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Case for All-Pakistan Unified Tax Service

PTI & innovative tax reforms

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Generally the taxation system in developing countries witnesses low tax-to-GDP ratio owing to several factors such as high compliance costs, complex tax rate structures, multiple tax agencies and narrow tax base and Pakistan is no exception. An overly brief glance on international literature is necessary to understanding the dynamics of robust tax systems in the world. According to Kenny and Winer's 2006 research, better managed tax systems in the world follow three main principles: (1) the administrative cost effect: lower administration cost leading to enhanced reliance on revenue sources; (2) the base effect: the tax systems heavily rely on large tax bases; and (3) the scale effect: utilizing the tax resources with the expansion of government. In this write-up, we have discussed these three themes after studying the world's 100 democratic and non-democratic tax regimes over different time periods. Based on international best practices, a 1999 World Bank report suggests that a concerted approach to institutional analysis of a tax environment results in drastic improvements in a tax project's design, execution and effectiveness.

Following the above mentioned base effect and cost effect, an article from the 2000 Oxford Economic Papers underpins that the optimal taxation of corporate taxes is an important element of analysis when the federal and provincial governments could choose the rate and base of the taxes. Here it is equally important to understand the mentality of the taxpayers. In 2012, Shaxson underlined four factors that taxpayers generally wish to avoid, namely, criminal laws, financial regulations, transparency, and responsibilities of society. These factors are responsible for most tax evasions in the world requiring policy and reform interventions. Most grievances of the taxpayers also revolve around the operation of these four factors which could be better organized through integration of scattered taxes and unifying the tax services. There are several competing articles in the literature suggesting the need to integrate taxes with a view to optimizing revenue by introducing tax reforms on the institutional, legal and administrative fronts (Huzaima & Ikram 2016, Desai & Hines Jr, 2003; Kiser, 1994; Roin, 1995; Sandford, 2000).

Like many other developing countries, Pakistan is confronted with several financial challenges requiring immediate action and prompt solutions based on rational and bold decision-making. Pakistan is facing an apparently overwhelming fiscal crisis in terms of abysmally low tax-to-GDP ratio and lower revenue collection vis-à-vis the tax potential of the country. These taxes are, therefore, insufficient for the needs of the country such as debt servicing, defence expenditures, poverty alleviation and pro-poor economic growth.

According to an article on reforms in Federal Board of Revenue (FBR), lower revenue collection and embarrassingly low tax to GDP ratio remain major hindrances for Pakistan to handle the gigantic tasks of improving good governance, better handling public services delivery system alongside improving human capital (Lucas' Model of economic growth) thus preparing the country to reach a 'take-off stage' for 'quantum leap' necessary for economic revival. In order to achieve these objectives, such as optimizing revenue collection, increasing tax-to-GDP ratio by broadening the tax base, introducing robust procedures for audit and enforcement wings, enhancing capacity building of the FBR workforce, and ensuring transparent, just and equitable tax management & laws, the government kick-started a reforms programme at FBR in 2005 called Tax Administration Reforms Programme (TARP). After its completion in 2011, the FBR claimed to substantially achieve most of its targets despite multiple challenges confronted by the organization. However, despite such claims, FBR could not increase its revenue collection as compared and proportionate with the actual tax potential of the country. A similar trend can be observed at the provincial levels.

One major hindrance towards optimizing revenue collection is the scattered and haphazard tax collection through multiple authorities at the federal and provincial levels. The trend was further accentuated after the 18th Constitutional Amendment of 2010 [hereinafter "the 18th Amendment"] after which the provinces established their own tax collection agencies at the provincial level. However, these provincial tax authorities still lack tax collection expertise, skilled labor, necessary human capital and administrative paraphernalia to collect taxes. To meet these objectives, the services of FBR officers have been requisitioned by the provincial authorities for their posting at provincial tax collection agencies on deputation basis. Resultantly, many of the FBR officers are working in provincial tax agencies—Sindh Revenue Board (SRB) and Punjab Revenue Authority (PRA), Khyber Pakhtunkhwa Revenue Authority (KPRA) and Balochistan Revenue Authority (BRA). Although the 18th Amendment was widely appreciated by the provinces, it has created fissures in the revenue collection authority of FBR resulting in further decline in tax collection vis-à-vis sales tax on services. On one side, the move was hailed by the provinces but, on the other, the taxpayers immediately started raising their eyebrows because now they had to face both federal and provincial tax authorities.

