

# **Performance Indicator Report**

**2006**

Tax Administration Division  
Department of Revenue & Customs  
April 2007

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## **FOREWORD**

The Tax Administration Division is pleased to bring out Version III of its Annual Performance Indicator Report.

This report aims to review and reflect upon our performance and activities in the past year and thereby improve the efficiency of the tax administration. The report is organized in four parts; Part I covers the organizational set up of the division including staff details, taxpayer profile, and administrative initiatives during the year; Part II covers an overview of direct taxes and taxpayer highlights; Part III covers on revenue performance during the year and finally Part IV briefly covers tax holidays and incentives.

The figures presented in this report pertain to the assessment year 2006. It has been compiled on a calendar year basis and hence may not correspond with the figures quoted in the National Revenue Report.

It is our sincere hope that this report will prove useful to our regional offices for planning and monitoring of tax collection in their regions. We also hope that this report will be useful to other Divisions in the Department and to our Ministry in revenue management and planning at the National level. We would also like to express our sincere gratitude to our Honorable Director for her continued support and guidance to the Division. Our deepest gratitude to all the Regional Commissioners, Tax Heads and hard working officers of the Division in the RRCOs, for supporting and assisting us in the publication of this report.

Commissioner  
Tax Administration Division  
DRC, Thimphu: Bhutan

## **Our Vision**

We aim to develop an effective tax system that will serve as a fiscal policy tool to regulate the economy; adapt to changes, and contribute to the growth of the economy through the mobilization of national revenue.

## **Our Mission**

To raise national revenues for the government in a fair and equitable manner by encouraging voluntary compliance to the rules and providing efficient taxpayer services.

## **Our Values**

We are guided by integrity, dedication and professionalism in dealing with taxpayers, fostering mutual confidence, and treating all taxpayers with respect and civility.

## **Our Functional Mandate and Strategies**

The Tax Administration Division is primarily responsible for the formulation and implementation of income tax rules and regulations, assessment, collection and monitoring of direct taxes and reviewing and recommending policy changes to the Ministry of Finance.

We will continuously strive to develop an effective tax system that will serve as a fiscal policy tool for the government to manage and regulate the economy from time to time. In doing so, we remain guided by the principles of equity, fairness, and efficiency in our endeavors to mobilize adequate revenue for the government. We will also ensure that the department has the capacity to collect taxes efficiently and effectively at minimum cost through impartial service to taxpayers.

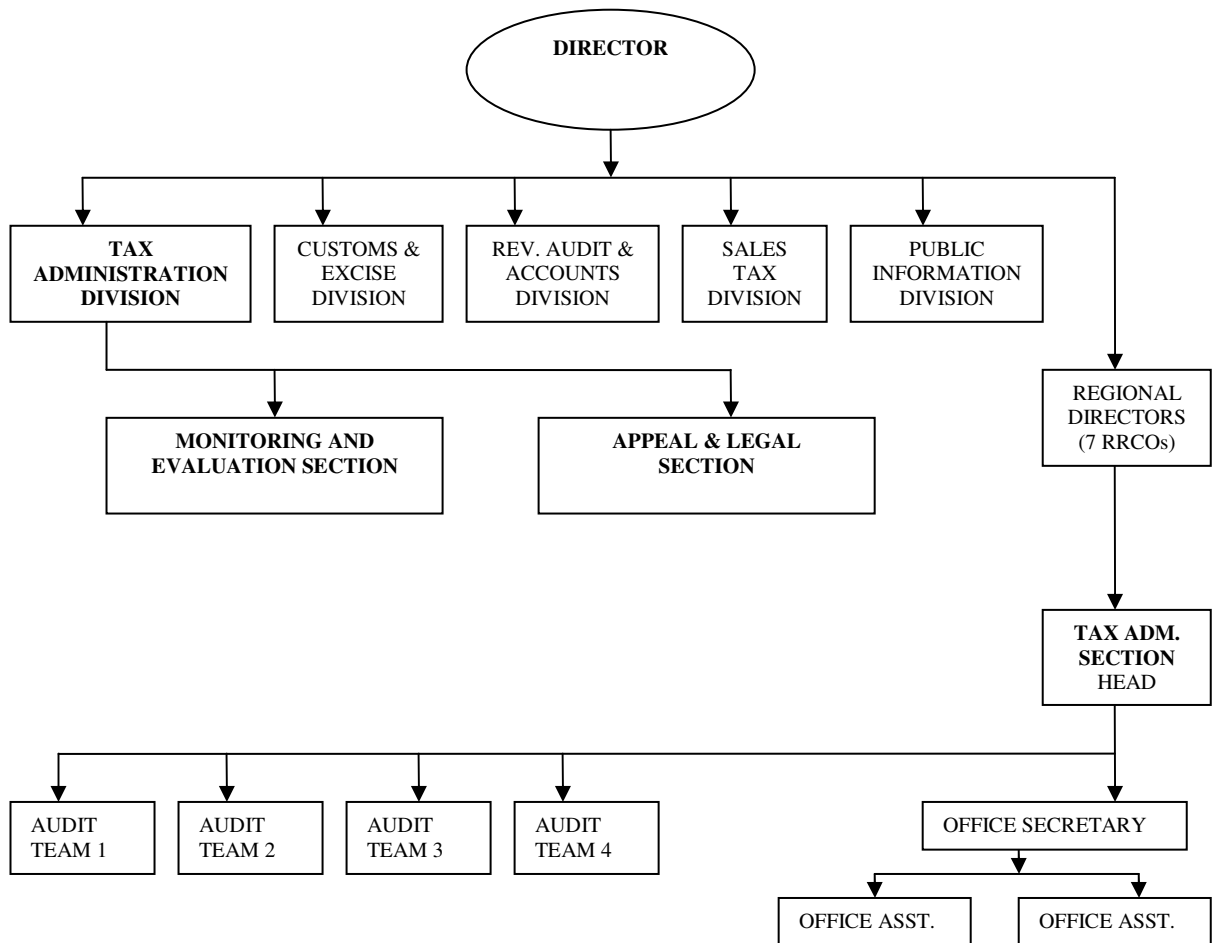
Further, maintaining a high degree of integrity and the morale of our staff is our major operational strategy. In order to achieve this, we shall strive to put in place an effective policy framework, risk-based control structures and a strong culture of accountability in our work. We shall remain fully dedicated both in our spirit and actions and contribute towards the national goal of self reliance by mobilizing adequate internal revenue for the Royal Government every year.

## PART I

### ORGANIZATIONAL STRUCTURE

#### 1.1 ORGANIZATIONAL SET UP

The organizational set up is structured along functional lines for better coordination, efficiency, and effectiveness in the overall administration and collection of direct taxes. The Tax Administration Division has two sections; viz. Monitoring & Evaluation Section and Appeal & Legal Section.



The department currently has seven regional offices including a new regional office in Mongar, which was established in Jan 2007. The new regional office was created to ease the administrative burden and facilitate better taxpayer services by moving closer to the taxpayers. This new RRCO covers four dzongkhags viz. Mongar, Trashigang, Lhuentse and Trashi Yangtshi which were previously under RRCO Samdrup Jongkhar. Table 1 shows the administrative jurisdictions of the seven RRCOs.

**Table 1: Regional Offices and their Administrative Jurisdiction**

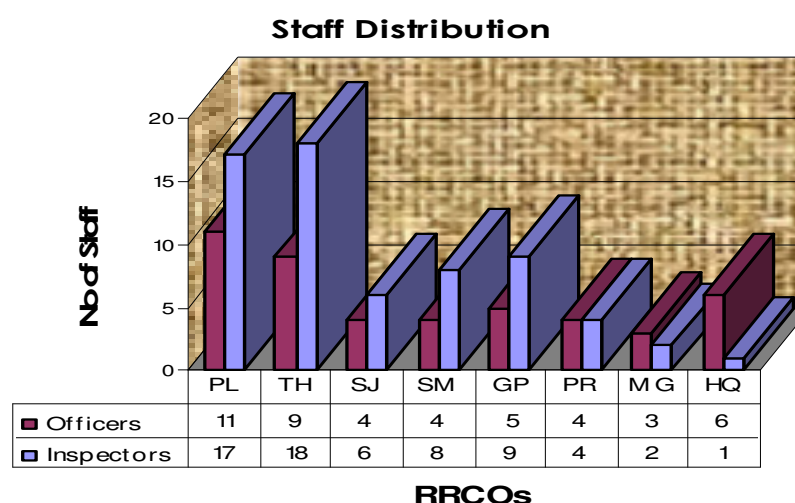
<b>RRCO</b>	<b>Coverage</b>	<b>Dzongkhag</b>
Thimphu	4 Western Dzongkhags	Thimphu, Punakha, Wangdi Phodrang & Gasa
Paro	2 Western Dzongkhags	Paro and Haa
Phuentsholing	1 Southern Dzongkhags	Chukha
Gelephu	6 Central and Southern Dzongkhags	Trongsa, Sarpang, Tsirang, Bumthang, Zhemgang & Dagana
Samtse	1 Southwest Dzongkhag	Samtse
Mongar	4 Southern and Eastern dzongkhags	Mongar, Trashigang, Trashi Yangtse & Lhuentse
Samdrup Jongkhar	2 Southern and Eastern dzongkhags	Samdrup Jongkhar & Pema Gatshel

## 1.2 STAFF STRENGTH

The Tax Administration Division has a total of 111 staff comprising of 46 officers and 65 inspectors as of December 2006. The total number of staff in the division has decreased in comparison to the previous year despite the induction of new recruits; primarily because of the allocation of tax officials and inspectors to the newly created Sales Tax Division. Besides, an officer was also transferred to the Revenue Accounts and Audit Division and 2 officers left to join other organizations.

