

Doing business under scattered taxation

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The nature and mechanism of taxation in a country needs to be viewed from a wider economic perspective rather than the narrow confines of prevailing laws. Our earlier article [Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms, Business Recorder, August 31, 2018] suggested the need for a national tax framework covering Pakistan's strategic economic interests in forming the fiscal policy and introducing reforms. Accordingly, the proposed reforms in Federal Board of Revenue (FBR) and other revenue generating authorities must be part of a macro level long-run financial framework with the ability to guide our long-term and short-term strategic economic interests in a robust manner. Such a framework may require extensive discussions among the federal government, the provinces, states and regions with the sole purpose of defining our long-term national tax framework. In this regard, our 'Ease of Doing Business' trend could be used as a factor in defining our strategic, economic and financial interests. Given the fact, however, that Doing Business reports are generated by the World Bank, we may incorporate other themes and factors emerging as a result of extensive discussions and consultations among the stakeholders. They can also be included in framing the national tax framework to be followed by all governments and policymakers with equal acceptability irrespective of political affiliations.

It may be observed from the Table below that Pakistan never improved its ease of doing business trend for the years under analysis. India, however, broke the downward status quo of business trend in the years 2008, 2012, 2013, and 2016 alongside an impressive upward jump in 2018. As compared with India's ranking, Pakistan was never able to break the downward business trend as far as Ease of Doing Business is concerned. Pakistan fell from an impressive 2006 ranking of 60 to an embarrassingly low position of 147 among 190 economies in 2018. India, however, was consistent in maintaining an upwards trend from 2016 onwards, making a big jump from 2016/17 position of 130 to a dignified ranking of 100 in 2018. According to the 2018 Doing Business report, following eleven indicators constitute a country's ranking:

1. Starting a business,
2. Dealing with construction permits,
3. Getting electricity,

4.	Registering	property,
5.	Getting	credit,
6.	Protecting	minority investors,
7.	Paying	taxes,
8.	Trading	across borders,
9.	Enforcing	contracts,
10.	Resolving	insolvency, and
11.	Labour	market regulation.

This suggests that an investor must look into Pakistan's ranking against each of these indicators before deciding to bring in capital here. The top ranking countries, such as New Zealand, have provided business and tax friendly environment to the local and foreign investors irrespective of their ethnicity and religion. According to the 2017 Doing Business data, it takes only one day for an investor to start a business in New Zealand. On the contrary, Pakistan takes, at least, 18 days for an investor to start a business. Among other factors, scattered taxation remains one of the core issues for the investors. There are multiple tax authorities under the federal and provincial governments which collect taxes within their respective jurisdictions.

In this context, Pakistan appears to be an example of inward looking business model that evolved due to internal conflicts and rent seeking behavior of the federating units. After the 18th Constitutional Amendment of 2010, the already scattered nature of taxes further exacerbated when the provinces started collecting sales tax on services. This kind of inward looking approach could be beneficial for the federating units in terms of their direct supervision over revenue generating agencies but, it is highly inconvenient for the investors aiming to invest here. A novice investor has no other reliable option but to look at the World Bank's Doing Business reports. We clearly have a strategic interest in improving our rankings not only against above mentioned eleven indicators but also other factors and themes that could emerge as a result of consultations among stakeholders. These factors will collectively define the boundaries of our national tax framework.

There are some core reforms needed for making the business environment conducive for the investors and the national tax framework. The procedure for starting a business needs to be an effective one window operation where all necessary formalities should "effectively" be addressed. At the stage of obtaining construction permits, necessary reforms are required at the metropolitan development authorities such as Capital Development Authority (CDA), Karachi Development Authority (KDA) and Lahore

Development Authority (LDA) for integrating their regulations with the one-window business operations for investors. The Tehsil and Town Municipal Administrations may allow representation from the concerned Chamber of Commerce in deciding the applications over the construction permits so as to reduce bureaucratic hurdles. Effective and meaningful automation of the Land Record Management Information System (LRMIS) needs to be done in close liaison with Federal Board of Revenue. All laws, rules and regulations may be placed, and effectively interlinked with the executing agencies, for the convenience of the investors. Scattered and multiple business and tax laws must be harmonized at the federal and provincial levels. It is not important for an investor to know whether it is a federal or a provincial tax; it is business that matters for him. We have to understand the mentality of a businessman and investor. New investors may be exempted from any kind of commercialization fee on land and business zones be clearly defined so that the question of residential and commercial land does not arise. Once a construction permit is given, necessary utilities such as telephone, water, sewerage etc. should be provided without further delays. Similar relevant steps may also be taken in ensuring the electricity connection and its smooth availability to the novice investors. In this regard, Securities and Exchange Commission of Pakistan (SECP), National Database Registration Authority (NADRA), LRMIS, and FBR must establish close liaison and data sharing for facilitating the investors and taxpayers. For the purposes of property registration, the traditional 'patwari & tehsildar culture' must come to an end. In this regard, lessons can be learnt from private sector such as Defense Housing Authority (DHA) and Bahria Town. Even special procedures may be framed where such registration could be outsourced to the private sector so that bureaucratic hurdles in the government departments could be minimized. In order to provide 'credit' facility to the investors, there is a need to establish an active liaison between LRMIS, FBR and the banks so that the business assessment could effectively be made before the approval of credits. The indicator of 'trading across borders' can be improved by reducing physical inspections of the business containers. In this regard, the use of scanners can effectively be enhanced for reducing the clearance time. Similarly, the business contracts should be enforced under specialized speedy procedures with a view to saving maximum time. Similar procedures also need to be framed for resolving insolvency.

The rate of growth of business community and new investors is directly linked with the ease of doing business coupled with robust and fair taxation processes. Premier Imran Khan in his first post-election speech mentioned the importance of Ease of Doing Business. Linking the importance of taxation mechanism with everyday business, therefore, it is crucial to harmonize a country's political and economic visions. Currently, Pakistan's scattered taxation setup is in direct confrontation with the indicators of doing business. The country is, therefore, continuously declining in its ranking against all business indicators. Here, 'paying taxes' remains the most important indicator and factor for the investors. Based on the case studies and success stories of the countries improving impressively on these indicators, the World Bank reports note that investors prefer to deal with a single tax authority. This factor saves precious time and energies for the investors, particularly from developed countries, who are used to a systematic and regularized business environment. Pakistan must, therefore, work seriously on this

indicator. Our earlier article (ibid) suggests the formation of All Pakistan Unified Tax Service (APUTS) as a first serious step towards harmonizing fragmented tax system in Pakistan. The suggestion has been given in the specific circumstances of our country where the rent seeking behavior of the federating units could easily be witnessed. In these circumstances, it would be very hard for any government to abolish the 18th Amendment because it would be seen as snatching away of the rights of the provinces. However, a combined service capable of posting its officers and staff in both federal and provincial tax authorities will create an administrative sense of 'integrated taxation' which the international investors are really looking forward to. So much so, the officers of APUTS can be entrusted with dealing with all eleven indicators mentioned above in close association and liaison with SECP, Board of Investment (BOI) and provincial authorities. Unless the scattered and fragmented taxation culture comes to an end, Pakistan will not be able to break its declining status quo on the Ease of Doing Business front.

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