

Centre-Sindh tensions mount on sales tax collection rights

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KARACHI: Sindh has asked the federal government to ensure that whatever commitments it has given to the International Monetary Fund (IMF) regarding collection of sales tax must comply with the Constitution, which gives the provinces the right to collect sales tax on services.

Sindh Chief Minister Syed Murad Ali Shah demanded this in a letter to Adviser to Prime Minister on Finance and Economic Affairs Dr Hafeez Shaikh with reference to a news report appeared in the national press that read: "The government has conceded to the IMF that the present arrangement of four provincial authorities and one federal looking at goods and services tax has increased the cost of doing business in an exponential manner and large businesses have been complaining about the compliance cost. In three years time, we will move to a single tax collection agency with one return and auditing authority to cut down on compliance costs," the government has told the Fund.

CM Murad asks finance adviser to ensure all commitments given to the IMF are in line with the Constitution

The collection of sales tax on services has been a contentious issue ever since the NFC Award of 2009 and the Reformed General Sales Tax (RGST) that Shaikh tried to introduce in his previous stint as finance minister. The RGST law was introduced in parliament by Shaikh to fulfil the only structural condition contained in the 2008 IMF programme. It was defeated in the vote, after which the fund bailout was terminated.

Read more: [Murad voices concern over Centre's plan to take away province's tax collection powers](#)

In those days, the Sindh government had bargained hard for the sales tax collection on services to be devolved down to the provinces. Victory in that endeavour gave a big boost to revenues collected by the provincial governments.

The chief minister said that he believed as the country moved forward in talks with IMF, the line the federal government takes on the issue of sales tax should comply with the Constitutional position on who has the right to collect this tax, and ensuring respect for the provincial autonomy guaranteed in the Constitution of Pakistan.

Pointing to above-mentioned news report, Shah's letter states: "The arrangement under contemplation would be contrary to the express stipulation of Constitution of Pakistan which, against entry No.49 of its fourth schedule (Federal Legislative List) provides, 'tax on the sales and purchase of goods imported, exported, produced, manufactured or consumed except for sales tax on services,'" it adds.

The chief minister reminds Shaikh that "your good self, in your previous capacity as finance minister of Pakistan, have been a part of momentous changes that witnessed the transfer of collection of sales tax on services, initially, to Sindh in 2010, followed by other provinces."

He tells the adviser that Sindh has come a long way since the time it had assumed the collection of sales tax on services. “We will be glad to see or be a part of any effort that leads to improvement in the overall tax collection system of the country, being an important stakeholder under the NFC scheme. Shah further adds “given its experience and success it has made in the levy and collection of sales tax on services in the last eight years, Sindh can offer meaningful input for performing the present tax structure within the domains prescribed in the Constitution.”

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