The manpower allocation to the RRCO is based on revenue potential and the number and type of taxpayers under each RRCO. The detailed distribution of staff is shown in the graph below:

**Figure 1: Staff Distribution**





### 1.3 QUALIFICATION

Upgrading the knowledge and skills of the staff is key to strengthening the institutional capacity of the division. The minimum qualification requirement for officer level entry in the division is a bachelor of commerce degree or equivalent while for inspector, it is pre university level or class XII.

Currently there are 11 officers with a post graduate degree, 30 officers with an undergraduate degree, indicating the availability of well qualified staff in the division. 5 officers are currently pursuing post graduate degrees in management, public finance and taxation in Thailand, Australia, Japan and India.

**Table 2: Qualification Details**

	Masters Degree	Bachelors Degree	Class XII	Class X	Pursuing Masters	Total
HQ	4	2	0	1	0	7
Thimphu	2	6	13	5	1	27
P/ling	2	7	13	4	2	28
Samste	1	3	7	1	0	12
Gelephu	0	4	6	3	1	14
Paro	0	3	4		1	8
Mongar	1	2	1	1	0	5
S/Jonkha	1	3	4	2	0	10
<b>Total</b>	<b>11</b>	<b>30</b>	<b>48</b>	<b>17</b>	<b>5</b>	<b>111</b>

### 1.4 SIGNIFICANT INITIATIVES DURING THE YEAR

The initiatives taken by the division during the period were as follows:

#### 1.4.1 Taxpayer Education Programs<sup>1</sup>

- **June 2006:** A basic book keeping workshop for small business houses including a personal income tax refresher course was conducted in Bumthang, Zhemgang and Trongsa under RRCO Gelephu. A total of 239 small business units were briefed on basic book keeping skills including personal income tax issues.

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<sup>1</sup> All the workshops and trainings were funded by DANIDA

- **November 2006:** RRCO Phuentsholing in coordination with the Bhutan Chamber of Commerce and Industry conducted a basic book keeping workshop for small business houses and also briefed them on export and import procedures. A total of 110 small business units were briefed on basic book keeping skills.
- **October 2006:** RRCO Samtse conducted workshops on the Income Tax Act and Rules and basic book keeping skills.
- **September 2006:** RRCO Phuentsholing conducted a TDS workshop for the dzongkhag officials and other withholding agencies to educate them on TDS rules and procedures. A total of 116 participants attended the workshop.

To facilitate and streamline TDS procedures, the division is in the process of drawing up TDS guidelines in coordination with the Revenue Audit and Accounts Division. Once the guidelines are finalized a workshop will be conducted in all the dzongkhags and all concerned stake holders will be trained.

#### **1.4.2 Internal Workshops/ Trainings**

- The 6<sup>th</sup> Annual Tax Officer's Meet was held from 31<sup>st</sup> July to 3<sup>rd</sup> August, 2006; to resolve problems faced in the field and more importantly to ensure uniform implementation of the Income Tax Act & Rules across the RRCOs. During the meet, performance standards for the division as a whole were also set, besides the review and discussions on the rules and procedures and other personnel and administrative issues.
- Recognizing the importance of upgrading the skills and enhancing the technical knowledge of the tax authorities, the department was able to train a total of 20 tax officials on Tax Audit and Investigation with assistance from Netherlands Consulate Office (NUFFIC). The training was conducted by the University of Tilburg, Netherlands. The training was conducted in three phases, the first phase was conducted at Thimphu in September 2006, and the second phase was conducted at the University

of Tilburg, Netherlands in January 2007 and third phase was conducted in April 2007 at Thimphu.

- Ten tax officials attended an in country training on Financial Institution and Analysis of Financial Statements from April 9 to 13, 2007 at the Royal Institute of Management, Semtokha.
- A delegation of five tax officials lead by the tax commissioner visited the Inland Revenue Department, Nepal from 27<sup>th</sup> December, 2006 to 4<sup>th</sup> January, 2007 to study the feasibility of introducing a large taxpayer unit in the division. The team not only got an insight into the structure and functions of the Large Taxpayers Unit but also on the overall taxation system of Nepal.
- Officials from the division also attended various courses at the IMF-Singapore Regional Training Institute: on financial taxes, macro economic impact of the budget and macroeconomic implications of fiscal policy.

## **PART II**

### **DIRECT TAXATION**

#### **2.1 OVERVIEW ON DIRECT TAXATION**

Prior to 1960, taxes were collected either in kind or in the form of labor contributions, as the economy was largely non-monetized and the barter system was widely prevalent as a medium of exchange. This traditional practice was phased out in 1960 with the introduction of planned economic development and for the first time a monetized taxation on land and properties, business profits and consumption of goods and services was introduced.

Since then, two major policy and administrative reforms were carried out; one in 1989, and the other in 1992. The key objectives of these reforms, amongst others, were policy rationalization, transparency and simplification of procedures in the overall tax administration.

Subsequently in 2001, a comprehensive legislation on direct taxes - **The Income Tax Act of the Kingdom of Bhutan, 2001** was enacted and in the same year Personal Income Tax was introduced. The Act is the main legal authority under which the department administers and collects taxes.

#### **TYPES OF DIRECT TAXES & RATES**

The three main types of direct taxes are:

##### **i. Corporate Income Tax (CIT)**

CIT is a corporation tax. It is levied @ of 30% on net profit. CIT is payable by those entities registered under the Company's Act of the Kingdom of Bhutan, 2000.

##### **ii. Business Income Tax (BIT)**

BIT is a non-corporate business tax. It is levied @ of 30% on net profit. BIT is payable by all non-corporate business entities holding trade licenses or registration certificates issued by the Ministry of Trade & Industries (MTI).

**iii. Personal Income Tax (PIT)**

PIT is a tax levied on the personal income of an individual from six sources namely; salary income, rental income, dividend income, cash crop income, interest income and income from other sources. It is levied at the following progressive rates as shown below.

**Table 3: PIT Rates**

<b>Income Slab</b>	<b>Old Rates</b>	<b>New Rates</b>
Up to Nu. 100,000	0%	0%
Nu. 100,001 to Nu. 250,000	6%	10%
Nu. 250,001 to Nu. 500,000	9%	15%
Nu. 500,001 to Nu. 1000,000	12%	20%
Nu. 1000,001 & above	15%	25%

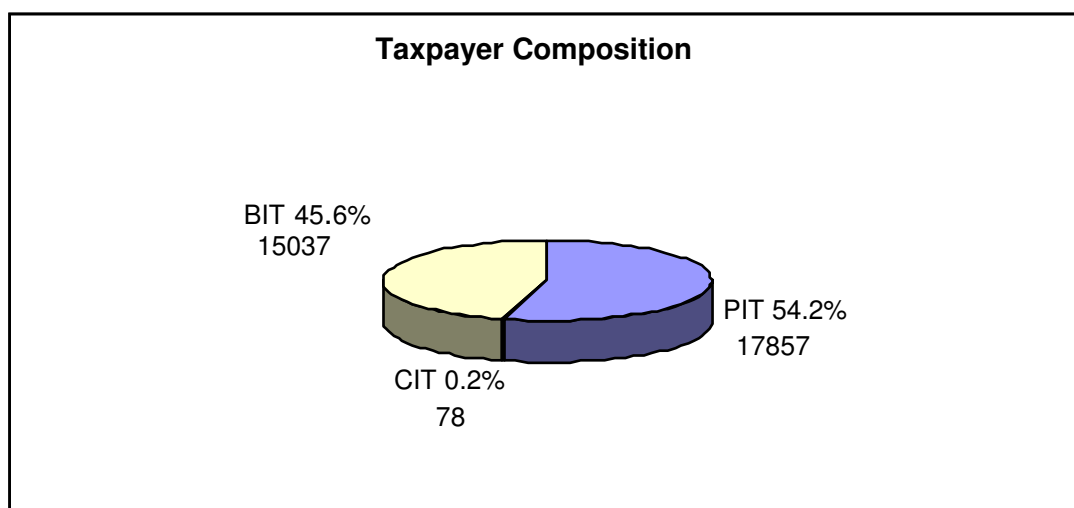
Following, the decisions of the 86<sup>th</sup> Session of the National Assembly, the Personal Income Tax Rates have been revised to 10%, 15%, 20% and 25% from 6%, 9%, 12% and 15% respectively. The revised rate is effective from the income year 2007.

