

## **High-level Meeting on Designing Better Federal & Provincial Tax Reforms in Pakistan**

Proceedings report for the meeting held on 24 August 2017<sup>1</sup>

### **A. Participating Institutions**

- ) Federal Board of Revenue (FBR)
- ) Khyber Pakhtunkhwa Revenue Authority
- ) Punjab Revenue Authority
- ) Sindh Revenue Board
- ) Securities and Exchange Commission of Pakistan
- ) State Bank of Pakistan
- ) Competition Commission of Pakistan
- ) Ministry of Commerce
- ) Ministry of Finance
- ) Federal Tax Ombudsman
- ) Federation of Pakistan Chambers of Commerce and Industries
- ) The World Bank Group
- ) Department for International Development (DFID)
- ) German Agency for International Cooperation (GIZ)
- ) Japan International Cooperation Agency (JICA)
- ) United States Agency for International Development (USAID)
- ) US State Department
- ) The Asia Foundation (TAF)
- ) Sustainable Development Policy Institute (SDPI)
- ) Business Recorder
- ) Association of Certified Chartered Accountant (ACCA)
- ) Islamabad Tax Bar

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<sup>1</sup> This version is not edited.

## **B. Meeting Objectives**

The meeting primarily focused on measures required to improve tax policy and administrative coordination between federal and provincial revenue authorities. The discussion also focused on:

- ) The need and possible entry points for new demand-side measures to help tax revenue collection in the country.
- ) Exploring the possible private sector and community-led efforts to narrow the gap between tax authorities and citizens.
- ) Possible role for development partners to help introduce or improve demand-side measures which can support the cause of federal or provincial revenue authorities.

## **C. Key takeaway messages**

From a macro-level perspective, currently Pakistan's tax regime (policy and administration) is fragmented in turn resulting in loss to businesses, consumers and the government. Such a situation requires both a demand and supply side response for initiating reform. Some entry points for future reform, as discussed during the meeting are listed below.

### **Supply-side measures**

- ) Establishment of an inter-governmental tax working group having legal cover. This demand has also been found in Tax Reform Commission's report. This reform will improve the coordination between all federal and provincial tax authorities.
- ) Expand the mandate of Tax Reform Commission. The commission only focused on FBR-level reforms however several pending province-federal coordination matters need attention. A careful review of these matters may be undertaken by the Commission.
- ) Compliance costs can be reduced through: reduction in withholding mode of taxation, consolidation of taxes, merger of provincial revenue authorities, and introduction of IT-enabled unified tax return. Furthermore at a national level unified tax return may be introduced with central deposit of liability.
- ) The provincial governments need to address issues faced by provincial revenue authorities including: fragmentation in tax collection, reliance on obsolete tax bases, and challenges to integrate sales tax on goods and services.
- ) Provincial tax authorities need to harmonize the tax code i.e. where provinces agree to set minimum tax rates or decide to tax at the same rate and/or base (depending upon the activity/output); For lesser developed provinces, allow tax harmonization, however threshold can be varied e.g. in the case of Balochistan.
- ) FBR and provincial tax authorities need to undertake updating / revision of tax gap and incidence analysis studies to gauge the social and economy-wide impact of current tax regime.
- ) It is also proposed that overtime the payments under social safety nets may be linked with the condition that beneficiary needs to be a filer. A complimentary thinking is required as to how those without access to knowledge and IT skills can become regular filers. Further automation related innovations can help this cause.

