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# Semi-independent tax authority to be set up: IMF assured

The government has assured the International Monetary Fund (IMF) that a new semi-independent national tax authority would be created to bring the main revenue sources under tax administration reforms. In the IMF Staff Level Report issued here on Monday, Pakistan has also committed with the IMF for not granting further tax amnesties. The report said that the given Pakistan"s still low tax ratio (below 13 percent of GDP), the adjustment strategy will be primarily revenue-based, designed to achieve a 4-5 percentage points of GDP increase in tax revenues by the end of the programme.

While some tax rate increases might be unavoidable, the tax policy and administration strategy will center on maintaining a low tax rate with a broad tax base. The specific measures included tax policy reform aimed at simplifying collection and broadening the tax base. These will include harmonising and coordinating inter-provincial general sales tax (GST) and eliminating all, but for basic foods and medicines, GST exemptions and preferential rates; overtime, transforming the GST into a broad-based VAT; further strengthening taxation on agricultural turnover or income by provinces; raising the upper-end of the PIT structure; eliminating personal income tax (PIT) tax credits and deductions for the higher income slabs; (vi) ensuring equivalent taxation of all sources of income; (vii) eliminating distortionary withholding taxes; (viii) and real estate taxation.

Tax administration reforms will be crucial to collect taxes broadly and fairly. Given the fragmented nature of tax administration, Pakistani authorities will create a new semi-independent national tax authority to collect the main revenue sources, it said.

The report said that the government has also reversed recent legal provisions that limit the use of tax audits. Other tax administration measures may include: (i) implement a full risk-based audit framework; (ii) increase legal penalties for tax non-compliance; (iii) and issue licences for the track-and-trace system for excises on cigarettes by end-September 2019 (structural benchmark) and implement the system by end-March 2020. Moreover, the government will commit not to granting further tax amnesties.

The report said the authorities understand that the use of SRO needs to be subject to greater scrutiny and limited discretion. To that end, the government has adopted the necessary revisions and amendments to the various relevant tax ordinances to further limit or eliminate the use of SROs to genuine emergencies, in line with best international practices. In the meantime, the government will refrain from issuing any SRO reducing the GST rate below 17 percent on petroleum products.

The budget targets a primary fiscal adjustment of 1.2 percent of GDP, mostly through high-quality revenue measures aimed at broadening the tax base. Key measures included: eliminating tax concessions and exemptions and reducing zero-rated products, particularly on sales tax; increasing the excise on cigarettes and introducing new excise duties; reducing the personal income tax thresholds and increasing the rate and enhancing the sales tax of petroleum products, the report added.

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