**2.3 TAXPAYER HIGHLIGHTS**

Depending on the type of direct taxes, taxpayers are categorized into Corporate Income Taxpayers, Business Income Taxpayers and Personal Income Taxpayers.

A total of 32,972 taxpayers were registered for the year noting an increase of 38% from the previous year's total of 23,844. PIT notched the highest increase at 51% followed by BIT at 26% and CIT at 10%.

**Figure 2: Taxpayer Composition**



In terms of taxpayer composition, PIT payers constituted the largest at 54.2% followed by BIT payers at 45.6%, while CIT payers constituted only 0.2%. Among the RRCOs, RRCO Thimphu and RRCO Phuentsholing continued to record the highest number of taxpayer registrations at 36% and 18% respectively, followed by RRCO Samdrup Jongkhar and RRCO Gelephu at 17% and 16% respectively.

**Table 4: Taxpayer Details**

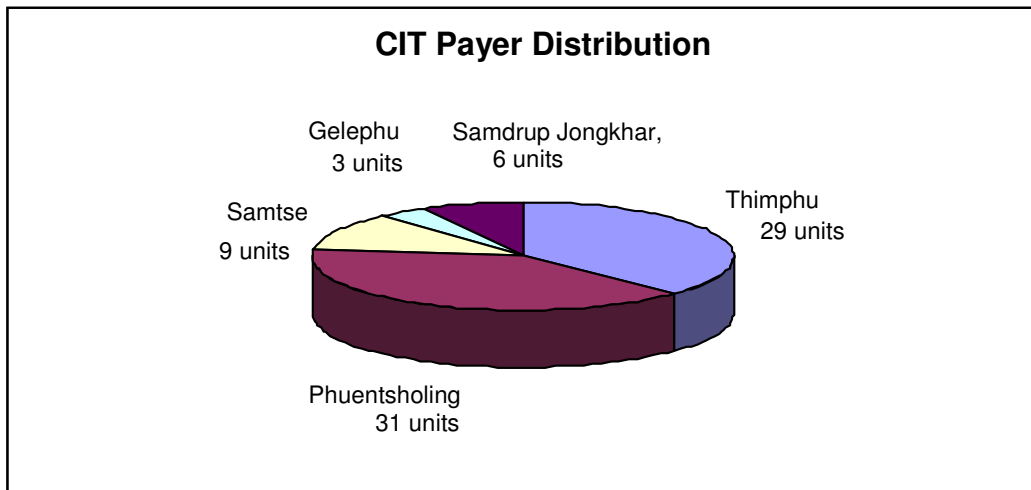
RRCOs	PIT	CIT	BIT				Total	% distribution
			Non estimated	Estimated	Non op	No. of non filers <sup>2</sup>		
Thimphu	7341	29	622	2517	757	701	11967	36%
P/ling	3546	31	306	1583	593	0	6059	18%
Samtse	1086	9	169	693	197	12	2166	7%
Gelephu	1965	3	93	3091	0	1	5153	16%
S/Jonkha	2712	6	113	2371	301	0	5503	17%
Paro	1207	0	61	785	68	3	2124	6%
Mongar								0%
<b>Total</b>	<b>17857</b>	<b>78</b>	<b>1364</b>	<b>11040</b>	<b>1916</b>	<b>717</b>	<b>32972</b>	<b>100%</b>
<b>%</b>	<b>54.2%</b>	<b>0.24%</b>		<b>45.6%</b>				

<sup>2</sup> Number of non-filers under BIT basically pertains to those units not maintaining books of accounts and has not reported to RRCOs.

### 2.3.1 CIT

CIT payers are those entities incorporated under the Company's Act of the Kingdom of Bhutan, 2000; including wholly and partially state owned corporations. The total number of CIT payers noted an increase of 10% compared to the previous year and accounted for only 0.2% of the total taxpayers. About 77% of the total number of registered CIT payers are located in RRCO Phuentsholing and RRCO Thimphu.

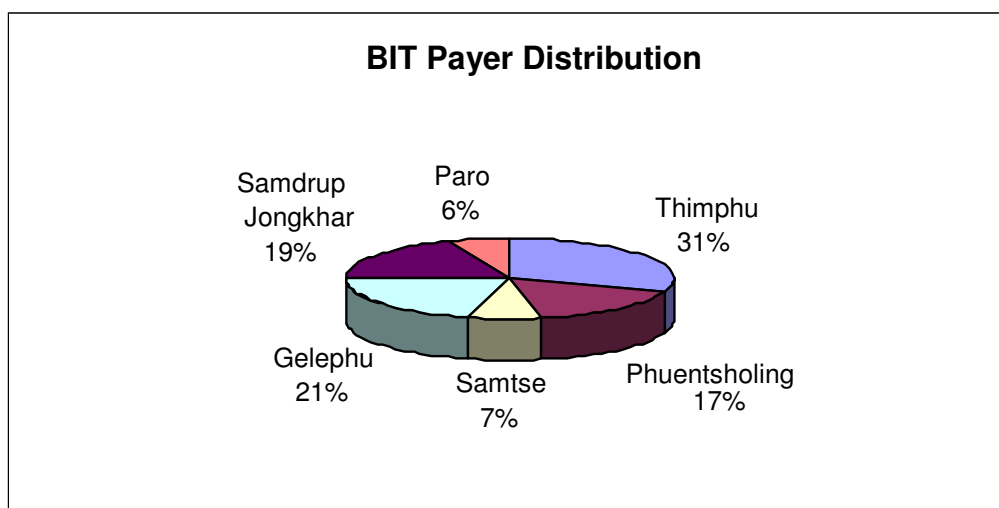
Figure 3 : CIT Payer Distribution



### 2.3.2 BIT

BIT payers are those business units holding valid trade licenses or registration certificates issued by the MTI. BIT includes business entities such as retail outlets, hotels, restaurants, grocery stores etc. BIT accounted for 46% of the total taxpayers with most of the taxpayers registered in RRCO Thimphu, followed by RRCO Gelephu, RRCO Samdrup Jongkhar and RRCO Phuentsholing. The number of BIT payers noted an increase of 26% compared to the previous year.

**Figure 4: BIT Payer Distribution**



For monitoring purposes, BIT payers have been further categorized into account filers (those who submit book of accounts) and non account filers (those not submitting book of accounts). Out of a total of 14,320 BIT payers for the period, 77% were non account filers, 10% were account filers, and the remaining 13% were non operational units. In comparison to the previous year, the number of account filers increased only by 83 units in spite of a number of book keeping workshops conducted by the division, while non account filers increased by 1,596 units.

**Table 5: BIT Profile**

RRCOs	Account Filer	Non Account Filer	Non operational	Total
Thimphu	622	2517	757	3896
P/ling	306	1583	593	2482
Samtse	169	693	197	1059
Gelephu	93	3091	0	3184
S/Jonkha	113	2371	301	2785
Paro	61	785	68	914
<b>Total</b>	<b>1364</b>	<b>11040</b>	<b>1916</b>	<b>14320</b>
<b>%</b>	<b>10%</b>	<b>77%</b>	<b>13%</b>	<b>100%</b>

Considering the administrative difficulties involved in collecting taxes from non account filers or estimating taxes in the absence of book of accounts, the division



follows a standard method to determine the correct amount of tax, relying on the following information:

- Import Information,
- TDS records,
- Tax paid in previous years,
- Taxes paid by other similar units and
- Information collected from taxpayers themselves.

The division has also developed a standard form where such taxpayers can record their income and expenses incurred for the year and with the assessing officer, jointly calculate the tax liability to facilitate collection in a fair and equitable manner.