## **Demand-side measures**

- J The national debate on tax reforms has gone in two different directions. The first focuses on the fact that Pakistanis pay little tax, while the other (as per print and electronic media) informs the public regarding all citizens paying indirect taxes and thus falling under the tax net. There is therefore a need for an outreach programme that focuses the messaging towards those persons and entities already identified by FBR who should but do not pay taxes.
- J The country requires an overarching tax advocacy programme that should have ownership of FBR and the provincial tax authorities. Past experiences of such programmes in isolation lacked sustainability, however resulted in decent outcomes (e.g. annually published tax directory of parliamentarians).
- J Possible ownership of Federal Tax Ombudsman's office may also be encouraged in any demand-side programme at national or sub-national level.
- J Punjab Revenue Authority agreed to look in to the idea proposed by SDPI and TAF which advocates for Tax Clinics - volunteer tax preparation clinics generally offered prior to the tax filing season, led by private sector and local communities of practice (e.g. Tax Bar Associations). These clinics will not only help in filing for those unable to understand the documentation but also help in claiming rebates and refunds. FBR and other tax authorities may also like to consider this proposal.
- J Tax Clinics will also provide online smart chat facilities to discuss any confusions in case the tax payer is unable to visit. Such tax chat portals have been used in the past by several tax bar associations outside of Pakistan.
- J To steer the administrative reform within the revenue authorities, a key demand-side measure (in line with Open Government Partnership principles) may be to prepare a performance index of all revenue authorities in Pakistan. This index will look into effectiveness of service provided to tax payers. The index will only focus on supply-side indicators e.g. is the desired information available for the tax payers? Is the online filing system responsive? Is the grievance redressal mechanism documented?
- J The index will help put in place a ranking system based on service delivery in turn fostering a healthy competition to improve service delivery. This will allow the revenue authorities and departments to actually learn from success and failures of others (authorities) across the country. Successful case studies can then be replicated by other revenue authorities.
- J The above mentioned exercise may be complimented with a demand-side citizen feedback survey which will then target the tax paying respondents who have regular interfaces with revenue authorities to assess their perceptions and experiences. Going back to the same respondents will allow tracking the changing perceptions.
- J Annual National Tax Summit may be hosted in collaboration with FBR which can bring together the research, IT, automation and data warehousing units of all tax bodies in Pakistan to showcase stories of impact. The scientific community and development partners can share experiences from other countries.
- J Another demand-side initiative could be to introduce Parliamentary Tax Dialogue during the calendar of Senate and National Assembly Standing Committees on Finance and Revenue. This will strengthen the knowledge and information base available with the committee members.

- ) Research institutions and think tanks should also provide (research) support to FBR to revive the Quarterly Research Journal in which members of Inland Revenue Service used to share their evaluations.
- ) There is a need for an ‘ambassador’s group’ comprising of respected economists who can take the case of tax reform forward in a sustained manner.
- ) A pre-election portal may be structured to allow the voters to see if their election candidates have been filers in the recent past.
- ) Media dialogues with reputed economic journalists can also help trigger a debate in favour of tax culture at a mass level.

**Annexure 1: Agenda for the event**

**Annexure 2: Presentation by SDPI**

**Annexure 3: Presentation by PRA**

**Annexure 4: Attendance Sheet**

**Annexure 5: Welcome remarks by Mr. Saud Bangash, TAF.**

## Annexure 1: Agenda

### High-level Meeting on Designing Better Federal & Provincial Tax Reforms in Pakistan

August 24, 2017

Venue: Serena Hotel (Shamadan-3 Hall),  
Khayaban-e-Suhrwardy, Opposite Convention Centre,  
Islamabad, Pakistan.

## Agenda

10:30 hours	Registration
11:00	Welcome Remarks by Mr. Saud Bangash, Program Lead, Economic Development and Environmental Stability, The Asia Foundation, Pakistan.
11:15	Technical Presentation by Dr. Vaqar Ahmed, Deputy Executive Director, SDPI
11:30	) Remarks by: <ul style="list-style-type: none"><li>o Federal Board of Revenue</li><li>o Sindh Revenue Board</li><li>o Punjab Revenue Authority</li><li>o KP Revenue Authority</li><li>o Balochistan Revenue Authority</li></ul> ) Remarks by Development Partners ) Remarks by Private Sector ) Any other interventions
12:30	Open Discussion
12.45	Closing Remarks by Revenue Authorities
12:50	Roundup and vote of thanks by SDPI
13:00	Lunch



## Annexure 2: Presentation by Sustainable Development Policy Institute<sup>2</sup>

### Designing Better Federal & Provincial Tax Reforms



### Brief Objectives

- What is the future of tax reforms in Pakistan?
- Past efforts mainly dealt with supply-side bottlenecks at tax authorities
- There is room for further strengthening of these supply-side initiatives
- Weak focus on demand-side measures i.e. community-led and private sector-led efforts to help the tax reform
- What possible role for development partners?

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<sup>2</sup> On behalf of SDPI this presentation was delivered by Dr. Vaqar Ahmed, Deputy Executive Director, SDPI.

## Outline

- Priority issues faced by federal and provincial tax authorities
- Available remedies in light of our recent research and engagements with tax authorities and private sector
- Proposals for discussion.