All major Chambers of Commerce expressed their concerns and showed reservations on the scattered tax collection in the aftermath of the 18th Amendment. It is important to mention that Excise and Taxation (E&T) departments are already working as a separate entity under the provincial governments. The E&T departments have no formal administrative connection with SRB, PRA, KPRA and BRA and other provincial tax collection agencies resulting in higher rate of taxpayers' grievances. Unless, all federal and provincial tax agencies are unified and harmonized, the dream of optimizing tax collection cannot be materialized. Let's cast a brief glance at the scattered taxation system of Pakistan by taking the case studies of two provinces, Punjab and Sindh. Similar studies may also be carried out for Khyber Pakhtunkhwa, Balochistan, Gilgit-

Baltistan and Azad Jammu & Kashmir.

The Sindh province generates more than 70% of Pakistan’s total revenues. Like other provinces of the country, Sindh is also experiencing scattered tax systems. Most of the revenue, under the nomenclature of income tax, sales tax and federal excise duty, is collected by the federal government through FBR. As a result of the 18th Amendment, particularly with reference to item 49 of Part I of Fourth Schedule to the Constitution, and in line with Articles 8 and 9(2) of the 7th National Finance Commission (NFC) Award of 2010, the Government of Sindh enacted the SRB (Sindh Act No XI of 2010). Its purpose was to regulate the tax issues pertaining to administration, management, imposition, levy and collection of taxes, duties, cess and other levies (Sindh Revenue Board, 2017). For this purpose the SRB needed to be capable of enforcing the tax system by applying modern tax techniques such as automated systems and information management for assessment and collection of taxes.

The Sindh government collects about fifteen taxes and other minor levies by the SRB, the Board of Revenue (BOR) and the Excise, Taxation and Narcotics (ET&N) departments. Based on Jamali and Ahmad’s 2016 report, the scattered nature of taxes is reflected from the fact that the SRB collects sales tax on services whereas the BOR collects stamp duty, registration fee, agricultural income tax, capital value tax, and land revenue. The ET&N department collects professional tax, property tax, motor vehicle tax, infrastructure development cess, cotton fee, entertainment duty, and excise duty. With regard to sales tax on services, it may be noted that Sindh enacted the Sindh Sales Tax on Services Act (Sindh Act No XII of 2011) for collecting and levying sales tax on services provided or rendered (Sindh Revenue Board, 2017).

Parallel to the administrative functioning of FBR, the SRB also deals with tax administration, tax policy, and taxpayers’ education and facilitation. It is headed by a Chairman who is assisted by four Members responsible for taxation, tax policy, audit and support services. Separate functioning of two tax agencies under the federal and provincial governments is against the above mentioned principles of cost effect, base effect and scale effect. As a result, scattered taxation has created several key challenges for the Sindh government such as: (1) a coordination gap among various tax collection agencies, (2) scattered record of provincial taxpayers’ liable incomes, (3) the challenges involved in automating the data, (4) presence of a large informal sector in services, (5) lack of documented tax bases, and (6) obsolete laws allowing boorishly limited tax jurisdiction to authorities.

Integration of multiple taxes and unifying tax services can help bring following reforms at the provincial level.

1- Integrated tax administration machinery can better help integrate data from different sources and heads. This policy intervention will be helpful not only in better documenting the economy but also right aligning the above three themes identified from international best practices.

2- A unified tax service can better handle tax integration by enhancing the automation quality through automated land record system. This step will be helpful in better collection of agricultural income tax, stamp duties and land tax. Automation of stamp collection and property registration also needs necessary updating.

3- The BOR issues tables of property valuation having legal and administrative impact on the assessment of some of the provincial taxes. A robustly integrated tax service, based on data sharing with FBR and provincial revenue departments, will ensure that these tables are regularly updated as per market values of properties so that the actual tax could be calculated.

4- The entry of property is made in several registers for which the concerned revenue bodies' jurisdiction may need to be expanded. For instance, the cantonment boards of Sindh have higher rental values but they do not fall in the jurisdiction of ET&N department. This situation creates fragmented taxation requiring necessary policy intervention with a view to optimizing tax through a unified tax service.

5- A unified tax service can better enhance the audit capacity building of tax officials which will ensure better integration and assessment of taxes.

6- The census of the services sector can be better carried out by a unified tax service on regular basis with a view to increasing services sector tax base.

7- Generally, there is a sense of rift between Ministry of Defence administered cantonment boards and Sindh government on the revision of rates and jurisdiction of professional tax. The cantonment boards argue that they can collect professional tax whereas the Sindh government thinks otherwise. A complete institutional harmony needs to be ensured for optimizing provincial taxes.