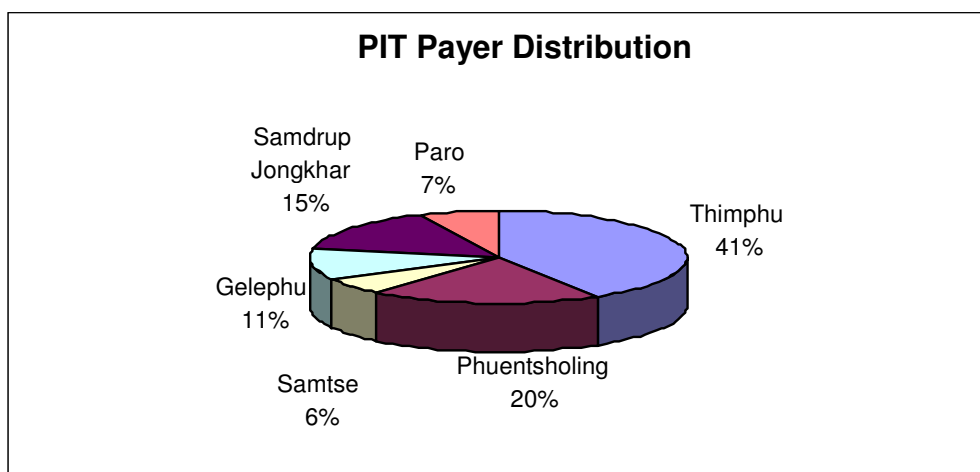
However, to avoid any arbitrary tax collection, the division continues to conduct rigorous tax education programs and workshops to enable business units to maintain books of accounts.

### **2.3.3 PIT**

PIT payers are those individuals earning more than Nu.100, 000 per annum from any of the six sources of incomes listed under PIT. A total of 17,857 PIT payers were registered for the year, recording an increase of 51% over the previous year's total of 11,798. This increase in the number of PIT payers can be attributed to a number of factors such as the revision of the salary of civil servants, a decrease in the tax rates, better assessment efforts and enforcement, increased compliance of the taxpayers and overall growth of the economy.

RRCO Thimphu recorded the highest number of PIT payers at 41% followed by RRCO Phuentsholing at 20%.

**Figure 5: PIT Payer Distribution**



An analysis of the income sources indicates that 90% of the total PIT payers were salary earners while rental and interest income accounted only for 5% and 2% respectively and dividend, cash crop and other income earners constituted only 1% each.

**Table 6: PIT Profile**

Income Source	RRCOs						Total	% income distribution
	Thimphu	P/ling	Samste	Gelephu	S/jonkha	Paro		
Salary	6328	3230	1007	1847	2561	1104	16077	90%
Rental	595	130	38	78	104	65	1010	5%
Dividend	105	48	20	8	15	6	202	1%
Interest	125	64	13	11	27	15	255	2%
Cash Crop	110	18	8	20	4	9	169	1%
Other income	78	56	0	1	1	7	143	1%
<b>Total</b>	<b>7341</b>	<b>3546</b>	<b>1086</b>	<b>1965</b>	<b>2712</b>	<b>1206</b>	<b>17856</b>	
% Distribution	41%	20%	6%	11%	15%	7%	100%	

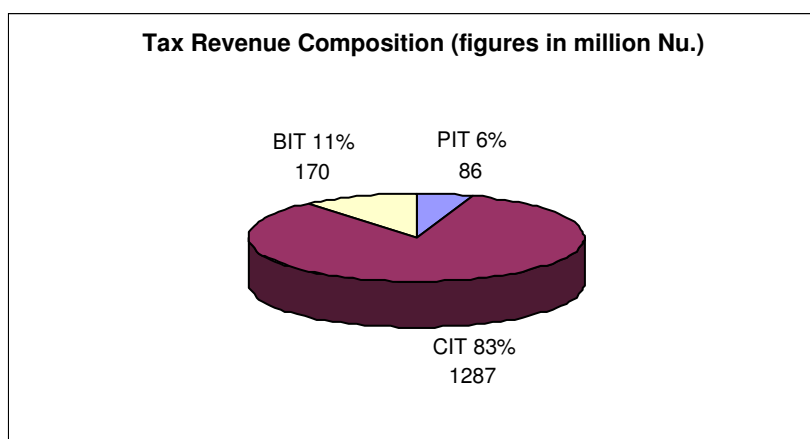
For the purpose of this report, taxpayers with multiple sources of income have been categorized under those sources where the income declared was highest.

## PART - III TAX REVENUE HIGHLIGHTS

### 3.1 OVERALL TAX COLLECTION<sup>3</sup>

The total tax collection from CIT, BIT and PIT for the income year 2005 amounted to Nu.1, 543.91million, recording an increase of more than 24% from Nu.1, 246.3 million in the previous year. While PIT collection noted an increase of 52%, CIT and BIT collection increased by 24% and 12% respectively.

**Figure 6: Tax Revenue Composition**



However, the share of CIT to the total tax collection remains the highest at 83% followed by BIT at 11% and PIT at 6%. In comparison to the previous year, the share of PIT to the total tax revenue has increased by 1% while BIT has decreased by 1%.

CIT payers constituting only 0.2% of the total number of registered taxpayers accounted for 83% of the total tax revenue. In contrast, the balance 99.8% taxpayers accounted for only 17% of the total tax revenue, indicating an asymmetry in revenue contribution.

### 3.2 CIT COLLECTION

CIT constituted 83% of the total direct tax revenue for the year, recording a 24% increase over the previous year's collection of Nu.1038.9 million. The increase in collection could be attributed to factors such as better assessment efforts, better

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<sup>3</sup> Tax collection figures reflected in this report differs from figures reflected in the revenue report since this report is based on calendar year while the revenue report is based on fiscal year.

performance of major corporate units such as Ms. Bhutan Telecom, Ms. Bhutan National Bank, Ms. Bashochu Hydropower Corporation Ltd. and Ms. Chhukha Hydro Power Corporation Ltd. and also the corporatization of a number of business units like Ms. Tandin Cables, Ms. Bhutan Pipes and Ms. Yarab Cables.

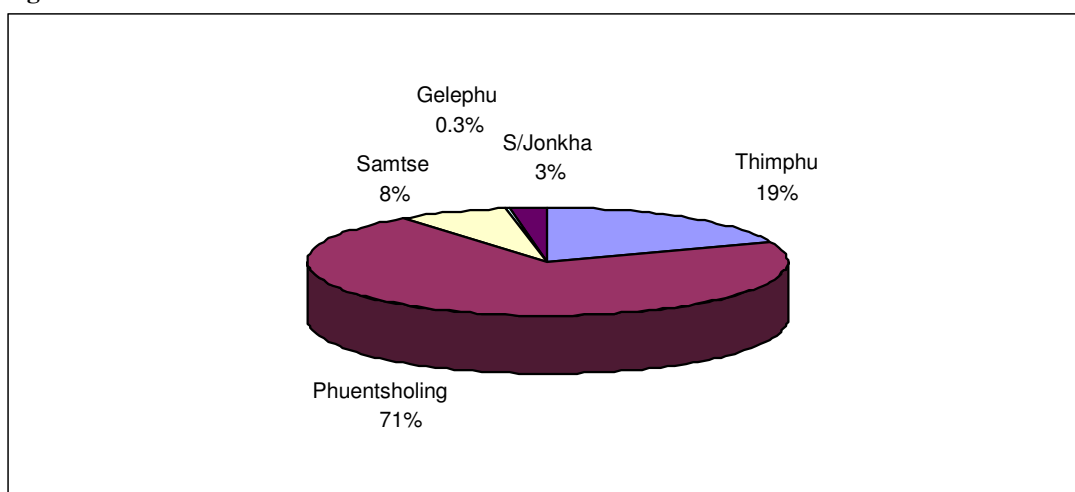
In comparison to the previous income year, RRCO Thimphu recorded the highest increase in CIT collection followed by RRCO Samdrup Jongkhar and RRCO Phuentsholing. However, RRCO Samtse and RRCO Gelephu noted a decrease in CIT collection. This was due mainly to the reversion of Ms. Lhaki Cement from a company to a business unit and a decrease in the sales of AWP.

**Table 7: Comparative CIT Collection**

RRCOs	No of units		NoP		Tax amount		% of tax	% + -
	2004	2005	2004	2005	2004	2005	2005	2004-2005
Thimphu	25	29	0	0	141.0	241.8	18.8%	72%
Phuentsholing	31	31	4	0	771.6	912.3	70.9%	18%
Samtse	6	9	0	0	103.2	97.2	7.6%	-6%
Gelephu	3	3	0	0	4.1	3.5	0.3%	-16%
Samdrup Jongkhar	6	6	0	0	19.0	32.5	2.5%	71%
<b>Total</b>	<b>71</b>	<b>78</b>	<b>4</b>	<b>0</b>	<b>1,038.9</b>	<b>1,287.3</b>	<b>100.0%</b>	<b>24%</b>

RRCO Phuentsholing recorded the highest collection of CIT at 70.9% followed by RRCO Thimphu at 18.8%, RRCO Samtse at 7.6%, RRCO Samdrup Jongkhar at 2.5%, and RRCO Gelephu at 0.3%.

