

Provinces engaged for sales tax harmonisation

ISLAMABAD: As per the agreement with the International Monetary Fund (IMF), the government on Thursday set in motion vigorous engagements with provinces for fiscal coordination and tax harmonisation to address fiscal challenges facing the country.

A meeting of the monitoring committee of the National Finance Commission (NFC) presided over by Adviser to PM on Finance and Revenue Dr Abdul Hafeez Shaikh approved powers and jurisdictions of the Fiscal Coordination Committee (FCC) and constituted National Tax Council (NTC) to debate and resolve fiscal challenges facing the centre and introduce harmonised sales tax regime across the country including centre and provinces.

The meeting was attended by provincial Khyber Pakhtunkhwa and Balochistan's finance ministers while Punjab and Sindh were represented by their respective finance secretaries.

During the meeting, suggestions were presented for sales tax harmonisation in the country. The meeting also approved terms of reference (ToR) of the FCC under the November 2017 Council of Common Interests (CCI) decision.

Under the ToRs, the FCC will review and discuss the fiscal policy issues of the federal and provincial governments and suggest solutions, monitor current and development expenditures of the federal and provincial governments and discuss issues related to the Federal Board of Revenue (FBR) receipts.

The review of federal and provincial governments' debt stock in the perspective of Fiscal Responsibility and Debt Limitation Act, discussion on the position of provinces' own receipts and suggestion of measures for enhancement of provincial revenues and the review of cash balances of the federal and provincial governments have also been assigned to the committee.

The meeting also approved the composition of the NTC and its ToRs. The provinces are represented in the NTC enabling them to decide collectively the rate for sales tax for both goods and services. It was proposed during the meeting that the NTC will meet at least once in every quarter and its recommendations shall be expressed in terms of majority and shall be placed before NFC Monitoring Committee.

A day earlier, the federal secretary finance had highlighted at a meeting of the National Assembly's Standing Committee on Finance a series of fault lines in the federal budget owing to major revenue shares flowing to the provinces causing serious fiscal limitation to centre to meet responsibilities of defence and debt servicing.

He had indicated transfer of additional responsibilities to the provinces in the upcoming budget for FY21.

The government has also committed with the IMF for harmonisation of the service sales tax base and rates in collaboration with the provinces. “To this end, we will establish a joint working group that will provide recommendations on tax harmonisation to be approved by the CCI by end-March and will be incorporated in the FY21 budget”, according to the agreement signed by Dr Shaikh with the IMF.

The government had also given an undertaking to deepen fiscal coordination with the provinces to ensure regular coordination and consultation meetings between the federal and provincial tax authorities.

The IMF and government had failed to conclude second review of the \$6 billion programme last month and later agreed over policies and actions to complete the second review for disbursement of \$450 million tranche. To achieve this, the board meeting of the IMF had been delayed for about a month to April.

The meeting presided over by Dr Shaikh on Thursday also approved bi-annual report on the implementation of the NFC Award for the periods of July–December 2018 and January – June 2019. The reports would now be presented in the National and Provincial Assemblies under the requirements of the Article 160 (3B) of the Constitution.

The bi-annual reports contain the information on Distribution of Revenues and Grants in Aid to the provinces under the NFC Award announced in 2010 (7th NFC Award). The report also contained the inputs from the provinces and endorsed by them.

Meanwhile, the finance ministry said it had meetings with federal secretariat employees for raising their salaries and assured them that their proposals will be duly considered and proposed to the government in the next budget.

The ministry said a suitable raise in their salaries would be prepared by factoring in the overall economic situation and available fiscal space and incorporated in the upcoming budget FY21.