8- The broadening of the scope of infrastructure cess is also a worth mentioning reform. The purpose of this cess is to tax the roads and bridges. Currently, there is practice of taxing only those goods entering Sindh from other countries. The scope of this practice may be broadened. This will include doing away with the exemptions granted to some sectors such as petroleum and goods in Afghan Transit Trade. The step may optimize the tax potential from infrastructure. Having said that, let's take the case of the Punjab province now.

Punjab, like Sindh, has also got three main tax collection departments: PRA, BOR and E&T (Vaqar & Naqvi, 2016). Lack of administrative cohesion among these departments is the root cause of taxpayers' most grievances. Following excerpts, for instance, reflect the importance of a unified tax service in Pakistan:

"Several expert studies have been conducted by both national and international subject specialists on the taxation system of Punjab. In all these studies, quick modernization of the Punjab's tax system has been forcefully emphasized. Instead of multi-institutional tax administrations, a uni-hand tax management has been recommended. Punjab

Revenue Authority is a product of such specialist recommendations. The Provincial Assembly of Punjab has enacted the Punjab Revenue Authority Act, 2012' (Punjab Revenue Authority, 2017). And, 'Currently, Government of the Punjab has an incomplete picture of its tax system, since neither the FD nor any of the three tax agencies (PRA, BOR and E&TD) carry out tax research or analysis. While the main hindrance is lack of capacity, there is also a lack of reliable data in the Province. Economic and sectoral data as well as taxpayer data, which are used as the basis for assessing different taxes, are archaic and need to be updated. This entails extensive coordination with the revenue bodies, while the implementation of reforms program also needs to be regularly monitored' (Finance Department, Government of the Punjab, 2017)".

An analysis of these excerpts identifies similar issues such as coordination gap among various tax collection agencies, scattered record of provincial taxpayers' liable incomes, the challenges involved in automating the data, presence of a large informal sector in services, lack of documented tax bases, and obsolete tax laws (ibid). The issues of scattered taxation and lack of capacity in the provincial tax work force can be overcome through a well thought out unified tax service in the country. The above mentioned research shows that a unified tax service can help bring following reforms in the Punjab province.

1- In the post-18th Amendment scenario, the progressive taxes such as capital gain tax on immovable property, estate duty, gift tax and wealth tax can be collected by the provinces. In this regard, necessary legislation may be done by the Punjab Assembly with a view to optimizing the provincial tax potential. Such taxes can augment the growth in provincial spending needed for human capital development, in line with the Lucas' model, such as health, education, low-cost housing and public transport.

2- There is a need to focus on Punjab Urban Immovable Property Tax (UIPT) through increased survey with a view to updating the changes in property and rental values. Some of the GIS software can effectively be employed to achieve this goal. The rating areas need to be notified and revised regularly so that coverage of tax net can be expanded.

3- The current rates of taxes on agricultural income are not rationalized and at par with other economic indicators. Accordingly, the tax rates need to be revisited with a view to optimizing the tax potential of agricultural income.

4- Even today, the taxpayers are complaining double taxation by the federal and provincial governments. After the 18th Amendment, the taxation of services sector is the responsibility of the Punjab government. In this regard, the services sector requires specialized focus of the Punjab government so as to optimize and maximize its revenue potential.

5- Tax collection is a legal matter in which taxpayers usually have grievances. International best practices suggest that the presence of a powerful mechanism for redressing the taxpayers’ grievances leaves a very positive impact on revenue collection. In the wake of 18th Amendment, the Punjab government may consider strengthening this area as well which may have far reaching impacts on optimizing provincial taxes. A unified national tax service can effectively help achieve these targets.

Now that the PTI-led government is in power with a singular vision which may better be termed as “New Pakistan”, it is high time to address the administrative issues of tax collection necessary for optimizing revenue collection as per the country’s potential. In this regard, the formation of All Pakistan Unified Tax Service (APUTS) is the first major step towards harmonizing the tax system and integration of taxes in Pakistan.

