Provincial Taxation Reforms
Challenges & Way Forward

SDPI
Sustainable Development Policy Institute
• Overall tax to GDP ratio around 10 percent for the past 10 years

• This is 5 percent lower than the average of comparable economies

• Provinces have a large tax base (incl. agriculture, property, transport)

• However provinces only contribute 7 percent in overall revenues.
As we move towards new NFC award, provinces are expected to carry out budgetary reforms:

- Revenue mobilisation in untapped productive sectors
- Increased financing for high priority sectors
- Improve public finance management (incl. procurement systems).
Some Common Issues
Reliance on Obsolete Tax Bases

• Provinces rely on very old tax bases and rates:
  – Property taxes, Stamp duties, Motor vehicle levies, Agriculture income tax, Duties on utilities, Professional tax, Capital value tax
  – Infrastructure cess, Entertainment duty

• New additions
  – Sales tax on services

• Non tax revenues
  – Irrigation and community services
Sales Tax on Services

- **Tax bases under services sector**
  - Wholesale & retail trade, electricity & gas operations, agriculture & extension services, transport, storage, communications, banking, finance & insurance.

- **Challenges to collection**
  - Data on services establishment missing
  - Difficult to validate already available data
  - Large informal sector in services
• Incidence of double taxation
  – Telecom, banking companies, non-banking financial institutions, hotels etc.

• Some double taxation also arising in excise duty

• Some federal SROs allow preferential rates.
Tax Reforms Commission

• Most ToR only focused on FBR reforms

• Some province-federal coordination measures
  – Incidence of double taxation in services
  – Federal excise duty should not be charged on services already covered under GST on services
  – Harmonization of provincial and federal sales tax and withholding regime.
Fragmentation in Tax Collection

- Sindh: Board of Revenue, Sindh Revenue Board, Excise Taxation & Narcotics, Govt. of Sindh levies

- Punjab: Excise Taxation & Narcotics, Board of Revenue, Punjab Revenue Authority

- In September 2014, Govt. of Punjab had announced a plan to merge the collecting agencies

- Difficult to coordinate with FBR and Pakistan Revenue Automation (Pvt.) Ltd.
High Compliance Costs to Taxpayers

• Total 15 provincial taxes in Sindh

• 9 out of 15 provide 99% of Sindh’s revenue

• Remaining 6 taxes only contribute 1% however have a higher administrative costs and compliance costs for businesses.
Moving Forward

- Need for census-based baseline of tax bases

- Improving coordination between federal and provincial tax authorities

- IT-based tax compliance for reducing human interface

- Integrated database of income and wealth sources at provincial level

- GIS-based validation of land holdings, commercial, wholesale & retail activity

- Internal capacities for audit, monitoring and evaluation.
Moving Forward

- Address information gaps across tax bodies
  - Tax potential of unorganized sector
  - Arbitrariness in assessment of provincial levies
  - Assessing genuiness of the holder of property
  - Assessment of market value of property
  - Assessment of property tax on current rental value
  - Tracking current usage-status of property.
Moving Forward

- Remove exemptions and preferences allowed under provincial tax laws
- Coordinate with FBR in removal of exemptions allowed in provincial tax sources
- Improve tax payer’s information and make tax payer facilitation centers effective.
Sharing of Experiences

• Need for a cross-province working group

• Legal basis: SRB Vs. PRA

• Consolidation of provincial collection bodies in Punjab

• Consolidating number of taxes

Key Discussion Points

• Plans to reduce fragmentation across revenue administration

• Provide a view from the business community if current taxes lead to higher compliance costs

• Gaps in legislation in making provincial taxes more efficient

• Any cross-province sharing of experiences/learning.