcomed the initiative taken by the HRM Wing for providing the officers of both Income Tax as well as Customs & Excise Group an opportunity to benefit from specially designed training programs from a reputed and world renowned institution such as IBA, Karachi.

In the first batch of this IBA related Capacity Building Program 45 Grade-19 officers belonging to both Income Tax and Customs and Excise Group completed their training on 7th July 2007.



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1st batch of IBA related Capacity Building Program



2nd batch of IBA related Capacity Building Program



3rd batch of IBA related Capacity Building Program



## Inaugural Ceremony of 34th SPECIALIZED TRAINING BATCH

The officers of 34th Specialized Training Program after successfully completing their mandatory training at the Civil Services Academy, Lahore were formally welcomed for their specialized training program at the Directorate on 27th July, 2007. The Inaugural Ceremony was chaired by Mr. Haji Ahmed, Director General (Acting Charge) DOT and Director General RTO, Lahore.

In his welcome address, Mr. Haji Ahmed congratulated the probationary officers on successful completion of their common training program and welcomed them to the Directorate.

In his address he highlighted the importance of professional training for becoming successful officers of the future. He added that the young officers were lucky to have entered Income Tax Service at a time when large scale structural reforms were underway. Improvements in salaries, well equipped refurbished offices and automation were some of the hallmarks of these reforms. On the other hand expectations of the tax payers from the tax

collectors in form of provision of quality services and prompt response had also increased manifold.

He stressed the need to take the specialized training at DOT in all seriousness for developing the necessary skills to become successful officers. Good discipline and observance of DOT Rules and Regulations were the basic requirements from a young officer under training. Only those who applied their faculties and met the training standards were to succeed in completing this professional training.

He outlined the period of training being spread over more than seven months. It was expected of the officers in course of this period to develop the necessary skills required for job performance. He highlighted the importance of observance of officer like behavior and service discipline in course of period of training at the Directorate General.

In his concluding remarks, he wished the young officers of 34th STP a successful and long career in service.

Senior officers of the Income



Tax Group were present at the occasion. The batch comprises of 26 officers from the 34th CTP. Merit wise list of officers is as under:

- |                               |                                 |
|-------------------------------|---------------------------------|
| 1. Ghulam Hussain             | 12. Falik Shair                 |
| 2. Naheed Ahmad               | 13. Ayesha Ranjha               |
| 3. Rukhsana Arif              | 14. Qadir Nawaz                 |
| 4. Usman Ahmed Khan           | 15. Muhammad Shakil Anwar       |
| 5. Ch. Khurram Aziz           | 16. Agha Nabeel Akhtar          |
| 6. Usman Ijaz Bajwa           | 17. Adeel Mahmood Shah          |
| 7. Syed Arsalan Qudus Bukhari | 18. Bilal Ahmed                 |
| 8. Muhammad Umer Yunus        | 19. Mukhtiar Ahmad Shar         |
| 9. Saher Aftab Butt           | 20. Huma Sarwar                 |
| 10. Amanullah                 | 21. Javaid Ahmed Kumbhar        |
| 11. Rais Humayun Abdul Hayee  | 22. Irfanullah                  |
|                               | 23. Riaz Khan                   |
|                               | 24. Sultan Muhammad Nawaz Nasir |
|                               | 25. Bahader Sher Afridi         |
|                               | 26. Muhammad Qasswar Hussain    |

