

### **Productive tax reforms**

All efforts in the name of tax reforms undertaken in Pakistan till today have miserably failed. These were nothing but mere patchworks here and there. Restructuring and redesigning of tax system has not been given any serious thought by any government. Now, the government of Pakistan Tehreek-e-Insaf (PTI), according to a Press release issued by Federal Board of Revenue (FBR), has constituted a committee headed by State Minister for Revenue, Hammad Azhar, to come up with a "massive and comprehensive reform programme before the close of the financial year". It is claimed that the Federal Minister for Finance, Revenue and Economic Affairs, Asad Umar, included in the Tax Reforms Committee "best minds of the country", who will "watch over the reforms agenda aiming at short and medium as well as long-term strategies for optimal revenue generation and resource mobilization". The Committee will meet once every fortnight to devise strategies for revenue collection. The Committee will also get all tax statutes translated in Urdu on a priority basis. The adjectives used in Press release (having many typographical errors) like "best minds", "massive and comprehensive reforms" and "optimal collection" sound impressive but only the time will tell how productive tax reforms will be this time by extraordinary minds (genius) of the country!!

As explained in our contribution ['Overcoming fragmented tax system', Business Recorder, October 19, 2018], Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration-establishment of National Tax Authority (NTA), capable of generating sufficient resources for the federal and provincial governments should be the top priority. Through democratic process, all the provincial parliaments can through Article 144 of the Constitution of Islamic Republic of Pakistan establish autonomous NTA, comprising specialists rather than non-professional bureaucrats. Taxpayers should be facilitated to deal with a single body rather than multiple agencies at national, provincial and local levels. The mode and working of NTA can be discussed and finalised under Council of Common Interest [Article 153] and its control can be placed under National Economic Council [Article 156].

The linkage of database of various bodies with NTA (complete digitization) will be a great step towards e-government model for the country that is presently non-existent. The models of Skatteverket (Swedish Tax Agency) and CRA (Canadian Revenue Authority) are worth consideration and adoption after modifications suiting our peculiar requirements. Skatteverket on its website says: "Politicians in Parliament, municipalities and county councils decide on what taxes-and how much tax-we have to pay. The work of collecting taxes is carried out by Skatteverket, which has offices throughout Sweden". Skatteverket is accountable to the government, but operates as an autonomous public authority. This means that the government has no influence over the tax affairs of individuals or businesses. We need NTA on the same pattern in Pakistan.

Canada is a federation like Pakistan and a single revenue agency, CRA, administers tax laws for the Government of Canada and for most provinces and territories, and administers various social

and economic benefit and incentive programmes delivered through the tax system. Pakistan should also collect all taxes through a single agency-see details in 'Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms', Business Recorder, August 31, 2018, 'Doing business under scattered taxation', Business Recorder, September 7, 2018 and 'Overcoming fragmented tax system', Business Recorder, October 19, 2018. We also need to administer programmes like Benazir Income Support Programme through NTA as is the case in Canada and many other democracies of the world. Tax collection and social support disbursement should go hand in hand.

The new Tax Reforms Committee, claimed to comprise 'best-minds' of Pakistan, constituted by Federal Finance Minister on October 18, 2018, should not take months and meet after every 15 days "to devise strategies for increase in revenue collection". It should endorse the following targets for the FBR, suggested by us to the PTI government on September 12, 2018, for the coming eight months (November 2018 to June 2019) as it will yield revenues of billions of rupees:

1. Securing of returns and finalising of assessments of all the persons who paid substantial tax in advance through withholding mechanism but have not filed returns till 31-03-2019.
2. Till May 31, 2018, total companies registered with Security & Exchange Commission of Pakistan (SECP) rose to 86,876 whereas corporate income tax returns filed were less than 35,000. All companies that have not filed returns should be issued notices and assessments should be finalised before 31-03-2019 so that recovery can be made before 30-06-2019.
3. Retrieval of tax loss by taking action against the beneficiaries of the loan-write offs under the law [Explanation to section 18(1)(d) of the Income Tax Ordinance, 2001].
4. Recouping of sales tax losses due to under-invoicing and under-reporting.
5. Recoupment of tax loss by transfer pricing of all, especially the following sectors:
  - i) Pharmaceutical
  - ii) Telecommunication
  - iii) Beverages
  - iv) Automobiles
  - v) Food
6. On the basis of following withholding tax information, all the persons who did not file income tax returns should be brought to tax net by the respective LTUs/RTOs:
  - i) Tax deducted under section 236 of the Income Tax Ordinance, 2001 on mobile bills exceeding Rs. 48,000 annually.

