

‘PTI govt’ & tax reforms

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The newly-formed coalition government of Tehreek-i-Insaf (PTI) has to address daunting challenges on many fronts, e.g. achieving political stability by working with strong Opposition, uprooting terrorism, improving law and order situation, countering extremism, eliminating corruption, cleaning economic mess, reforming judiciary and civil service, providing education and health care to all, empowering local bodies etc. The biggest challenge, however, is to reform the oppressive and outmoded tax system that is at the root of the prevalent fiscal mess as well as responsible for widening the rich-poor divide. With a thin-majority in the National Assembly and handful of members in Senate, PTI-led coalition government cannot undertake the necessary legislative changes to remove distortions in tax codes unless it seeks the support of all political parties. The success of third uninterrupted democratic transition of power to elected representatives requires that all political parties work collectively on common issues contained in their manifestos. Comprehensive tax reform is one such issue on which there is consensus among all the political parties. It is, thus, imperative that in the first 100-days, this issue is given the top priority. The Parliament must debate the various options available for meaningful and productive tax reforms and then go for necessary changes and their implementation.

All efforts in the name of tax reforms (so-called) 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. For reforming the outdated and outmoded tax machinery, we need comprehensive structural reforms. The Federal Board of Revenue (FBR) needs to be run by a competent Board as a short-term reform measure before it is finally merged into National Tax Authority [NTA]. In the long-term, Pakistan must have single tax agency that collects taxes as well disburses benefits like social security, food stamps, universal pension and income support, etc. 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 model of Canadian Revenue Authority (CRA) is worth adopting after modifications suiting our peculiar requirements.

Unfortunately, the present tax collection by federal and provincial governments is highly unsatisfactory. The real potential at federal level alone is not less than Rs 8 trillion, whereas FBR is not collecting even half of it. The same is the position of provincial tax authorities. All broad-based and buoyant sources of revenue are with the federal government and contribution of provinces in total tax revenues is only seven percent-in overall national revenue base (tax and non-tax revenue) it is around eight percent. This has made them totally dependent on the federal government for transfers from divisible pool or/and direct grants.

The performance of provinces in collecting agricultural income tax is extremely pathetic. This is a common issue both at federal and provincial level arising from sheer absence of the political will to collect income tax from the rich and mighty-meagre collection of agricultural income tax-less than Rs 2 billion by all provinces together in fiscal year 2017-18-is highly lamentable.

Pakistan will have 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 new federal and provincial governments must immediately prepare finance bills to tax 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 two 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. The autonomous status of the NTA can be ensured like that of CRA (its Board of Management is directly accountable to Parliament through Canadian Minister of National Revenue).

NTA, unlike FBR, will not have any role in framing tax policy. For this a 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.

There is a need to reconsider the role of the Planning Commission. The website of Planning Commission says:

"The Planning Commission (denoted as PC) is a financial and public policy development institution of the Government of Pakistan. The Commission comes under Ministry of Planning, Development and Reforms. The Planning Commission undertakes research studies and state policy development initiatives for the growth of national economy and the expansion of the public and state infrastructure of the country in tandem with the Ministry of Finance (MoF). Since 1952, the commission has had a major influence and role in formulating the highly centralized and planned five-year plans for the national economy, for most of the 20th century in Pakistan. Although the five-year plans were replaced by Medium Term Development Framework, the commission still played an influential and central role in the development of the programme. Furthermore, the Public Sector Development Programmes (PSDP) also placed under the domain of the Planning Commission. The Commission's authoritative figures include a Chairman who is the Prime Minister, assisted by the Deputy Chairman, and a science advisor".

It is strange that with the devolution of a large number of subjects to the provinces since the Eighteenth Constitutional Amendment in 2010, Planning Commission is still working as arm of Federal Government without taking into account the command of Article 156(2) of the Constitution which says:

"The National Economic Council shall review the overall economic condition of the country and shall, for advising the Federal Government and the Provincial Governments, formulate plans in respect of financial, commercial, social and economic policies; and in formulating such plans, it shall, amongst other factors, ensure balanced development and regional equity and shall also be guided by the Principles of Policy set-out in Chapter 2 of Part II".

The deletion of the subject of national planning from the exclusive domain of the Federal Government, and the placing of the National Economic Council (NEC) in the list of subjects mandated to be the joint responsibility of the Federal Government and the Provincial Governments remains unnoticed by our parliamentarians and independent experts. Strangely, the provinces have not raised this issue till today.

Centralised planning was an important factor in the dismemberment of the country in 1971. The planning, in the post-Eighteenth Amendment period should have to be federalised rather than centralised. But nobody has raised this issue. The Eighteenth Constitutional Amendment has redefined NEC on the pattern of Council of Economic Interests (CCI). The NEC forms part of the Chapter 3 of the Constitution entitled 'Special Provisions'. Before the Eighteenth Amendment, Article 156 related to the NEC had two clauses. Clause (1) described the composition and clause (2) its functions. These clauses have undergone important changes after the Eighteenth Amendment. The pre-amendment clause (1) read as follows:

"The President shall constitute a National Economic Council consisting of the Prime Minister, who shall be its Chairman, and such other members as the President may determine:

Provided that the President shall nominate one member from each Province on the recommendation of

the Government of that Province."