## Methodology

- Desk review of recent reform analyses by RAFTAAR (DFID), CIPE, SDPI, ACCA, GIZ, TRC, Ombudsman Office and World Bank Group
- Country-wide two-tier consultation on tax harmonization model, involving both government officials and business community
- In-depth interviews with tax experts including economists, accountants, tax bar associations, heads of tax committees in Chambers of Commerce [28 months]
- Using a quantitative model we have estimated the revenue and welfare impact of our proposed reforms.

## FBR – Situation Analysis

- During past four years
  - Tax Revenue increased
  - Number of filers increased
  - Fourth country producing tax directory annually
  - Strengthening of legislation [Benami Transactions (Prohibition) Amendment Bill, Strengthening of AML Act]
- Cost of doing business report
  - Higher cost of compliance
  - More complex tax system at federal and provincial level led to increase in litigation
- Difficult relationship with:
  - SBP Financial Monitoring Unit, FIA, NAB, ANF, provincial revenue authorities
- Capacity challenges:
  - Tax payers facilitation, financial crime investigation, money laundering, white collar crimes, criminal investigation, malfunctioning of online filing systems.

## Results Framework for Reform Strategy?

Tax Reform Commissions	Year	Chairperson
Report of the Sales Tax Committee	1950	Dewan Sir Abdul Hamid
Report of the Taxation Enquiry Committee	1957	Mr. Zahid Hussain
Report of the Sales Tax Committee	1961	Mr. A. R. Fazli
Commission on Taxation and Tariff (incl. provincial taxes)	1967	Mr. Abdul Qadir
Final Report of the Taxation Commission	1974	Mr. Mahboobur Raschid
National Taxation Reforms Commission	1986	Mr. Qamar-ul-Islam
Report of the Committee on Tax Reforms	1991	Senator Syed Mazhar Ali
Resource Mobilization and Tax Reforms Commission	1994	Syed Mazhar Ali
Report of the Task Force on Fiscal Reforms	1996	Dr. Hafiz A. Pasha
Report of the Commission on Tax Reforms	1998	Mr. Saeed Ahmed Qureshi
Report on Income Tax Reforms	2001	Mr. Saeed Ahmed Qureshi
Reorganisation of Income Tax	2002	Mr. Riaz Ahmed Malik
Tax Reform Commission	2014	Syed Masood Ali Naqvi

## Problem Statement

- There is no 'national' tax reform vision/strategy
- The Tax Reform Commission report (April 2015) states:

*"Under the given scenario, federation-provinces tax tangle will continue unchecked and further taxation through local governments, when elected, would not serve any useful purpose—there will be no relief to the people. Rather tax burden accompanied with procedural complications will increase manifold"*

*"Moreover, ....there are numerous appeals pending against the duplicate imposition of sales tax on services"*

## Issues faced by provincial revenue authorities

- Fragmentation in Tax Collection
- Reliance on Obsolete Tax Bases
- Challenges to Integrate Sales Tax on Goods and Services
- Frictions with Federal Government
  
- Result: higher compliance costs; utmost efforts by new potential tax payers to remain away from the system.

# Principles of provincial taxation

Borrowing some tenets of taxation from ACCA

A presumption to tax neutrality	Efficiency	Tax shifting and hypothecation have a role to play	Tax is a matter of national sovereignty	Avoidance of double taxation	Accountability and regular review
<ul style="list-style-type: none"><li>Provincial governments must work together to try to iron out the differences in tax bases which give rise to tax arbitrage.</li></ul>	<ul style="list-style-type: none"><li>Governments require efficient tax systems to secure the revenue due and to prevent tax leakage. But the system should also be efficient for taxpayers in complying with its requirements.</li></ul>	<ul style="list-style-type: none"><li>Elected governments have the right to use taxation in certain circumstances in pursuance of agreed social policies (e.g. for environmental protection).</li></ul>	<ul style="list-style-type: none"><li>Globalisation means that each country should ensure its tax rates are competitive and its regime user-friendly. It is the quality of the underlying tax system – rather than a simple focus on comparative tax rates – which matters to companies.</li></ul>	<ul style="list-style-type: none"><li>An essential principle of tax law must be that income should be subject to tax only once. This applies both to direct tax and consumption taxes.</li></ul>	<ul style="list-style-type: none"><li>Tax systems should be periodically overhauled and consolidated.</li></ul>

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## What is Tax Harmonization?

