

EAC for simple, unified customs tariff lines

Economic Advisory Council (EAC) has recommended simple, unified and broad-based customs tariff lines, direct deposit of refunds to small taxpayers under a simple refund payment scheme, and a unified approach to tackle the menace of smuggling. It is learnt that a meeting of the EAC was held here at the FBR House under the chairmanship of Minister of State for Revenue Hammad Azhar on Wednesday to discuss the budget proposals for 2019-20.

FBR Chairman and his team of Members were also present in the meeting. According to the recommendations of the fiscal committee of the EAC, the Council has strongly proposed simple, unified and broad-based tariff lines. A major review of tariff is required in the light of these considerations and in most cases it is the best to let the market determine the most efficient allocation of resources. If 50 percent of imports are cleared at 3 percent tariff and another 22 percent at 11 percent, it is even more important to review the rest of the customs tariff slabs.

It recommended that the FBR should use machine learning tools that use information the tax administration acquires through internal and external sources to continuously detect patterns and incidences of the tax evasion. To train and sharpen these models, FBR should work with stakeholders including the industry to develop input-output ratios of major supply chains in the country. Moreover, it recommended social recognition of top taxpayers. The EAC has recommended that the focus on tax returns remains and will continue to remain since it is indicator for two important things. Firstly, despite a steady growth in the number of filers there are still many hundreds of thousands of people who should file and they don't. Even where additional revenue from many of these people is small, they leave a gap in the documentation that allows other taxpayers to evade taxes. Therefore, the focus on increasing the number of return filers should remain.

In developed countries, one reason for higher number of return filers is that it is linked to social welfare system through various income tax credits. This results in higher number of tax refunds. For example, in the United States nearly 8 in 10 return filers get tax refund. It is possible to define a scheme where small taxpayers, who claim excess deduction of tax from certain withholding heads, are automatically refunded a part of their refund claim through direct deposit in their bank accounts. This will be a few tens of billions depending upon the design of the scheme, but will result in vastly improved compliance, goodwill for the government, increased documentation and promotion of tax culture.

To tackle the issue of smuggling, the EAC has recommended that in order to maximise revenue, the government may adopt a unified approach that incorporates the core values of trade facilitation, drawing extensively upon principles of risk-mitigation and effective enforcement. The overall impact would be to gradually and significantly impact the trade through informal channels, which in turn would increase legitimate imports and ultimately be instrumental in maximising revenue, the EAC added.

To check under-invoicing, EAC has recommended a study be conducted to identify the tax losses from under-invoicing at import stage in the sales tax value addition chain. Another study should be conducted to estimate the extent of imports that disappear in the informal sector.

The FBR should take steps for making it easier to track the use of imported inputs through better links between the customs data and the sales tax data. This can be a source of large potential gains in sales tax enforcement.

On the issue of fragmentation of tax system, the EAC said that it is a complex problem and improving the solution would require willingness to work together by a diverse array of stakeholders. The very first step that is being taken is to bring this item on national agenda to start a national conversation about how to approach this problem. A concrete step would be establishing a high-powered tax commission comprising area experts and federal and provincial representatives. The commission should define parameters of a tax system, which is well integrated across levels of government.

On the issue of fragmentation of sales tax between the federation and states, the EAC has recommended that an arrangement without any change in Constitution is possible where the Centre can collect taxes but they do not form part of Divisible Pool but are directly transferred to provinces. This will make the administration of sales tax more efficient and consistent and greatly reduce cost of doing business. Any such arrangement will have to be cognisant of the concerns about impact on revenue collect due to ownership of tax. A mechanism to ensure that the focus of the Centre remains on proper revenue collection of a tax from which it gets no share shall be a part of such arrangement.

The EAC has further recommended that an alternate option can be to harmonise the tax code and integrate certain processes. In this case, the provinces and Centre will have similar harmonised tax codes, an integrated automated front end for the tax payer to perform all actions that need to be done voluntarily including filing joint tax returns and automated exchange of information. This will reduce the cost of doing business to some extent and make it harder for taxpayers to play the tax administrations off against each other to evade taxes.

Another solution can be to hand over collection of tax on service in sectors that generally operate in multiple provinces to the Centre since they are the one most troubled by fragmentation. For the rest of the services, the provinces can keep collecting sales tax on service but with and integration and harmonisation of the procedures such as filing joint tax return, the EAC added.

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