While the apex planning body, the NEC, has been federalised, Planning Commission continues to be centralised. The spirit of the Constitution can be satisfied by (1) making Planning Commission, in place of the Cabinet Division, the Secretariat of the NEC and (2) by reducing the number of its members to five, one each from the Provinces and the Federal Government. Prime Minister chairs the NEC and there is no need for him to Chair the Planning Commission. The Chairman should be appointed by the CCI to represent the Federation.

PIDE is now a University under the administrative control of the Planning and Development Division. With Planning Commission moving to the CCI/NEC, the Planning and Development Division can continue to deal with the development issues of the Federal Legislative List, Part I. PIDE can play the role of a think-tank for the Planning and Development Division.

There is an urgent need for restructuring the planning mechanisms in the provinces. At present, only Punjab has a Planning and Development Board, with members in charge of the main sectors. Other provinces have their respective Planning and Development Departments. An important reason why the centralised role of planning and the Planning Commission continues is the weak capacity of the provincial planning mechanisms. After the Eighteenth Amendment, the Planning Commission could no more be a centralised body. Federal Legislative List, Part I, contains subjects which lie in the exclusive jurisdiction of the Federal Government. Before the Eighteenth Amendment, its item 32 related to planning-"National planning and national economic coordination including planning and coordination of scientific and technological research." After the Amendment, the subject was included in the Federal Legislative List, Part II. The last-mentioned list of subjects is neither exclusively federal nor provincial; it is an area of joint responsibility. In the Constitution, a special institution, the Council of Common Interests (CCI), has been created to supervise the affairs of the Federation listed in Part II of the Federal Legislative List.

By abolishing the Concurrent List and deleting certain items from the Federal Legislative List Part-I, the Eighteenth Amendment has substantially increased the quantum of provincial autonomy. Second, the role of provinces in decision making of the federation has been substantially enhanced by the enlargement of the Federal Legislative List Part-II. Provinces now have more subjects to deal with than was the case before the Eighteenth Amendment. In the first place, they have been given full and effective control of the social sector, especially education, health, population, labour, social welfare, Zakat, Auqaf, environment, tourism, print media and cinematograph films, culture and archeology etc. Other than standards of higher education, research and international student's exchange, the provinces are now entrusted with education policy formulation, planning, and curriculum standards. The Eighteenth Amendment gives provinces equal rights over their natural resources. Article 172(3) confers 50 percent ownership of hydrocarbon petroleum resources to the provinces. The subject was earlier held by the federal government. There still exist legal and administrative bottlenecks for implementing this provision.

Another landmark decision through the Eighteenth Amendment is Article 167(4) providing that: "A Province may raise domestic or international loan, or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council". Article 167(4) thus ensures provinces to run and administer their own local government systems and enter into direct financial loan or credit arrangements with external and internal lenders.

In view of Article 167(4), the role of NEC has become very important though it has yet not been realised by the centre and provinces. In this perspective, we should also discuss the idea of NTA. FBR has been persistently failing to meet budgetary targets for the last many years what to speak of realising the real revenue potential. In fact, FBR has become a tool in the hands of businessmen-turned-politicians in getting enormous tax benefits through the infamous Statutory Regulatory Orders (SRO) system. FBR is dysfunctional to the extent that the system is not taxing the rich 5 million and income distribution disparities are rapidly widening. There is an urgent need to dismantle and reconstruct FBR.

Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration. Establishment of

NTA, capable of generating sufficient resources for the federal and provincial governments must be the top priority. Through consensus and democratic process, all the parliaments can enact laws for establishing autonomous NTA, comprising specialists and professionals that would facilitate people to deal with 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].

Tax collection and compliance at national level cannot be improved without establishing NTA and introducing an integrated Tax Intelligence System that can correlate sales tax collections on goods and services with income tax returns and monitor all transactions. A fully automated, professional and efficient NTA would alone be in a position to improve capacity by detecting tax avoidance and evasion through Tax Intelligence System. Before establishing 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. The model of Canadian Revenue Agency (<http://www.cra-arc.gc.ca/menu-eng.html>) is worth-studying. Further details can be seen in Towards Flat, Low-rate, Broad and Predictable Taxes, available at <http://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

If PTI government wants optimum collection of taxes fairly and without hampering growth, it is imperative to abolish the present tax laws and enact new ones. Collection of taxes should be through a single national authority, NTA, as suggested above. NTA 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 necessary that there should be prudent spending of public money for welfare of masses through a transparent process.

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