- ii) Tax deducted [section 235] on commercial electricity bills exceeding Rs.100,000 annually.
  - iii) Tax deducted [section 235B] on domestic electricity bills exceeding Rs. 120,000 annually.
  - iv) Amount of tax deducted on banking transactions [sections 231A, 231AA and 236P] exceeding Rs.25,000 annually.
  - v) Tax deducted on profit on debt [section 151] exceeding Rs.36,000 so that FBR can know the amount of investment wherefrom this profit on debt was earned.
  - vi) Tax deducted on purchase and sale of immovable properties [section 236C, 236K and 236W] in immovable property exceeding Rs.10 million to know the source of investment.
  - vii) Tax deducted on purchase/registration of vehicles [section 231B(1), (2) and (3)] to ascertain the source of amount invested in purchase of vehicle(s).
  - viii) Tax deducted on lease of vehicles [section 231B(1A)] to ascertain the source of investment made and sources wherefrom monthly installments are paid.
7. Assessments in the case of all non-filers positively by 31-03-2019 to ensure recovery by 30-06-2019.
  8. Scanning and X-raying of each and every incoming and outgoing container.
  9. Recouping of loss of custom duty by tracking down under-invoicing through data/information matching
  10. Crackdown on smuggled goods.

Pakistan needs to increase collection at all levels of governments to bridge monstrous fiscal deficit that reached the level of 6.8% of GDP (Rs. 2.3 trillion) for the fiscal year 2017-18. The federal and provincial governments for the next five years must prepare tax policies that should be rationale, growth-oriented, fair and provide level playing field for all. These must not be changed arbitrarily. The main emphasis should be on low-rate taxes on the broadest possible tax base, taxing the rich and mighty through alternate minimum tax of 2.5% of net worth and property tax according to the size of the house/office. Alongwith these measures, bridging tax gap of nearly 70% in collection of income tax, sales tax, customs and agricultural income tax can wipe out the entire fiscal deficit in 2018-19. This is, however, not possible unless federal government, after consultations with provinces, introduces harmonised sales tax on goods and services and establishes NTA. All existing tax authorities at federal and provincial levels should merge into NTA. The NTA should be modern, automated and efficient, manned by competent personnel and run by an independent Board of Management comprising government officials, business representatives and professionals.

Till the time, NTA is established, FBR should not have any role in framing tax policy. Tax

policy should be under Policy Board as envisaged under 6 of Federal Board of Revenue Act, 2007. On national level, permanent Tax Policy Board should be established in terms of Article 156(2) of the Constitution of Pakistan as economic and financial planning is no more a federal subject alone. The Policy Board should have a permanent secretariat and its role should be that of a think tank [it can be housed in Pakistan Institute of Developmental Economics (PIDE)] to recommend to the federal and provincial governments and assemblies the tax policies for growth and meeting the needs of the country.

For effective running of existing tax agencies and/or future NTA, major information technology and human resource improvements in tax collection methods as well as effective audit techniques should be developed along with development-oriented tax policy. Tax reforms are meaningless without an effective tax administration and rational tax policy. As a medium-term reform measure we must concentrate on debating and finalising the structure of NTA for achieving the goal of a functional, efficient and integrated tax administration-further details can be seen in 'PTI and tax reforms', Business Recorder, August 17, 2018.

If PTI government wants optimum collection of taxes without hampering business growth and investment climate, it is imperative to dismantle FBR, abolish the existing complicated tax laws and procedures. New simple tax codes/procedures should be enacted in English and with versions in Urdu and local languages. Collection of taxes should be through a single agency, NTA, as discussed above-see details in 'Need for National Tax Authority', Business Recorder, October 20, 2017. Tax appellate system should also be revamped and National Tax Tribunal should be established-see details in Draft law on National Tax Tribunal, Business Recorder, November 3-4, 2017. Tax agencies should be equipped with modern Tax Intelligence System sending quarterly information to potential taxpayers about their economic activities so that they can be informed in advance as to how their incomes and expenditure should finally look like in their tax declarations. For promoting tax culture, it is equally important that there should be prudent spending of public money for welfare of masses through a transparent process.

(The writers, lawyers and partners in Huzaima, Ikram & Ijaz, are Adjunct Faculty at Lahore University of Management Sciences)

HUZAIMA BUKHARI AND DR IKRAMUL HAQ