**Figure 7: CIT Collection**



### 3.2.1 TOP FIVE CIT PAYERS

The top five CIT payers are as shown below:

SL. No.	Unit Name	Tax Amount	RRCO	Remarks
1	Ms. Chukha Hydro Power Corp. Ltd.	741.9	Phuentsholing	Assessed
2	Ms. Bhutan Telecom	91.4	Thimphu	Not Assessed
3	Ms. Penden Cement Authority Ltd.	84.6	Samtse	Assessed
4	Ms. Bhutan National Bank	65.8	Thimphu	Not Assessed
5	Ms. Bank of Bhutan	56.6	Phuentsholing	Not Assessed

Among the corporate bodies Ms. Chukha Hydro Power Corporation Ltd. continued to contribute the highest to tax revenue accounting for 58 % of the total CIT collection, followed by Ms. Bhutan Telecom, Ms. Penden Cement Authority, Ms. Bhutan National Bank and Ms. Bank of Bhutan. The share of the top five contributors accounted for 81% of the total CIT collection.

### 3.3 BIT COLLECTION

The total collection for the year amounted to Nu. 169.7 million with a 12% increase over the previous year's collection of Nu.151.4 million. Almost 81% of BIT collection came from 11% of the total BIT taxpayers submitting books of accounts while the remaining 89%, a majority of which are estimated units, contributed only 19% of the total BIT revenue.

In comparison to the previous year, the collection from units submitting accounts increased by 15% while those units not submitting accounts the increase was negligible.

RRCOs	Account based Collection			Estimated Collection <sup>4</sup>			Total Collection		
	2004	2005	% change	2004	2005	% change	2004	2005	% Change
Thimphu	55.3	63.6	15%	12.8	13.0	2%	68.1	76.7	13%
P/ling	49.4	48.6	-2%	5.1	6.0	17%	54.6	54.6	0%

<sup>4</sup> Estimated collection excludes 2% TDS collection from contractors C & D class, which is treated as final. The decrease in estimated collection for RRCOs Paro and Samdrup Jongkhar is because of the inclusion of this 2% TDS in the previous year's figures. Therefore, there is slight decrease in overall estimated collection.

Samtse	7.4	8.9	21%	1.3	1.6	25%	8.6	10.5	21%
Gelephu	2.0	2.5	28%	5.3	5.3	1%	7.2	7.8	8%
S/Jonkha	4.2	12.1	189%	4.5	3.5	-22%	8.7	15.6	80%
Paro	1.0	1.9	100%	3.2	2.6	-18%	4.2	4.6	9%
Total	119.3	137.6	15%	32.1	32.1	0%	151.4	169.7	12%
% of total									
BIT		81%			19%			100%	

RRCO Phuentsholing recorded a slight decrease in collection from units maintaining book of accounts is attributable to the corporatization of Ms. Tandin Cable, Ms. Bhutan Pipes and Ms. Yarab Cable. The increase in collection by RRCO Samdrup Jongkhar from units maintaining accounts can be attributed to an increase in collection from Ms. Sherja Hiring Unit.

### 3.3.1 TOP FIVE BIT PAYERS

The top five BIT payers are as shown below:

**Table 10: Top Five BIT Payers** (Amount in million Nu.)

SL. No.	Unit Name	Tax Amount	RRCO	Remarks
1	Ms. Sherja Hiring Unit	9.51	Samdrup Jongkhar	Not Assessed
2	Ms. Hotel Druk	5.49	Phuentsholing	Not Assessed
3	Ms. Yuendrung Construction	4.75	Phuentsholing	Not Assessed
4	Ms. TCC Tashi BOD/BOC	3.98	Phuentsholing	Not Assessed
5	Ms. Chhundu Dolomite	3.59	Samtse	Assessed

The share of the top five BIT units accounted for 16% of the total BIT collection and Ms. Sherja Hiring Unit was ranked as the top BIT payer for the year.

### 3.3.2 ESTIMATED COLLECTION

The total estimated collection for the income year 2005 amounted to Nu.32.08 million. The estimated collection pertains to collections from small businesses who do not maintain books of accounts and whose annual taxes are assessed on a best of judgment basis.

The contribution of estimated collection to the total direct tax revenue was a mere 2% only. Among RRCOs, the contribution to the total direct tax revenue from RRCO Thimphu was the highest at 0.84%, followed by RRCO Phuentsholing at 0.39%, RRCO Gelephu at 0.34%, RRCO Samdrup Jongkhar at 0.23%, RRCO Paro and RRCO Samtse at 0.17% and 0.10% respectively.

The national average collection per estimated unit for the income year 2005 was Nu.2, 965, with the lowest and highest collection at Nu.1, 767 and Nu.154, 861 respectively. The average had increased by about 29% over the previous year, while the lowest and highest collection increased by 39% and 55% respectively.

**Table 11: Average Estimated Collection in 20 Dzongkhags**

RRCO	Dzongkhags	No. of units from whom tax was collected	Actual estimated collection for 2005	% of Total Tax Rev (Nu.1,543.91)	Average Tax Collected in 2005	Min. Tax Collected per TP	Max. Tax Collected per TP
<b>Thimphu</b>	Thimphu	1749	10,810,845	0.70%	6181	500	388,442
	Wangdue	382	1,459,413	0.09%	3820	500	28,000
	Punakha	153	744,005	0.05%	4863	500	48,000
	Gasa	10	19,450	0.001%	1945	500	3,950
	<b>Subtotal</b>	<b>2294</b>	<b>13,033,713</b>	<b>0.84%</b>	<b>5682</b>	<b>2,000</b>	<b>468,392</b>
<b>Paro</b>	Haa	268	419,575	0.03%	1566	500	21,000
	Paro	517	2,208,038	0.14%	4271	500	46,473
	<b>Subtotal</b>	<b>785</b>	<b>2,627,613</b>	<b>0.17%</b>	<b>3347</b>	1,000	67,473
<b>P/Ling</b>	Chhukha	1583	6,002,616	0.39%	3792	500	70,000
	<b>Subtotal</b>	<b>1583</b>	<b>6002616</b>	<b>0.39%</b>	<b>3792</b>	<b>500</b>	<b>70,000</b>
<b>Gelephu</b>	Bumthang	508	1,099,068	0.07%	2164	600	32,000
	Dagana	402	657,750	0.04%	1636	600	11,300
	Sarpang	1192	1,811,322	0.12%	1520	600	33,000
	Trongsa	261	553,729	0.04%	2122	600	33,800
	Tsirang	360	615,175	0.04%	1709	600	22,000
	Zhemgang	372	568,790	0.04%	1529	600	16,500
	<b>Subtotal</b>	<b>3095</b>	<b>5,305,834</b>	<b>0.34%</b>	<b>1714</b>	<b>3,600</b>	<b>148,600</b>
<b>Samtse</b>	Samtse	693	1,575,509	0.10%	2273	500	6500
	<b>Subtotal</b>	<b>693</b>	<b>1,575,509</b>	<b>0.10%</b>	<b>2273</b>	<b>500</b>	<b>6,500</b>
<b>S/Jonkha</b>	Lhuentse	167	257,250	0.02%	1540	500	9,200
	Mongar	459	867,750	0.06%	1891	500	53,000
	Tashi						
	Yangtse	227	292,650	0.02%	1289	500	23,000
	Tashigang	579	1,081,600	0.07%	1868	500	63,000
	Pemagtshel	208	207,200	0.01%	996	500	10,000
	S/Jongkhar	731	829,250	0.05%	1134	500	10,000

<i>Subtotal</i>	2371	3,535,700	0.23%	1491	3,000	168,200
<b>OVERALL</b>	<b>10821</b>	<b>32,080,985</b>	<b>2.08%</b>	<b>2,965</b>	<b>1,767</b>	<b>154,861</b>

### 3.4 PIT COLLECTION

The net PIT collection for the income year 2005 amounted to Nu.86.2 million recording an increase of 52%. This increase is attributable to a number of factors such as the revision of the salary of civil servants, a decrease in the tax rates, better assessment efforts and enforcement, increased compliance of the taxpayers and overall growth of the economy.

**Table 112: PIT Collection** (Amount in Millions Nu.)

RRCOs	2004	2005	% (+ -)	% Total 2004	% Total 2005
Thimphu	24.6	40.9	66%	43%	47%
Phuentsholing	23.0	28.8	25%	41%	33%
Samte	1.4	2.8	98%	2%	3%
Gelephu	1.3	3.1	147%	2%	4%
Samdrup Jongkhar	3.1	6.0	94%	5%	7%
Paro	3.4	4.6	37%	6%	5%
<b>Total</b>	<b>56.7</b>	<b>86.2</b>	<b>52%</b>	<b>100%</b>	<b>100%</b>

RRCO Thimphu and RRCO Phuentsholing accounted for 47% and 33% of the total PIT revenue while the contributions of the other RRCOs were 7%, 5%, 4% and 3% as indicated in the table above. 61% PIT payers were registered under RRCO Thimphu and RRCO Phuentsholing, and their contribution amounted to more than 80% of the total PIT revenue. The top ten PIT payers accounted for 21% of the total PIT collection.