The proposed APUTS will function similar to All Pakistan Unified Group (APUG) services such as Pakistan Administrative Service (PAS) and Police Service of Pakistan (PSP). The proposed APUTS will initially harmonize three main tax agencies: (1) FBR, (2) provincial tax authorities such as SRB & PRA, and (3) provincial Excise and Taxation departments. At a later stage, after the successful formation of APUTS, all other tax agencies such as Pakistan Customs Service and BOR may also be given an option to join APUTS. A similar option may also be extended to Military Lands and Cantonment Group (ML&CG) who are currently the custodians of tax collection in cantonment areas. It may be highlighted that there is no intention or scope of any kind of inter-occupational service groups’ rivalry here; it is a win-win situation for everyone. The officers will be posted anywhere in Pakistan, both at federal and provincial levels, directly from the FBR Headquarters. An officer of the rank of Joint Secretary from Establishment Division may also be posted in FBR who would keep liaison with FBR over administrative issues of posting and transfers of officers. The officers performing better may be given station of their choice while the corrupt and inefficient may be posted outside the province as punishment. The provinces will continue to enjoy the benefits and powers under the 18th Amendment, as is the case of working of the PAS and PSP officers.

As an immediate measure, the Directorate General of Training and Research Inland Revenue (DOT) in Allama Iqbal Town Lahore can be transformed into National Tax Academy (NTA) on the lines of National Police Academy in Islamabad. At a later stage, a state of the art NTA may be established in Islamabad, for achieving the long run strategic objectives of APUTS, where all federal and provincial taxes such as income tax, sales tax, federal excise, customs, taxes administered by cantonment boards, property tax, agricultural tax, land revenue, capital value tax, registration fees, professional tax, infrastructure cess, registration fee and all other miscellaneous taxes could be taught in a strategically conceived national tax framework. Such a framework can be devised, for example, by expanding Kenny and Winer’s abovementioned research in Pakistan’s context, though it is not the only option. Methodologically, the entire project needs to be treated as a megaproject where the break-fix model approach has the scope to be applied. It is because of multiple legal, administrative and constitutional issues among the federal and provincial governments, states and regions. This model suggests initiating a project, breaking it, identifying the shortcomings, fixing them and continuing.

The formation of APUTS will be a win-win situation for the federal government, the provincial governments and taxpayers. The proposed APUTS will have following main advantages towards maximizing revenue collection at the federal and provincial levels.

1. The APUTS officers will then be posted anywhere in Pakistan, both at federal and provincial levels, through centralized postings/transfers.

2. The taxpayers will feel better that they are in fact dealing with only one organization, the APUTS, for paying taxes and addressing their grievances.

3. The formulation of APUTS will harmonize and better handle tax matters all over Pakistan as a unified service just as PAS and PSP. There will be better coordination among federal and provincial tax authorities that will eventually increase badly needed revenue and tax base.

4. Inland Revenue Service (IRS) will emerge as a strong but equally accountable government service spreading over the federal government, all four provinces, Gilgit-Baltistan and Azad Jammu & Kashmir with minimum political interference

5. APUTS will better help the PTI government achieve its vision and revenue targets alongside establishing a robust and harmonized tax institution in the country.

It is also important to highlight some administrative misunderstandings that the PTI-led government may face in forming APUTS. The PAS and provincial services may raise objections on the formation of APUTS because they are predominantly dealing with the provincial E&T, BOR and other revenue collection departments. Similar objections may be raised by the cantonment boards. The provincial revenue authorities formed after the 18th Amendment are also functioning under the respective Chief Secretaries and Chairmen who mainly belong to PAS. However, such misunderstandings may easily be overcome by highlighting the fact that the purpose APUTS is to discipline and harmonize tax collection in the country and it is not targeted at grabbing the powers of provincial governments or cantonment boards. Its working will be just like the working of PAS and PSP where the services of federal officers can be placed at the disposal of provincial governments, other departments and institutions. Furthermore, the officers from provincial services may also be posted in the tax agencies of the provinces. In this regard, the Establishment Division may issue an Office Memorandum (O.M) in terms of Civil Servants (Appointment, Promotion and Transfer) Rules, 1973. A similar O.M. was issued by the Establishment Division when the erstwhile Income Tax Group was successfully transformed into IRS back in 2010.

The formation of APUTS will usher in a new era of reformed taxation in Pakistan. It will be a beginning of an end to the British era scattered tax system that was meant to subjugate the masses. It will be a first serious step towards eliminating multiple tax authorities, and integrating taxes thus paving way for one window tax operations in

Pakistan. As a strong and accountable service, the APUTS will have the courage to say no to illegal orders and political interference as envisioned by the Premier Imran Khan. Through better data coordination among federal and provincial tax authorities, the APUTS will not only be better equipped with information for broadening the tax base but also a step forward towards integrating taxes through national level long term strategic planning.

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