- Tax harmonization exists when taxpayers face:
  - Similar or identical tax rates, and/or
  - Similar tax bases on which liability is calculated, across provinces.
- Explicit tax harmonization occurs when provinces agree to set minimum tax rates or decide to tax at the same rate and/or base.

## Tax harmonization should not hurt fair tax competition

- Should provinces be moving towards harmful tax competition?
  - e.g. a leading FMCG's possible decision to move across provinces
- For lesser developed provinces, allow tax harmonization, however threshold can be varied
  - e.g. in the case of Balochistan.

## Expand mandate of Tax Reform Commission

- Finalize and publish report
- 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.

## Research Units at Tax Bodies

- Strengthen office of Member (Research, Analysis & Reforms) at FBR
- Similar units at provincial bodies missing
- 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.

## Need for reforms to bring down compliance costs Are supply-side reforms enough?



## Case for Strengthened Demand-Side Reforms

- Key is tax payer's facilitation
- No evaluation of 200 tax facilitation kiosks and Tax Facilitation Centers [impact?]
- **Case for Tax Clinics:** Publically-funded low income taxpayer clinic that represents clients in issues with the Internal Revenue Service and educates individuals about their rights and responsibilities as taxpayers
- Tax clinics are most successful if led by communities of practice and private sector.

## Demand-side reforms can be supported by...

- Introduce unified tax return and central deposit
- Establishment of Intergovernmental Tax Committee
- Integrated efforts by development partners [all donors have separate windows for each revenue authority].

## Establishment of Intergovernmental Tax Committee

This proposal will serve the recommendation by TRC i.e. Federal and Provincial Sales Tax Authorities should form a fully empowered commission to bring harmony in the sales tax laws dealing with services, particularly focusing on following:

- Updating list of taxable services
- Principle for taxation of services (origin, destination or mix)
- Avoidance of multiple taxation by Provinces and / or Federal Government
- Mechanism for adjustment of taxes collected by Authorities
- Harmonization of tariff headings and definition / scope of services
- Withdrawal of FED on services where provincial legislation is in place.

## Intergovernmental Tax Committee also required for other provincial taxes

- The recent episode of revaluation in 2016-17 budget lacked provincial ownership
- TRC report also recommends that Federal Government **in coordination with the Provincial Governments** needs to agree a valuation mechanism for properties in various categories which need to be revised at level every year through independent credible valuers
- Further difficulties, varying rates and overlapping mandates under agriculture taxation.

## Possible support from development partners

### Integrating audit capacities

- Enhanced capacities needed for audit, monitoring and evaluation at provincial revenue authorities [integrate databases with NADRA and PRAL]
- Address information gaps across tax bodies through joint assessments.
  - Tax potential of unorganized sector
  - Arbitrariness in assessment of provincial levies
  - Assessing genuineness 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.

## Need for a more structured public-private dialogue

- The public private dialogue allows space to the latter for informing legislation, rules and regulations
- Present advisory councils are cosmetic in nature with irregular meeting schedule. Therefore, **we propose a broad based public-private working group** on national and sub-national tax reforms giving representation to tax authorities, manufacturers, traders, and consumer groups.

