Provincial Tax Reforms
Challenges and Way Forward
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 mechanism 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 try to move towards a new NFC award, provinces are expected to carry out budgetary reforms:

- Revenue mobilisation in untapped sectors
- Increased financing for high priority sectors
- Improve public finance management (incl. procurement systems).
Provinces want to raise own revenues
But there are some issues...
1. Fragmentation in Tax Collection

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

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

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

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

- Increased number of return forms, higher compliance costs and difficulties in coordination with FBR and Pakistan Revenue Automation (Pvt.) Ltd.
2. 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.
3. Challenges to Collection of 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
  - Cascading in GSTS

- Scientific & welfare basis to tax often missing
  - Examples: Tax on internet and oil transporters.
4. Frictions with Federal Government

- Incidence of double taxation due to definition of output
- Some double taxation also arising due to excise duty
- Some federal SROs allow preferential rates
- Jurisdiction over certain services remains unclear
- FBR collecting the workers contributions for Workers Welfare Board
- MoU regarding input adjustment with FBR not effectively implemented
- New valuation rates for immovable properties may be higher than market rates in some cases.
Federal Government’s Response
• Interim report now available

• The commission only focused on FBR reforms

• Some pending province-federal coordination matters need attention

• Therefore the need to expand the scope of terms of reference provided to Tax Reforms Commission.
Some key recommendations from SDPI-CIPE consultations
1. Harmonize Sales Tax on Services across Provinces

<table>
<thead>
<tr>
<th>Services from</th>
<th>GST Rate</th>
<th>Withholding of Tax on Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Individual</td>
<td>Company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GST Registered</td>
<td>GST Unregistered</td>
</tr>
<tr>
<td>ICT</td>
<td>16%</td>
<td>20% of GST</td>
<td>1% of Gross Service Amount</td>
</tr>
<tr>
<td>Punjab</td>
<td>16%</td>
<td>100% of GST</td>
<td>16% of Gross Service Amount</td>
</tr>
<tr>
<td>Sindh</td>
<td>13%</td>
<td>20% of GST</td>
<td>Gross Service Amount/113 * 13%</td>
</tr>
<tr>
<td>KP</td>
<td>14%</td>
<td>20% of GST</td>
<td>Gross Service Amount/114 * 14%</td>
</tr>
<tr>
<td>Balochistan</td>
<td>15%</td>
<td>20% of GST</td>
<td>Gross Service Amount/115 * 15%</td>
</tr>
</tbody>
</table>
1. Harmonize Sales Tax on Services across Provinces

- 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.
2. Reform of Federal Excise Duty

• Need to address controversy where provincial governments also levy sales tax 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.
3. Reduce Compliance Costs of Taxpayers

<table>
<thead>
<tr>
<th>Box 1: Punjab Provincial Tax Revenue Collection</th>
<th>PKR Million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxes</strong></td>
<td>2014-15*</td>
</tr>
<tr>
<td>Agriculture Income Tax</td>
<td>1,000</td>
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<tr>
<td>Property Tax</td>
<td>8,742</td>
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<tr>
<td>Land Revenue</td>
<td>12,290</td>
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<tr>
<td>Tax-Profession, Trades &amp; Callings</td>
<td>720</td>
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<tr>
<td>CVT on Immoveable Property</td>
<td>4,649</td>
</tr>
<tr>
<td>CVT on Moveable Property</td>
<td>240</td>
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<tr>
<td>Other Direct Taxes</td>
<td>11</td>
</tr>
<tr>
<td>Provincial GST</td>
<td>46,369</td>
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<tr>
<td>Provincial Excise</td>
<td>1,783</td>
</tr>
<tr>
<td>Stamps Duty</td>
<td>21,073</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>10,284</td>
</tr>
<tr>
<td>Others Indirect Taxes</td>
<td>7,089</td>
</tr>
</tbody>
</table>

4. Introduce IT-enabled solutions

- Allow a single tax return form for all forms of taxes
- Integrated database of income and wealth sources at provincial level
- Provinces should demand access to databases of income and wealth sources available with federal government
- GIS-based validation of land holdings, commercial, wholesale & retail activity.
5. Need to enhance audit capacities

• 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.
6. Improved liaison with FBR

- 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 through joint FBR-provincial government efforts.
7. Research Units at Provincial Tax Bodies

- Need for a consistent macroeconomic framework at provincial level
- Update tax gap study for Punjab
- Tax incidence study for Punjab
- Forecasting revenues to estimate future fiscal space for development spending.
8. What can the government do in this budget?

• Federal Government:
  – Need to notify a federal-provincial working group on tax reforms to oversee implementation of MoUs between tax authorities
  – Need to move towards a single tax return (e.g. see example from India)

• Government of Punjab
  – Consolidating number of taxes
  – Consolidation/Merger of provincial collection bodies and move towards a single tax return
  – Expedite diagnostic assessment of PRA to suggest reforms (MoU already signed with Australian High Commission and McKinsey & Company.)
Discussion points for today’s meeting

• What are the key taxation reforms being undertaken by Punjab Revenue Authority (PRA), Board of Revenue (BoR), and Excise, Taxation & Narcotics Control Department (ET&NCD)?

• What are the views of business community and other stakeholders regarding the new taxation measures?

• How to resolve coordination issues across revenue collection authorities?

• How effective are the dispute resolution arrangements and grievance redressal mechanisms available for the business community at PRA, BoR, and ET&NCD?
Thank You