#### 3.4.1 INCOME SLAB WISE ANALYSIS

The high income group category constituting about 8% of the total registered PIT payers contributed about 68% of the total PIT collection (Nu.58.21 million) while the middle-income group, constituting about 78% of the total PIT payers contributed 32% of the total PIT revenue (Nu.27.96 million).

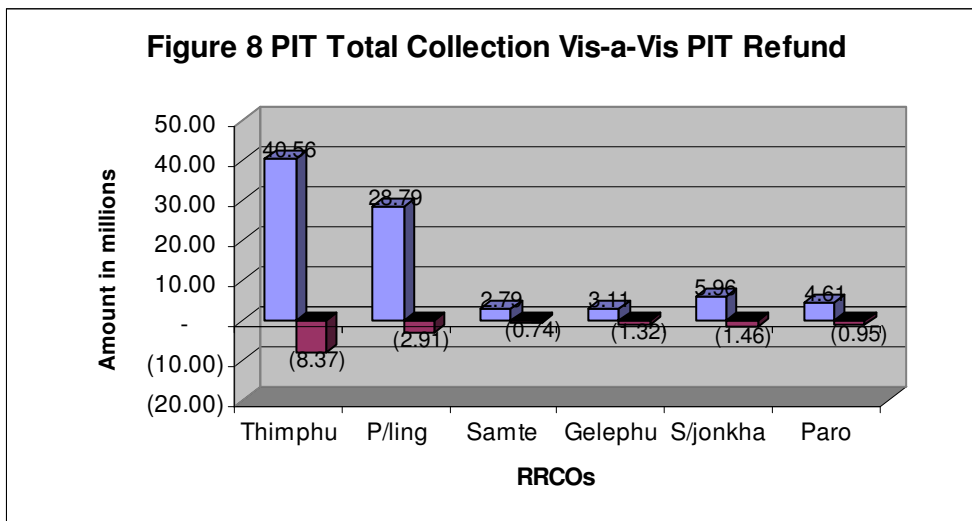


**Table 123: PIT Analysis****(Amount in Million Nu.)**

Income slab	Tax Rates	Number of Taxpayers	Tax Amount	% of Tax Paid
0 - 100000	0%	2,624	-	0%
100001 - 250000	6%	13,865	27.96	32%
250000 - 500000	9%	1,069	16.87	20%
500001 - 1000000	12%	221	11.36	13%
1000001 - over	15%	77	29.98	35%
		17,856	86.17	100%

### 3.5 TAX REFUND

From the total direct tax collection of Nu.1,543.91 million for the income year 2005, about 1% of it was refunded. PIT refund claims were the highest at Nu. 15.75 million accounting for 95% of the total refund claims while CIT and BIT refunds were almost negligible.

**Figure 8 : PIT Total Collection Vis-a-vis PIT Refund**

Analyzing the refund pattern, high correlation was observed between revenue collection and refund claims. RRCO Thimphu recorded the highest refund claim accounting to 53% of the total refund followed by RRCO Phuentsholing at 19%, RRCO Samdrup Jongkhar at 9%, RRCO Gelephu at 8%, RRCO Paro and RRCO Samtse at 6% and 5% respectively.

### 3.6 TAX OUTSTANDING

Tax outstanding as a percentage of total collection was recorded at 1.3% for the income year 2005 compared to 2.4% and 4.1% in the previous income years (2004 & 2003) indicating an improvement in collection and administrative efforts of the division over the years.

**Table 134: Tax Outstanding Profile**

RRCOs	Tax Amount Outstanding			Total Tax Amount	% Arrears
	PIT	CIT	BIT		
Thimphu	0.936	6.39	1.79	368.5	2.5%
P/ling	0.002	2.05	2.75	995.7	0.5%
Samte	0.031	1.94	1.25	113.7	2.8%
Gelephu	0.001	-	0.18	14.6	1.2%
S/jonkha	-	1.66	1.12	56.9	4.9%
Paro	0.498	-	0.43	10.8	8.6%
<b>Total</b>	<b>1.469</b>	<b>12.0</b>	<b>7.5</b>	<b>1,560.2</b>	<b>1.3%</b>
Total Tax Amount	87.6	1,299.3	173.2	1,560.2	
% Arrears	1.7%	0.9%	4.3%	100%	

BIT recorded the highest outstanding at 4.3% comparing to PIT & CIT at 1.7% and 0.9% respectively. In the previous income year BIT outstanding was recorded at 8.8% and CIT and PIT at 2.49% and 1.86% respectively.

### **3.7 ASSESSMENT HIGHLIGHTS**

The Income Tax Act mandates every return to go through a desk assessment (DA) within 90 days of the filing of return and a field assessment (FA) once every two income years.

At the DA stage, every return is subject to logical and arithmetical checks on the figures submitted and reasonableness checks on the level of self declared tax. Every return is then subject to a risk analysis to determine whether FA is required or not. Otherwise the returns are finalized and no further assessments are taken up. Generally, units are prioritized for field assessment where substantial tax refunds are claimed or where unit is loss making or where a unit has not been assessed for past two years.

FA entails three major stages that are planning, assessment and review. The planning process includes planning of field assessment and planning of individual field assessment, developing a general strategy and a detailed approach for the expected nature, timing and extent of assessment procedures. FA is a more in-depth assessment carried out at the business premises and tax returns and financial statements filed by taxpayers are reviewed and assessed as per the Income Tax Act and Rules. Further compatibility test to the tax ratios for their respective sector and size of the businesses are also carried out. Finally the assessment report and notice of assessment are issued.

The performance of RRCOs vis-à-vis targets and achievements in DA and FA is given below:

**Table 145: Assessment Status 2006**

	THIMPHU	P/LING	SAMTSE	GELEPHU	S/JONKHA	Paro	OVERALL
<b>PIT</b>							
DA Targetted	7341	3546	1086	1965	2712	1207	17857
DA Finalized	7341	3545	1086	1931	2705	1207	17815
% Finalized	100%	100%	100%	98.3%	99.7%	100%	99.8%
DA pending	0	1	0	34	7	0	42
FA Targetted	21	0	0	10	0	0	31
FA Finalized	21	0	0	10	0	0	31
% Finalized	100%	0%	0%	100%	0%	0%	2
FA Pending	0	0	0	0	0	0	0
<b>CIT</b>							
DA Targetted	29	31	9	3	6	0	78
DA Finalized	0	1	9	3	0	0	13
% Finalized	0%	3%	100%	100%	0%	0%	17%
DA pending	29	30	0	0	6	0	65
FA Targetted	13	27	9	10	5	0	64
FA Finalized	12	25	7	10	0	0	54
% Finalized	92%	93%	78%	100%	0%	0%	84%
FA Pending	1	2	2	0	5	0	10
<b>BIT</b>							
DA Targetted	622	306	169	93	113	61	1,364
DA Finalized	471	193	154	87	113	20	1,038
% Finalized	76%	63%	91%	94%	100%	33%	76%
DA pending	151	113	15	6	0	41	326
FA Targetted	32	94	22	93	74	31	346
FA Finalized	52	86	14	72	31	31	286
% Finalized	163%	91%	64%	77%	42%	100%	83%

FA Pending	-20	8	8	21	43	0	60
<b>Overall Coverage</b>							
DA Finalized	98%	96%	99%	98%	100%	97%	98%
DA Pending	180	144	15	40	13	41	433
FA Finalized	129%	92%	68%	81%	39%	100%	84%
FA Pending	-19	10	10	21	48	0	70
Tax Officer to Taxpayer ratio	427	209	167	368	423	236	317

### **Desk Assessment (DA)**

The overall coverage of DA under PIT was 99.8% with 42 returns remaining un-assessed out of total of 17,857 returns received. The DA coverage for CIT units was only 17%, and only 13 units were desk assessed with 65 units still outstanding for the year. The overall coverage of DA for BIT was 76% with 326 units remaining un-assessed.

### **Field Assessment (FA)**

A total of only 52 PIT returns were field assessed, these were units identified and assessed by RRCO Thimphu and RRCO Gelephu. The rest of the RRCOs did not carry out FA for any PIT returns. FA under CIT recorded an overall coverage of 84% with 54 units field assessed out of a total of 78 registered CIT units. The overall coverage under BIT was 83% with a total of 286 business units field assessed.

### **Overall**

The overall coverage under DA and FA for all three types of taxes (BIT, PIT and CIT) at the national level was 98% and 84% respectively. In general, this was a commendable achievement considering the ambitious performance target that had been set for the division.