## Way forward

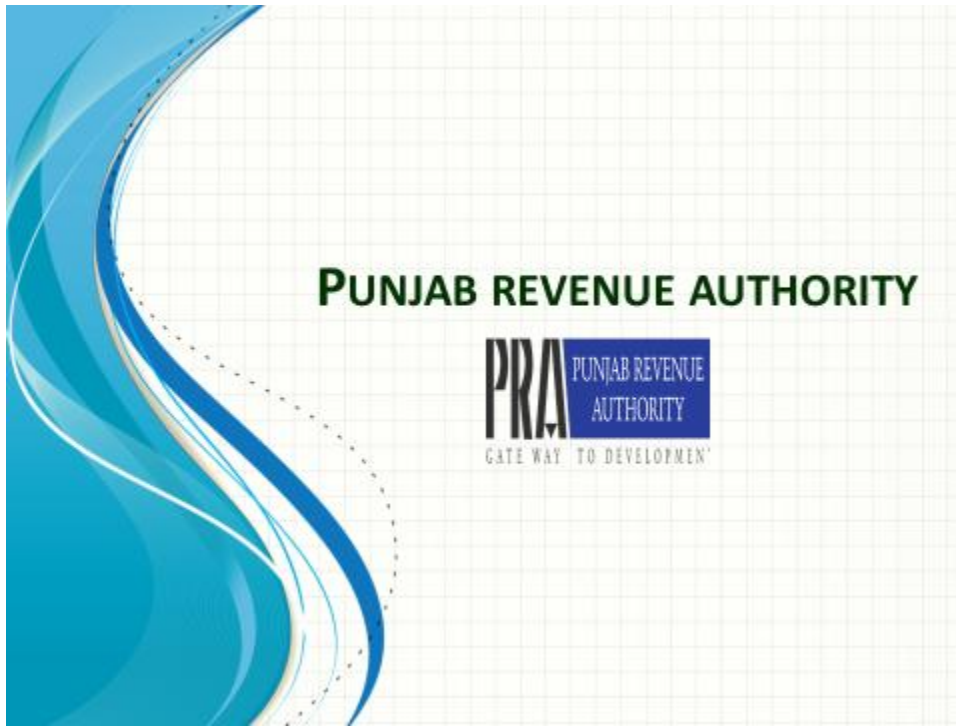
- What role for this forum?
- Can this forum help with the following measures which ultimately improve tax culture and (tax) payer's facilitation:
  - A public-private working group on national & sub-national tax reforms
  - Case for tax payer clinics to facilitate low and medium income filers – led by community and private sector arrangements
  - Intergovernmental tax working group with support of national think tanks to help federal-provincial tax harmonization
  - A communications strategy and its implementation to help tax payers understand social 'impact' of government public finance system.

Thank You

[www.sdpi.org](http://www.sdpi.org), [www.sdpi.tv](http://www.sdpi.tv)

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**Annexure 3: Presentation by Punjab Revenue Authority**



## **PRA –An Overview**

- Till June 2012, collection of sales tax on services remained with Federal Government/Federal Board of Revenue (FBR).
- Punjab Revenue Authority (PRA) was established with effect from 1 July 2012 as a direct result of devolution of this tax by the 18<sup>th</sup> Constitutional Amendment.
- Set up as an umbrella tax organization mandated to collect different taxes and duties assigned by the Government.
- PRA is a body corporate comprising a Chairperson and at least Four (04) Members with an advisory council.

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## **RELEVANT LAWS**

- PUNJAB SALES TAX ON SERVICES ACT, 2012
- PUNJAB SALES TAX ON SERVICES RULES 2012, 2014 & 2015 issued separately for 14 tax domains
- THE PUNJAB INFRASTRUCTURE DEVELOPMENT CESS ACT 2015

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## REFORM RELATED ACHIEVEMENTS

1

- Expanded its physical outreach to 5 divisional headquarters – Lahore, Gujranwala, Faisalabad, Rawalpindi and Multan
- Opening of District offices at Sahiwal, Sargodha, RY Khan & Bahawalpur

2

- Installed automated Punjab Tax Management System (PTMS) for taxpayers' facilitation.

3

- Implementation of Restaurant Invoice Monitoring System (RIMS) in July 2015 and its associated "Amanat Scheme" aimed at encouraging the use of sales tax invoices for distributing valuable gifts/prizes to lucky draw winners.

4

- Declaration of April 10 as the annual "Tax Day" for raising awareness about the need for payment of taxes.

4

## REFORM RELATED ACHIEVEMENTS

5

- Inclusion of a tax awareness chapter in Class 8<sup>th</sup> curriculum in Punjab.

6

- Organizing seminars and workshops for taxpayer's education and facilitation.

7

- Setting up E-courts through video link with Commissioner (Appeals) and the Appellate Tribunal with all field offices.

8

- Established PRA's Training Academy to act as a state-of-the-art Resource Centre and a Research think-tank on issues of tax policy and management
- Introduction of Virtual Learning Environment (VLE) for training of the officers

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## REFORM RELATED ACHIEVEMENTS

9

- **Broadening of tax base**
- Survey of 25,000 new taxpayers completed
- Registration process of identified taxpayers under process
- On-going local surveys being undertaken

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- HR
- Conducted Functional Review
- Developed HR Manual and Framed Service Regulations

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- Single line budget
- Allocation of 2% of previous years collection
- PRA fund established

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- Enhanced collection mechanism; Bank of Punjab also collecting in addition to NBP

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- Taxpayer's Charter of Rights framed
- Professional code of ethics is being drawn
- Senior Internship And Junior Internship Programmes

