Key Discussion Points

- Need 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
- Need for a federal-provincial working group on tax reforms to streamline current system and sharing of experiences/learning.
The transition to a devolved governance structure under the 18th Amendment was to be completed by 2015.

However, this transition and reforms related to new institutions and implementation mechanisms are still not in place.

In some cases, federal and provincial governments find it difficult to divide power and share turf.

Devolution remains incomplete, and districts still do not have the financial autonomy to raise and spend resources.
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).
Provinces want to raise own revenues
Fragmentation in Tax Collection

- **Balochistan**: Balochistan Revenue Authority, Excise & Taxation Deptt., Board of Revenue

- **Khyber Pakhtunkhwa**: KPRA, Excise & Taxation Deptt., Board of Revenue

- **Sindh**: Board of Revenue, Sindh Revenue Board, Excise Taxation & Narcotics Deptt., Govt. of Sindh Levies

- **Punjab**: Excise Taxation & Narcotics Deptt., Board of Revenue, Punjab Revenue Authority. In September 2014, Punjab had announced a plan to merge the collecting agencies

- Increased number of returns, higher compliance costs and difficulties in coordination with FBR and Pakistan Revenue Automation (Pvt.) Ltd.
Some Common Issues Across Provinces
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, Entertainment duty

- Infrastructure cess

- Non tax revenues
  - Irrigation and community services

- New additions
  - Sales tax on 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, restaurants etc.

• Some double taxation also arising in excise duty

• Some federal SROs allow preferential rates.
The commission only focused on FBR reforms

Some pending province-federal coordination matters:

- 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.
Harmonizing Sales Tax on Services

• All provinces have different GST structure for services

• Estimation of revenue potential if GST on services harmonised
  – Punjab = PKR 132 billion
  – Sindh = PKR 90 billion
  – KP = PKR 59 billion
  – Balochistan = PKR 35 billion

• Taxing import of services
  – Estimated potential = PKR 127 billion

• Which services may be exempted?
  – Medical, sanitation etc.
Federal Excise Duty

• Need to address controversy where provincial governments also levy ST and Federal government levies FED.

• Expand tax base for excise duties
  – Dangerous production activities
  – Negative externalities (environment)
  – Luxury goods
  – Luxury services

• Consider removal of FED on industries with welfare implications
  – Edible oil, Vegetable ghee, Sugar etc.
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
- IT-based tax compliance for reducing human interface at provincial level
- Integrated database of income and wealth sources at provincial level
- GIS-based validation of land holdings, commercial, wholesale & retail activity.
Moving Forward

• Enhanced capacities needed for audit, monitoring and evaluation at provincial revenue authorities.

• 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

• Collection may be done centrally with auto-transfer of collected provincial amount to provincial revenue authorities

• 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.
What can the government do in this budget?

• Need for a federal-provincial working group on tax reforms

• Consolidation of provincial collection bodies

• Consolidating number of taxes

• Longer term reform programme e.g. Sindh Tax Revenue Mobilization Plan 2014-19.
What should the APCPC do?

• Focus on rethinking public-private dialogue
  
  – Rethink the way we engage with the government (e.g. parliamentarians and civil servants)
  
  – Rethink the way we engage with media
  
  – Rethink the way we frame our case (e.g. linking it with overall exercise of manifesto preparation across all political parties).
What should the APCPC do?

• Demand for public private forums with in provincial governments
  – Ministry of Finance has Economic Advisory Council (missing at provincial level)

• Demand for Senate’s ‘Committee of the Whole’
  – Plan required to reach out to likeminded parliamentarians with the ability to understand and articulate this cause on the floor
  – Discussion in standing committees may not be enough. Demand for debate in Senate’s ‘Committee of the Whole’.
What should the APCPC do?

• **Need for a communications strategy**
  – The drafting of tax proposals is not enough unless a clear communication strategy is in place and a collective case is framed for the good of business community.

• **Media engagement for pro-business tax reforms**
  – Need to persuade electronic media for more air time. Provide them with ready programmes and choreographed feed.
  – Our voice in print media only limited to English dailies. Need to reach out to the Urdu audience.
  – Think tanks can help if invited as observers.

• **Increase frequency of APCPC meetings?**
  – Meeting once a year is not enough when mini-budgets are being announced thrice a year. We can meet more often, even if it is through video link. Need to reach out to other segments of the business community e.g. Pakistan Business Council.
Thank You