Ease of Doing Business in Pakistan: A Case for Tax Harmonisation

In the 2019-20 budget, several independent bodies proposed tax-related measures which could improve Pakistan’s ease of doing business ranking. A key proposal by organisations such as Sustainable Development Policy Institute and Institute of Charted Accountants of Pakistan focused on harmonisation of federal and provincial taxes. Key steps as part of these proposals included: a. integration of taxation authorities for one-window solution enabling not only the inter-adjustment of refunds, but also facilitating a single tax return form for federal and provincial taxes; b. provision of details of taxable services in provincial tax laws in a manner consistent across provinces to reduce future unnecessary litigation; c. possible standardisation of sales tax across most services in the provinces; d. improved accounting for taxes paid under the reverse charge mechanism; e. making the time period for claiming input tax credit consistent across all provincial revenue administrations; and f. deciding on a single base to calculate all taxes applicable on acquisition and disposal of property in provincial or federal jurisdictions.

A delay in addressing some of the above mentioned issues has resulted in complexities for businesses and customers. First, varied taxation structures across provinces have prompted migration of businesses with the aim to seek reduction in their tax liabilities. For some provinces, this has resulted in declining (local) investment levels overtime and their reduced growth and job creation prospects. Second, having different definitions for services output across provinces has resulted in significant costs related to compliance, at least for businesses operating in multiple provinces. Third, the burden of litigation is increasing as there are overlapping scopes of taxable services.

With Pakistan already committed to improving its tax revenues under the International Monetary Fund programme, it is important to discuss the way forward on the tax harmonisation agenda and how this could, in fact, generate greater revenues for the federal and provincial fiscal authorities. This panel will specifically:

1. Discuss where the federal and provincial revenue authorities stand with regard to their current and future understanding vis-à-vis tax harmonisation in Pakistan.
2. Understand legislative and administrative efforts that may be required in the coming year to fully harmonise the tax regime across provinces.
3. Explore perceptions of the private sector regarding their ongoing dialogue with various tax authorities across the country.
4. Understand the pertinent role of potential development partners in facilitating the government towards an efficient tax regime which will eventually improve Pakistan’s ease of doing business ranking.

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