

FBR, provinces agree on harmonisation of taxes

ISLAMABAD: Federal Board of Revenue (FBR) and provincial revenue authorities/boards Tuesday agreed on the harmonisation of taxes, facilitation of taxpayers and early resolution of sales tax collection on the third category of disputed services/ goods.

The heads of the provincial revenue boards/authorities

developed consensus on harmonisation of taxes during National Tax Conference “Taxation A Pathway to Prosperity” held by the Institute of Chartered Accountants of Pakistan (ICAP) here on Tuesday.

During the conference, there were divergent views on establishment of National Tax Collection Agency for collection of sales tax on both goods and services under one umbrella as the federal government considers it as mandate of National Finance Commission (NFC) while the provinces insist upon domain of Council of Common Interests (CCI) to sort out differences and evolving consensus.

Both the FBR and provinces agreed upon the pressing requirement of harmonising taxation system but the provinces took stance that single tax return could be devised but the single tax collection point would be difficult to implement. They argued that even the European Union (EU) had failed to implement a unified collection mechanism despite being advanced in technology.

Chairman FBR/Secretary Revenue Division Mohammad Jehanzeb Khan informed the conference that taxation is not the mandate of the Council of Common Interests and it has a separate mandate. The taxation issues need to be discussed at the level of National Finance Commission (NFC). The NFC is the appropriate forum for this purpose. At present there is no appropriate forum or secretariat to take up the taxation issues. “The taxation is on the agenda of the next meeting of the NFC,” the FBR chairman said.

“The CCI has specific mandate and the taxation issues are not part of it as it basically deals with Federal Legislative List Part-II. The NFC is the appropriate forum and special working group has already been established recently to ensure harmonisation of tax collection among the Center and provinces,” he said.

He said that they would have to move towards National Tax Collection Agency as currently the FBR and provincial revenue authorities are using same portal of Pakistan Revenue Authority Limited (PRAL) for filing of tax returns. He cited example of India where sales tax on goods is the domain of the provinces and sales tax on services is the jurisdiction of the federal government but in Pakistan it was altogether different. They have made an arrangement so it could be done here in Pakistan as well, he added.

The FBR chairman said that the single tax agency could deal with the sales tax issues of all provinces.

Jehanzeb Khan stated that new issues are emerging between federation and provinces on the issues of sales tax on services like third category of disputed services. The capacity of tax officials needs to be enhanced and a secretariat should have a specific focus on taxation.

He said that the all revenue agencies are taking automation services from Pakistan Revenue Automation Limited (PRAL) platform which needs to further strengthened.

FBR’s Member IRS Policy Hamid Ateeq Sarwar said that National Tax Collection Agency on the pattern of EU could be put in place in Pakistan.

Syed Mohammad Shabbar Zaidi, former President & Senior Partner, AF Ferguson & Co, said if taxation is not the subject of the CCI, what the CCI is for. If taxation is not domain of the CCI, it should be included in the CCI to deal with this critical issue of taxation of all four provinces.

Syed Mustaq Kazimi, Advisor Tax Policy, Sindh Revenue Board (SRB), said that his view is different from the viewpoint of FBR chairman on the issue of CCI's domain for dealing with the taxation issues. Any matter relating to the provinces including taxation can be referred to the CCI under the Part-B of the Fourth Schedule of the Constitution.

Mustaq Kazimi said that the harmonisation of taxes must be done to facilitate taxpayers. He referred to India where harmonisation of tax laws has been done after 14 years of applicability of service tax on services.

The Advisor Tax Policy SRB said that the CCI is the competent forum to deal with the issues of taxes. He said that the services should be classified in three different categories including negative list of services, declared list of services and mega exemption list of services. The FBR and provinces are taking steps to harmonise tax laws, he maintained.

The advisor to Sindh Revenue Board said on the occasion that harmonisation is a must but first of all there is need to remove certain misconceptions. He said that the sales tax on services was made part of provinces through 5th constitutional amendment enacted in 1976; however, it remained dormant but it was linked through ordinance 2000 that the center would collect it on behalf of the provinces.