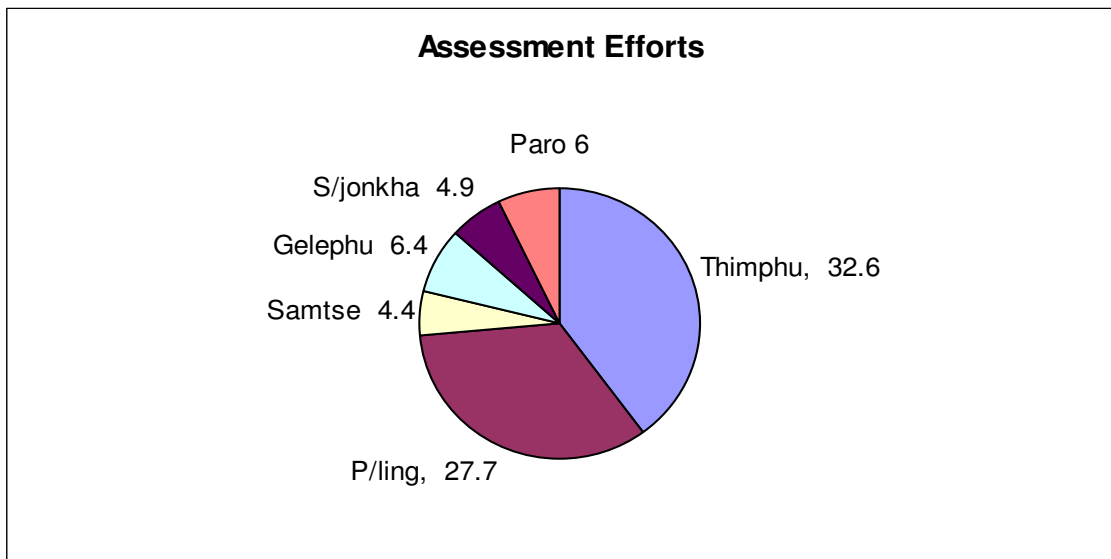
In terms of manpower availability, the ratio of assessing officer to taxpayer for the year was 1:317, that is, one assessing officer for every 317 taxpayers posting an increase of 35% compared to the previous year's ratio of assessing officer to taxpayer of 1:235.

This was due to a huge increase in the number of taxpayers, which was greater than the increase in the number of staff in the division.

### 3.8 ASSESSMENT EFFORTS

Any Additional revenue raised or collected purely through the assessment efforts of the RRCOs is taken as a yardstick to measure the effectiveness and efficiency of the division as well as the individual RRCO concerned. The larger units continued to outperform smaller regions; RRCO Thimphu posted an additional tax collection of Nu.32.6 million followed by RRCO Phuentsholing with an additional collection of Nu.27.7 million. However, both regions noted a decrease in additional collection compared to the previous year. On the other hand RRCO Paro and RRCO Samtse recorded an increase in additional tax collection by 64% and 25% respectively.

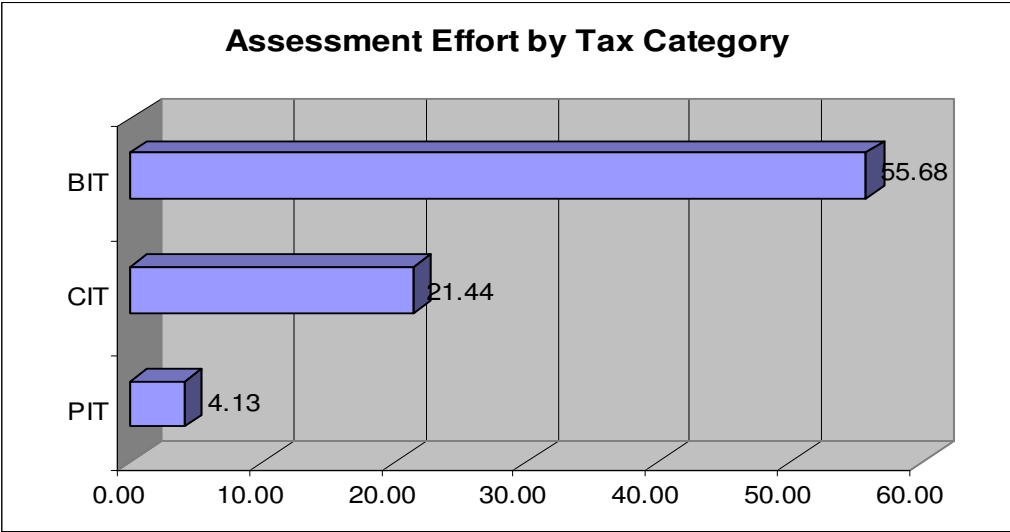
**Figure9: Assessment Efforts**



The overall assessment effort was recorded at 5%, meaning that 5% of the total revenue was actually collected through the administrative and assessment efforts of the division while the other 95% was through the voluntary declaration by taxpayers and TDS collections by withholding agencies.

The additional tax collected from BIT was the highest compared to the additional tax collection under PIT and CIT, owing to poor compliance with the rules and also non maintenance of proper books of accounts in the BIT sector. However, compared to the previous year, the additional collection under BIT decreased by 18% from Nu.68.65 million in the previous year to Nu.55.68 million. On the other hand the additional tax collected from PIT has increased to Nu.4.13 million from Nu.0.74 million in the previous year. CIT have decreased to Nu.21.44 million from Nu.24.68 million in the previous year.

**Figure 70: Assessment Effort by Tax Category**



**3.9 APPEALS**

Tax appeals arise when a taxpayer’s rights are infringed by actions of the tax authorities or when taxpayers disagree with the demand notice issued by the RRCOs. Tax appeals are heard and examined at three stages; RRCO level, Head Office level and Ministry level (tax appeal board). Tax appeals are usually heard first at the RRCOs and then forwarded to the head office if the taxpayers disagree with the decision passed by the RRCO committee. Otherwise the decision of the RRCO committee is final. Further, in the event the taxpayers disagree with the decision passed by the head office committee, the appeal is forwarded to the Ministry. In case of disagreement with the decision passed by the appeal board at the Ministry, the taxpayer has the option of going to a

court of law. However, this procedures of appeal stated above shall in no way bar a person from filing an appeal in a court of law directly.

Most appeals were for the waiver of fines and penalties. From a total of 142 appeals received during the year, 114 cases were resolved at the RRCO level and the remaining 28 cases were resolved at the head office level. A majority of the appeals pertained to BIT (68 cases) followed by PIT (53) and CIT (21). The total fines imposed during the period amounted to Nu.15 million, an increase of 66% compared to the previous year. The total fines and penalties waived amounted to Nu.11 million, of which Nu.10 million was waived off at the head office level and Nu.1 million waived off at the RRCO level. All the appeals were resolved at the RRCO and HQ appeal committee level and no appeal cases were forwarded to the appeal board or to a court of law during the period.

**Table 156 Appeal Details** (Amount in Millions Nu.)

	TAX TYPE			TOTAL
	PIT	CIT	BIT	
Filers	17,857	78	15,037	32,972
Filing Time Extension cases	92	11	94	197
Non Filers	-	-	717	717
Non Operational Taxpayers	-	-	1,916	1,916
Tax Holiday Units	-	13	24	37
Penalty Cases	873	31	774	1,678
Penalty Imposed	0.83	5.40	8.67	15
Penalty Collected	0.28	0.70	1.65	3
No of Evasion Cases	10	0	9	19
No of Tax Delinquent Cases	0	0	2	2
<b>TAX APPEALS</b>				
No of Appeals Received	53	21	68	142
Appeal Resolved at RRCO Level	49	9	56	114
Amount Waived in appeal at RRCO level	0.13	0.01	0.52	1
Appeals Resolved at HQ Level	3	4	21	28
Amount Waived in appeal at HQ level	0.41	1.77	8.07	10
Ongoing Appeals	0	8	2	10

### 3.10 COST OF COLLECTION

The cost of collection, as in any tax system, is a measure of efficiency and effectiveness of the tax administration efforts. Taking into account all the resources<sup>5</sup> allocated in collecting revenue, the costs incurred by the government for collecting 1 Ngultrum was about 2 Chetrum for direct tax revenue, 4.7 Chetrum for indirect tax revenue, and 0.9 Chetrum for non tax revenue. However, should the balance budget or unspent budget be excluded from the calculations then the actual cost of collection would be lower than this.

