

Harmonised GST law: CCI approval must to get \$400m World Bank loan

ISLAMABAD: The World Bank's (WB) Country Director Illango Patchamuthu said that Pakistan would have to get approval of Council of Common Interest (CCI) on harmonised GST law with single rate on both goods and services for obtaining \$400 million loan.

The Centre and provinces will have to evolve consensus on unified GST law, placement of single GST rate, definition of goods and services as well as agreement on the basis of origin of taxation at the highest constitutional forum---- CCI---- before WB's Executive Board meeting scheduled to be held at Washington DC on March 19, 2020.

"The approval of CCI will be required on harmonised GST before the meeting of Executive Board of the WB for approving the budgetary support loan under the Resilient Institutions for Sustainable Economy (RISE) on March 19, 2020", the WB's County Director in Pakistan Illango Patchamuthu said while briefing a select group of reporters here at World Bank office on Thursday.

Under the existing Constitutional arrangement of 1973, the GST on goods is domain of the federal government while GST on services is the jurisdiction of the provinces.

Flanked by WB's senior economist Muhammad Waheed and others on the occasion, Illango said that the harmonisation of GST among the federal government and federating units is must as that is the conversation currently taking place among all the concerned parties. He said that the fragmented General Sales Tax (GST) was resulting into massive tax gap as the WB estimated that Pakistan was collecting just 13 percent while 87 percent remained uncollected so there was massive compliance gap that needs to be filled. He said that the tax gap analysis showed that Pakistan tax to GDP ratio could be doubled from existing 13 to 26 percent.

"There are 13 tax authorities in Pakistan both at federal and provincial levels and alone the GST is structured in such a way that it has turned the country into five markets. All 13 tax authorities are not talking with one another so there is no data sharing," he said and added that the harmonisation of GST was required to bring reforms into taxation system. That is one chunky area where the WB is supporting Pakistan to harmonise GST, he added.

When asked about constitutional changes required to deal with GST issues, Muhammad Waheed, the WB's Senior Economist said that it was policy issue that would be dealt with through Development Policy Credit (DPC), as the provinces would continue collecting their GST but they were proposing them to bring single law with unified tax rate and agreed on the principle of origin to ensure harmonisation of the GST.

If the CCI granted its approval till early March 2020 then the WB would approve DPC budgetary loan on March 19, 2020. Then the changes in law would be introduced in June along with the budget probably through Finance Bill 2020 so the implementation on harmonised GST would start implementation from the next financial year.

Muhammad Waheed also said that it was sensitive issue so the WB proposed that the provinces should continue collecting GST on services but there should be agreement on single GST law among the Centre and provinces, unified tax rate, definition of goods and services and agreement on the principles of origin. There are confusion on the principle of origin so it needs to resolved, he added.

He said that currently private sector had to file 60 sales tax returns and now the World Bank proposed to cut it down to 12 on per annum basis in order to ensure ease of doing business and improving ranking of the country.

Pakistan Raises Revenue is reform project to modernise FBR to make it operational organisation that is relying on Information Technology (IT). There is top heavy approach in the FBR where 20 members and FBR chairman are taking all kind of decisions. There will be \$320 million Disbursement Linked Indicators (DLI) as it will be provided on the basis of output and performance based.

Mr Illango explained DLI and that it would be pay for performance and cited example that if the FBR and KP revenue authority signed agreement on data sharing then the WB funding of \$25 million would be provided.

The FBR, he said, would induct Chief Information Officer (CIO) and process of its hiring was underway. He said that Pakistan performed well on stabilisation of economy but then it lost its steam for undertaking structural reforms. It resulted into boom bust cycle as the balance of payment started emerging after passing through phase of stabilisation, he added.