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Wither tax reforms?

Does the government of Pakistan Tehreek-i-Insaf (PTI) still desire to bring about fundamental tax reforms that were promised in its 'First 100-Day Agenda'? Many say it is no more possible as after entering into the programme of International Monetary Fund and getting funds in the name of tax reform from the World Bank and others. Others say it is just a myth. There is no bar on the PTI Government to follow agenda of reforms and make tax laws simple, easy to enforce and achieve economic progress. The IMF only wants us to improve tax collection, improve laws/rules/regulations and ensure proper enforcement.

As explained in 'Overcoming fragmented tax system', Business Recorder, October 19, 2018, Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration—establishment of a tax authority that is capable of generating sufficient resources for the federal and provincial governments, It should be the top priority of the government. Through democratic process, all the provincial parliaments can vide Article 144 of the Constitution of Islamic Republic of Pakistan jointly establish autonomous tax agency, comprising specialists in all the required areas. Taxpayers should be facilitated rather than forced to comply with at multiple levels and that too at very heavy costs.

For effective running of Federal Board of Revenue (FBR) and other tax agencies at various levels, major information technology and human resource improvements in tax collection methods as well as effective audit techniques should be developed along with a rational tax policy. Tax reforms are meaningless without an efficient tax administration and investment-conducive tax policy—see details in 'PTI and tax reforms', Business Recorder, August 17, 2018.

The main emphasis of tax reforms should be on low-rate taxes on the broadest possible tax base, taxing the rich and mighty through alternate minimum tax and property tax according to the size of the house/office. Along with these measures, it is vital to bridge the monstrous tax gap which is essential as it can wipe out the entire fiscal deficit. This is, however, not possible unless federal government, after consultations with provinces, introduces harmonised sales tax on goods and services and establishes a single agency to monitor all inflows and outflows and document all the transactions relating to acquiring of assets.

The main challenge before the PTI government is to optimize tax collection without hampering business growth and investment climate. It requires massive structural reforms, abolition of the existing complicated tax laws and procedures. New simple tax codes/procedures should be enacted in English and with versions in Urdu and local languages—details in 'Need for National Tax Authority', Business Recorder, October 20, 2017. Tax agencies should be equipped with modern Tax Intelligence System sending quarterly information to potential taxpayers about their economic activities so that they can be informed in advance as to how their incomes and expenditures should finally look like in their tax declarations. For promoting tax culture, it is equally important that there should be prudent spending of public money on welfare of masses through a transparent process.

One of the most neglected areas is the tax appellate system which needs to be revamped [Draft law on National Tax Tribunal, Business Recorder, November 3-4, 2017]. The main reason behind the reluctance of people to file tax returns and submit their record for scrutiny is due to lack of faith in the tax administration and the tax justice system. A reliable tax judiciary ensures that demands arising out of legitimate tax assessments are collected expeditiously and takes note of unjust treatment meted out to the taxpayer. As long as there is a pending litigation in relation to a particular tax levy, there is a natural, and quite understandable, desire on the taxpayer's part not to pay the disputed amount. An efficient tax judiciary resolves disputes quickly, quashes demands which are not legally sustainable, and thus segregates serious tax demands from frivolous tax demands. This in turn ensures that taxpayers cannot resort to dilatory tactics for paying these genuine and legitimate tax demands which have received judicial approval. A good tax judiciary thus helps in removing impediments from collection of genuine tax demands by the State, which, once again, results in greater resource mobilisation. For making tax justice system effective and independent, it is imperative to:

1. Replace existing 4-tier appeal system under the tax laws—direct and indirect—with two-tier system. The Customs Tribunal and Appellate Tribunal Inland Revenue should be merged into a single National Tax Tribunal. Like the Services Tribunal this should work under direct supervision of the Supreme Court. Appeals against its decisions should go directly to the Supreme Court.
2. Members for National Tax Tribunal should be recruited in the same manner as judges of High Court. The salary structure of Chairman, members and staff of Tribunal should be at par with the Judge of a High Court.

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