## FUTURE REFORMS

- **Databank** –Linkages with FBR, Excise & Taxation, Social Security and Industries Department for data analysis and risk assessment
- Expansion of **Invoice Monitoring System** to more cities and other sectors like beauty salons, hotels, marriage halls & courier services and other point of sale centers
- **Voluntary Taxpayer Assistance Program (VTAP)**----
- **Tax Clinics**

## FUTURE REFORMS

- **E-Tax Bureau**-----Self Service Kiosk
- Installation of **Automated Revenue Machines (ARMs)**
- **Risk Based Audit**-----Early Fraud Detection and Warning System & Data Analytics on EUROFISC
- **Establishing a National Clearing House** (Provinces to participate to include all the commercial Banks for collection)
- **Focused Research Group on Tax Policy**-----comprising of researchers from Harvard, Columbia, Oxford & LSE

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THANK YOU

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#### Annexure 4: Attendance Sheet

Sr.No	Name	Organization
1	Haris Qayyum Khan	TAF
2	Syed Abbas Hussain	TAF
3	Sofia Shakeel	TAF
4	Parvez Iftikhar	ICTFP
5	Shahzad Iqbal	KASHF
6	Nasir Rao	US Embassy
7	Erum Sharif	OXFAM
8	Ali Shan Azhar	Canadian High Commission
9	Malik Mirza	Finman Group
10	Shahbaz	SDPI
11	Fida Hussain	SBP
12	Dr. Shimail Daud	RCCI
13	Gabi Afran	WBG
14	Clilia Royalon	WBG
15	Irum Touqeer	WBG
16	Manzoor Ahmed Yusufi	Ministry of Commerce
17	Mary Hobbs	USAID
18	Samiullah	Planning Commission
19	Jane Alkhouri	Canadian High Commission
20	Muhammod Shahid Sadiq	Deloitte Chartered Accountants
21	Ubaid	OXFAM
22	Mustafa	OXFAM
23	Zarar Haider	Ministry of Industries and Production
24	Fazal Amin Shah	KPRA
25	Khalid Mahmood	SRB
26	Syed Mushtaq Kaz mi	SRB
27	H.M Asif	SCGi
28	M Zia ud din	Force Lawce Journalist
29	Afsheen Shakoore	USAID
30	Sadia Mansor	TAF
31	M. Yasin	GIZ & ACCA
32	Saud Bangash	TAF
33	Maryum Waqar	SDPI
34	Dr. Raheel Ahmed Siddiqui	PRA
35	Jaffer Askari	DFID
36	Greg Leon	USAID
37	Sardar Irshad Shaheen	FTO
38	Fazli Hanan	Focus & Rulz Pharma
39	Muhammad Ahmed	Nayatel PVT
40	Zakir Hussain Satti	ICMA Pakistan

41	Eina Ueno	JICA
42	Hammad Siddique	CIPE
43	Farid Alam	TAF
44	Zohair Ahmed	Amrelli Steels
45	Shafqat Aziz	SDPI
46	Chip Laitinen	US Embassy
47	Hannah Cha	US Embassy
48	Dr. Muhammad Iqbal	Federal Board of Revenue
49	Dr. Vaqar Ahmed	Sustainable Development Policy Institute
50	Joseph Sebhatu	Canadian High Commission

## **Annexure 5: Welcome Remarks by Mr. Saud Bangash**

Ladies and Gentlemen,

I am thrilled to welcome you at our consultation today. I am particularly grateful to our esteemed chief guest, representatives from our country's tax services, participants from the donor community,

Thank you for being here and welcome!

We are gathered here today to reflect on the efforts that have been put into improving the Tax revenue collection system, while starting a conversation on the way forward. The initiative that led to today's event was a realization by SDPI and The Asia Foundation that there is a need to have a collective understanding on tax reforms, which can lead to a consensus framework that all stakeholders can work together to achieve.

In my welcome remarks, I want to say a few words about the tax system in the Islamic tradition and what we can learn from it. As you may be aware, in the Islamic administration system, the Bait-ul-Maal is the institution which historically played the role of a Treasury along with managing the economy of the state.

The institution of Bait-ul-Maal was established by the second Caliph of Islam, Hazrat Umar (RA). With the conquests, revenues came to the Caliphate in larger quantities, which then led to the decision of establishing a Central Treasury at Madinah. Later provincial treasuries were set up in the provinces, which after meeting the local expenditure remitted the surplus amount to the central treasury at Madinah.