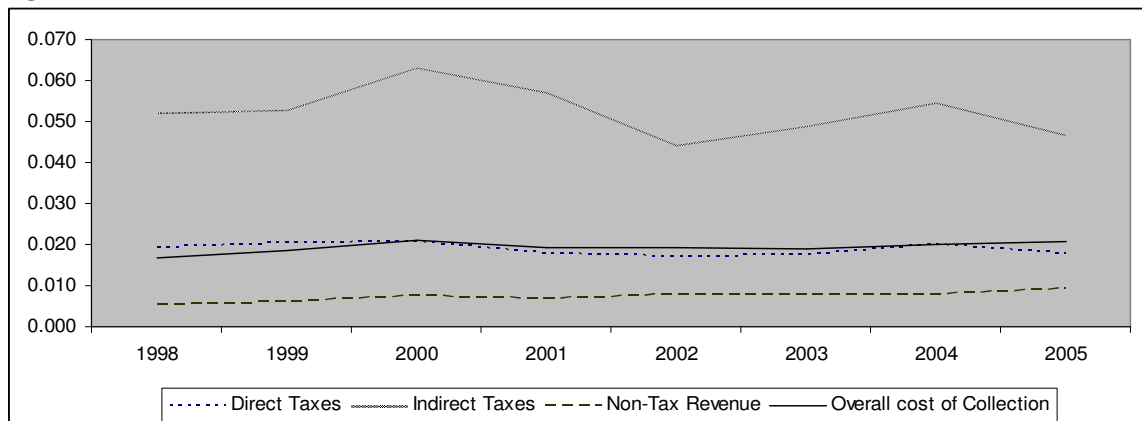
Compared to the previous year, the actual cost of collection for both direct and indirect tax has decreased, whereas the cost of collection for non tax revenue has increased.

**Table 167: Cost of Collection details**

	1998	1999	2000	2001	2002	2003	2004	2005
Direct Taxes	0.018	0.019	0.020	0.017	0.019	0.017	0.020	0.018
Indirect Taxes	0.053	0.054	0.065	0.059	0.045	0.050	0.054	0.047
Non Tax Revenue	0.005	0.006	0.007	0.007	0.008	0.008	0.008	0.009
Overall Cost of Collection	0.017	0.019	0.021	0.019	0.019	0.019	0.020	0.021

The overall cost of collection, that is taking into account all the taxes collected by the department as a whole, had actually gone up by 1 Chetrum for every 1 Ngultrum in the year 2006. However, the trend has been relatively consistent over the years, as can be noted in the figure given below.

**Figure 81 : Trend Line Cost of Collection (98-05)**



<sup>5</sup> Includes recurrent costs, capital costs and Danida project contribution, and the ratio is calculated dividing the total administrative costs incurred by the total revenue collections during the period



**PART IV**  
**TAX HOLIDAYS AND INCENTIVES**

The Ministry of Finance had announced tax holidays and incentives for certain business and companies of the private sector in January 2003 with a view to stimulate private sector growth and employment generation. Tax holidays for three to seven consecutive years were given to manufacturing industries, information technology training and vocational institutes, hotels, schools and auto mechanical workshops depending on the nature of the business and location. However, the tax holidays and incentives scheme is due to expire by the 31<sup>st</sup> of June 2007.

The total tax revenue foregone as a result of tax holidays amounted to **Nu. 46,032,405.12** in 2005 an increase of 32.2% over the previous years' figure of **Nu.34,900,323.92**.

As of the 31<sup>st</sup> of December 2006, 4 corporations, 10 incorporated companies and 12 non- incorporated companies that is business units, 13 hotels, 2 schools and 3 institutes were granted income tax holidays, ranging for three to seven years. A complete list of all the units enjoying tax holiday, along with the implied revenue loss is given below:

**Table 178 Corporations Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT	
		From	To		2004	2005
Bhutan Broadcasting Services	Thimphu	2006	2008	3	Loss	Loss
Handicrafts Emporium	Thimphu	2002		-	314,235	-
Druk Seed Corporation	Paro	2002		-	-	-
Bhutan Development Finance Corp.	Thimphu	2002	2006	5	18,541,209	23,300,101

**Table 19 Incorporated Companies Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT	
		From	To		2004	2005
Bhutan Beverages Co. Ltd.	Phuentsholing	2003	2005	3	loss	354,991
RSA Poly Products Pvt. Ltd.	Phuentsholing	2003	2005	3	8,928,301	Loss
Druk Iron & Steel Industries	Phuentsholing	2004	2007	3	Loss-	Loss
Rangshar Industries Pvt. Ltd.	Phuentsholing	2004	2007	3	1,377,518	4,860,708

Jigme Polytex	Samtse	2004	2007	3	Loss	Loss
Samphel Norbhu Product Pvt. Ltd.	Phuentsholing	2005	2008	3	2,017,986	748,062
Bhutan Steel Industries Ltd.	Phuentsholing	2003	2006	3	1,167,678	2,265,412
Bhutan Packaging Industry	Phuentsholing	2005	2007	3	Loss	Loss
Khenpa Private Ltd.	Phuentsholing	2006	2009	3	-	374,308
Bhutan Metal Pvt. Ltd.	Phuentsholing	2005	2008	3	-	4,285,137
Mega Private Limited ( vanaspati unit)	Phuentsholing	2006	2009	3	-	-
Bhutan Brewery Pvt. Ltd	Phuentsholing	2006	2009	3	-	-

**Table 180 Business Units Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT/BIT	
		From	To		2004	2005
Majur Oxygen and Gases	Phuentsholing	2003	2005	3	Loss	23,420
Bhutan Pipes Industries	Phuentsholing	2003	2005	3	Loss	-
Yarkay Poly Products	Phuentsholing	2004	2007	3	2,021,895	6,708,907
Bhutan GRC	Thimphu	2004	2007	7	Loss	467,629
Nob Minerals Powder & Chips Units	Samtse	2003	2006	3	7,872	28,115
Yarkay Jewellery Unit	Phuentsholing	2004	2007	3	Loss	174,735
2 Q Engineering Works	Paro	2005	2008	3	Loss	Loss
Sonam Fabrication Workshop	Paro	2005	2008	3	-	3,636
Bhutan Battery	Phuentsholing	2005	2008	3	-	Loss
Rabten Wire Industry	Phuentsholing	2006	2009	3	-	-
Lhaki Poles & Allied Industries	Gomtu	2005	2008	3	-	Loss
Om Chips & Food Processing	Phuentsholing	2006	2009	3	-	-
Druk Lukzokhang	Phuentsholing	2006	2009	3		

**Table 191 Hotels Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT/BIT	
		From	To		2004	2005
Rinchenling Lodge	Paro	2004	2007	5	-	10,056
Namsay Choling Resorts	Paro	2005	2008	5	-	loss
Mandala Resorts	Paro	2003	2006	5	20,000	15,297
Hotel Holiday Home	Paro	2004	2006	5	121,553	loss
Hotel Dewachen	Phobjika	2004	2007	5	-	48,602
Hotel Joryang	Paro	2004	2007	5	-	loss
Hotel Rigsum	Haa	2004	2007	5	-	loss
Hotel Zhiwaling	Paro	2005	2008	5	-	2,070,121
Ms. Amankora	Paro	2004	2007	5	-	loss
Ms. Amankora	Punkaha	2005	2008	5	-	loss
Ms. Amankora	Wangdi	2005	2008	5	-	loss
Ms. Uma	Paro	2004	2007	5	-	loss
Hotel Tashiling	Wangdi	2006	2008	5	-	-
Yangkhil Resort	Trongsa	2004	2007	5	-	loss
Yoezerling Hotel	Bumthang	2007	2010	5	-	-

**Table 22 Schools Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT/BIT	
		From	To		2004	2005
Kuen-Gaa Higher Secondary School	Paro	2004	2009	5	382,0777	203,700
		2003	2006	3	Loss	86,107
Yoezerling Pry. School	Paro	2006	2008	2		
K. Gangri Pry. School	Paro	2006	2009	5	-	loss

**Table 203 Institutes Enjoying Tax Holidays**

Unit Name	Location	Years		Period no. of yrs.	30% CIT/BIT	
		From	To		2004	2005
Dzongkhag Language Institute	Thimphu	2005	2008	3	-	loss
Kuenphen Institute of Technology	Thimphu	2004	2007	3	-	loss
Kuenzang Institute of Info. Technology	Gelephu	2003	2005	3	-	3,362

### Exempted Organizations

Donations made to the following organizations were exempted from taxes as per Rule No.1.7, Part III of the Rules on the Income Tax Act 2001.

- a. Youth Development Fund
- b. Bhutan Health Trust Fund
- c. National Women's Association of Bhutan,
- d. Royal Society for the Protection of Nature
- e. Bhutan Trust Fund
- f. HRH Prince Namgyal Wangchuk Charitable Trust
- g. World Peace Monlam Tshokchen
- h. India-Bhutan Foundation Trust Fund
- i. RENEW
- j. Tarayana Foundation

Similarly, the shareholding and fixed deposits in the name of the following organizations were also exempted from PIT as per Part III Rule No. 1.7 of the Income Tax Rules, 2001.

- a. Royal Government of Bhutan
- b. Royal Bhutan Army

- c. Central Monastic Body
- d. Other monk bodies such as Rabdeys under the administrative control of the Central Monastic Body
- e. Kajung Phunsum Lhakang, Kurje, Bumthang
- f. Yum Rani Choing Wangmo Dorji's Trust Fund