

# Provincial Taxation Reforms Challenges and Way Forward



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# 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.

# Background

- 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.

# Background

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.

# Sales Tax on Services: Frictions with Centre

- 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.

# Tax Reforms Commission

- 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 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.

# 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

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