The taxes (including Zakat and Jizya) collected in the Bait-ul-Maal were used to provide income for the needy, including the poor, elderly, orphans, widows, and the disabled. According to the Islamic jurist Al-Ghazali (Algazel, 1058–1111), the government was also expected to stockpile food supplies in every region in case a disaster or famine occurred. Thus, the Islamic Caliphate can be considered the world's first major "welfare state".

Furthermore, Hazrat Umar's innovative welfare reforms included the introduction of social security. This included unemployment insurance, which did not appear in the Western

world until the 19th century. Whenever citizens were injured or lost their ability to work, it became the state's responsibility to make sure that their minimum needs were met, with the unemployed and their families receiving an allowance from the public treasury. Retirement pensions were provided to retired elderly people. Babies who were abandoned were also taken care of, with one hundred dirhams spent annually on each orphan's development. Umar also introduced the concept of public trusteeship and public ownership when he implemented the Waqf, or the charitable trust system, which transferred wealth from the individual or the few to a social collective ownership, in order to provide services to the community at large.

I personally derive a few lessons from the Public Finance system that Umar (RA) established, under Islamic teachings:

1. The State demonstrates an accountability to the citizenry by providing social services as priority. Regardless to say, the Citizen's must willingly pay taxes.
2. There is an inherent concept of surplus in Islamic Public Finance, as the central treasury collects what is unspent. Surplus financing is a desirable objective to be actively pursued.
3. Financing can be projectized i.e. by using the concept of Waqf. In this form, the public could be invited to contribute to specific projects by buying government issued paper, and declared for claiming tax credits against outstanding tax liabilities.
4. The State is responsible to provide safe passage and facilities for economic activity, which means security and public services are central for assuring uninterrupted economic activity.

Fast forward 1400+ years, we have a tax collection system in Pakistan which has the features of the traditional Islamic heritage and the western system both, but perhaps is wanting of meaning; a rationale to explain its purpose; in other words a direction with clearly envisioned goals and objectives.

What I mean to say, ladies and gentlemen, is that we have a Bait-ul-Maal which seems to work in a silo; we have a fairly expansive tax "collection" system with separate divisions for Income tax, Sales Tax, Customs, Audit, Appeals, and we have the Benazir Income Support Cash Transfers Program now, Employees Old Age Benefit Institution for pension benefits, the Worker's Welfare Fund and so forth. Perhaps all the pieces need to be integrated into an integrated tax collection and social security system.

We have a system where the tax collector is over-stretched to meet revenue targets and the tax-payer is unwilling to pay taxes for the fear of being thrown into unfamiliar territory. And

even if there might be recourse for the taxpayer on paper, getting closure to grievances is riddled with challenges.

But this is not how it was meant to be! The western system of tax collection that we have sought to emulate makes refunds to common taxpayers (not just to exporters and businesses) smoothly, each year and on time. There are no visits to tax offices, a simple cheque arrives in the mail and it's a happy day because it gives a bonus boost to the family's disposable income. Working families in the middle-income range get the most tax breaks and the highest refunds – low-income families get social security payouts. But at the end of the day, it all starts with filing the tax return. That's the proof of how much tax you pay, how much tax breaks you get (whether for child care, education, small business etc.), and whether you qualify for social security such as BISP, Bait-ul-Maal, Pensions, Unemployment etc. It is all interconnected – yes provinces can charge their independent taxes, but the competition to attract business and people keeps over taxing by provinces in check to a large extent.

In our country, we need to have a meaningful conversation about how we see our tax collection system going forward. What is it meant to do? How is it meant to do it? What are the gaps to get there? And most importantly, who will take the responsibility to deliver on the reforms? These are important questions that I hope we can start mulling sooner than later.

In the approach paper, among other proposals, there are two key ones that I see:

1. To constitute a core team of reformers, and provided executive patronage to oversee reform measures.
2. To establish Tax Clinics for 2-3 months during the filing season to hand hold the tax payer.

I feel we need to look beyond the usual. That's how a good system comes into being – a system that is equitable and just to all. That's the job of founders to do.

In the working paper, you will find a synthesis of the reform thinking that has been done so far – but let me say has not borne the fruits as were hoped. Something more fundamental is perhaps missing in the pieces. As they say, let the discovery begin!

I thank you.

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