Sindh, he said, remained the first to implement GST on services in the aftermath of 7th NFC Award and 18th Constitutional amendment, then Punjab established its Punjab Revenue Authority in 2012, KP in 2013 and Balochistan established its Revenue Authority in 2015.

He said that the FBR and four provincial revenue authorities held an important meeting last week at Lahore for harmonisation of taxes.

Syed Mustaq Kazimi said that five laws are governing sales tax on services including four provincial laws and Islamabad Capital Territory (ICT) law. The 5-6 tax returns to be filed by sales taxpayers would not resolve their problems. However, a single return would resolve the issues of taxpayers.

He suggested that a single tax return be devised for not only services but also for goods. "Starting from telecom sector, we had asked the telecom companies to develop a single return. However, they have not developed the return yet," he said.

Referring to the Record Note (2010) signed by the federal and provincial finance secretaries in 2010, he said that distinction between the goods and services was done in the said 2010 Record Note.

Chairman Punjab Revenue Authority Javed Ahmed informed the conference that the most of the work of the integration of PRA portal has been done. The single portal is expected to be operative by April 30. There should be a single registration identifier and portal. It should be done for ease of doing business and facilitation to the taxpayers.

He said, "We are working on a single return but revenue collection by one single agency is not practically possible. With the help of the FBR, the PRA has developed the Sales Tax Real-time Invoice Verification (STRIVE) system."

The PRA believed in the electronic audit of the taxpayers to minimise direct interaction between tax officials and taxpayers. The PRA has successfully done mass audit of 400 cases and started electronic proceedings in this regard. The PRA is also planning to send notices electronically to the taxpayers. "By 2020, we would have fully digital PRA," he said. He added, "We have achieved 80 percent of the work on harmonization of our goal."

Chairman Balochistan Revenue Authority (BRA) Misri Ladhani stated, “The single tax collection is not in favour of provinces but the single return is okay,” he added.

He said that provincial revenue authorities made significant progress on tax collection front and cited example that the FBR used to provide Rs 870 million as share of Balochistan in 2016 on account of GST on services but now after establishment of BRA the tax collection touched Rs 7.5 billion in 2017 and now they are going to collect Rs 10 billion. Ladhani endorsed the proposal of establishing single electronic portal.

The chairman BRA said that the BRA has been deliberating with provinces and FBR on the issue of collection of sales tax on construction sector to ascertain whether it is a good or service. The FBR has constituted a committee having representatives from each province to resolve the issue of sales tax on construction industry.

Muhammad Tahir Orakzai, Director General Khyber Pakhtunkhwa Revenue Authority (KPRA), said that there is an extensive debate on integration of taxes in KP.

Director General Khyber Pakhtunkhwa Revenue Authority (KPR) Mohammad Tahir Orakazai said that there is no institutional framework and integrating taxation system would help raise tax to GDP ratio.

Asif Haroon, partner AF Ferguson & Co, recommended that a Single Tax Agency for Sales Tax should be established to deal with the issues of registration, filings, collection and audit/assessment.

The Single Tax Agency can provide one window operation and synchronisation of particulars required for registration. It should be linked with NADRA, banking, SECP, income tax and customs databases. Under the plan, only one registration number should be valid for all taxes / jurisdiction / business transaction and there should be single Active Tax Payer list for all taxes.

He said that the distinction between goods and services is now gradually reducing in many cases. There exists a third category also now, which is neither service nor goods. The decision of SHC on construction services and SC’s decision on Franchise Services, needs to be considered to tap the third category.

A top chartered accountant Shabbar Zaidi said that in Pakistan there were 11 to 12 commissions formed but every time it was done under the leadership of then finance minister. There was no single tax commission which was formed with the approval of the Parliament.

Renowned tax expert Ashfaq Tola said that tax compliance would have to be improved to bring the desired changes in taxation system. He said that the last tax reform commission report under chairmanship of Masood Naqvi was considered as the best report by international experts but the lack of implementation proved as major stumbling block in the way of achieving the desired results.

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