

What a single tax system means

FINANCE Minister Asad Umar plans to club together multiple taxes into a single tax to minimise interaction between investors and businesses with various tax agencies as part of the ease of doing business reforms.

The minister told Dawn Business and Finance that the plan would be part of the budget 2019-20 through the finance bill.

“The idea is to merge all the federal taxes and levies into a single tax. The Federal Board of Revenue (FBR) will collect the single tax and the Ministry of Finance will transmit to various ministries and agencies according to their share,” he said. “The agencies should interact with each other through the Ministry of Finance and reconcile their claims.”

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Mr Umar added that the FBR would not claim any collection charges because it was already collecting multiple taxes. Besides the major taxes like sales tax, income tax and customs duties, taxes like EOBI, Workers Profit Participation Fund and many others were payable by various businesses and were being paid to different agencies at different intervals.

He said the systems were being developed for the objective.

There are many success stories in the world. Those countries that have made progress on ease of doing business and have achieved higher revenue collection in short spans have minimised the hassle of documentation and interaction with businesses.

New Zealand has a single tax, Hong Kong had three, Malaysia eight and India 13 compared to Pakistan’s 47 which has recently been reduced to 16.

During interactions with the PTI government, leading businesses are reported to have emphasised upon the need to minimise the number of taxes, even if the government was not willing, at this stage, to reduce overall tax burden.

“At present, we have to respond to 47 taxes or desks,” said a businessman adding that Pakistan had many regulators and that every regulator had varying degrees of filing requirements. Businesses in Pakistan are over-regulated.

A leading Fast Moving Consumer Goods (FMCG) firm reported recently in one of its meetings that it had to deal with 70 agencies at the federal and provincial level.

“Determine whatever taxes you want but let us do business and ensure collection at one place,” was the message from the FMCG.

With 19 or 20 federal payments and filings, doing business has become complicated. Ensuring ease of doing business could yield much greater returns to the government.

It was explained that a software will have to be put in place to ensure single tax collection and its automatic credit to the relevant agency. Artificial intelligence has been playing wonders in many parts of the world and there is no reason why Pakistan cannot adopt a digital strategy for the government.

The proposal for a single tax was also reportedly proposed to former finance minister Ishaq Dar in 2014-15. He liked the idea and agreed to follow through because it required a formula as to how much tax belonged to which agency and how it should be distributed after collection.

“Actually, he could not implement the idea because of over-centralisation of powers in his office and perhaps too much workload,” a senior official explained.

There is some change in culture now. For example, the Board of Investment has been able to reduce the number of payments through inter-agency interactions from 47 to 16, which means the number of physical payments have been curtailed through an online portal. The amount of tax remains unchanged.

In the second stage, the finance minister will reduce the number of taxes, by merging the withholding tax, sales tax, excise duty and EOBI into one. This cannot be done through executive or administrative orders and requires legislation. It will be a challenge for the PTI government because of parliamentary constraints, but can be done through the finance bill needing simple majority.

In the third phase, the government plans to reduce the overall corporate taxation that is considered to be on the higher side. The government is also working on simplifying the procedures for construction permits — a priority area of the current government.

At present, 19 different permits are required for one project. This will be put on a single web portal for a time bound clearance. The deadline for December 2018 was missed to implement single construction permit and access to credit but is likely to be delivered by April this year.

However, the government may face some legal challenges in introducing a single tax because some of these taxes fall in the provincial domain under the devolution of power.

For example, Sindh and Punjab have made laws to collect the worker welfare fund and workers profit participation fund but the FBR has not yet surrendered these responsibilities through law. Companies are not paying either of them. The matter is in the court of law pending adjudication on the inter-provincial subject.

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