

TAX REFORMS - THE WAY FORWARD



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Tax Reform
not a new tax

a new tax system

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IMF Statement released on 11 March

“Pakistan needs to bolster revenues through broadening the tax base and improve compliance in order to generate resources for reducing public debt, while it must increase spendings in priority areas such as public investment, health and education.

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World Bank Report on “Ease of Doing Business in Pakistan 2015”

According to World Bank Report **Ease of Doing Business in Pakistan 2015**, it takes 594 hours to pay taxes in Pakistan. Add to this, the responsibility of Withholding Taxes and burden on the tax compliance is just enormous. According to another World Bank Supported study: Paying Taxes 2015, out of 186 Countries surveyed, Pakistan ranked 172 in difficulty of tax compliance. As is clear from the above findings, not only FBR has a very low tax base but those who are paying taxes, the tax compliance is complex, time consuming and full of ethical breaches.

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World Bank Report on “Ease of Doing Business in Pakistan 2015” (Continued...)

The general perception is that FBR has culture of corruption, no evidence has been put forward to dislodge this perception. FBR has to change and change very quickly to respond to the needs of the nation. A new FBR has to emerge with a new mindset.

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Diagnosis

- Large Informal economy
- Lack of consideration for values and integrity
- Incentive for dishonesty - Tax Amnesty schemes
- Presumptive Taxes and lack of documentation
- Adhoc-ism in terms of Economic and Fiscal policy in Flawed Tax System
- SRO Culture
- Extremely poor compliance level and awful enforcement
- Menace of Tax evasion

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Diagnosis

- Widening gap between rich and poor
- Exemptions, concessions and reduction in tax rate
- Adversarial Relationship
- No effective concept of Tax Payers' Rights
- Inadequate Tax Payers' Facilitation
- Lack of Research and Analysis
- Inadequate focus on technology and training of users
- Training of FBR Staff
- Weaknesses in terms of integrity of Data and its ownership

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History of Tax Reforms

The story of Tax Reforms in Pakistan is a long and sordid one

- Lowest Tax to GDP ratio
- Complex Tax system

The Reforms in the last three decades were aimed at:

- Broadening the Tax base
- Rationalizing Tax rates
- Simplify procedures and strengthening tax administration

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History of Tax Reforms

- Increasing Public Revenue
- Improving tax structure
- Promoting Tax culture in Pakistan

In all above, the expectations remained unfulfilled. The reason which appears to be main contributory to the failure could be attributed to **unsuccessful**

implementation of Tax Reforms

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Strategy Plan – 2013-14 onwards

- Major Economic factors impacting Revenues according to FBR Strategy Paper are:
 - a) Large scale manufacturing growth
 - b) Inflation
 - c) Import trends
 - d) Fiscal operations and debt servicing
- Number of persons filing returns
- Low tax compliance – 39 percent
- Tax exemptions

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Strategy Plan – 2013-14 onwards

- Major threats to Revenue
 - Structural flaws
 - Tax expenditure
 - Suppression of production
 - Under-invoicing
 - Discontinuation of Audit

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The Way Forward:

- Devise measures to enhance the Tax Payers cost of evasion
- Reform the entire Tax collection system preventing the Tax dodgers from going underground
- Strengthen Tax Administration to increase potential of discovering non-compliant tax payers
- Enhance the penalties of UGE activities
- Setup a stronger institutional set up for monitoring implementation as all efforts for Tax Reforms have been failure in achieving overall objectives of these reforms due to unsuccessful implementation

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The Way Forward (Continued...)

- Change the attitude of Tax collectors
- Promote the idea that paying taxes is an honour, whereas evading taxes is disgrace
- Make all financial transactions transparent, eliminate money power and corrupt administrative structure
- All income irrespective of source has to be tapped
- Need for declaration of Assets including Bank Accounts held by Resident Pakistanis out of Pakistan and undisclosed income outside Pakistan under a special law and regularize declared assets by payment of tax at specified rate [The Undisclosed Foreign Income and Assets Act]

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The Way Forward (Continued...)

- In case of non-declaration, the assets of equivalent value in Pakistan should be forfeited under the provisions of the law along with other severe penalties
- Minimize Tax expenditure by rationalizing tax exemptions and concessions
- Informal economy has to be the main target
 - Discourage cash and all bearer instruments
 - Promote use of Banks
 - Encourage Documentation
- Create severe deterrence for non-disclosure, non-compliance and evasion of Tax
- A high level Commission/Committee has to be set up with a specific action plan defining KPIs, and time frame to reduce the level of informal economy

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The Way Forward (Continued...)

- Overhaul the structure of FBR and build its' capacity with HR specifically trained for Tax and related services. In medium to long term, there could be a separate service cadre for FBR.
- The relationship culture between FBR and Tax Payers has to be Customer based. Emphasis has to be on Tax Payers' Facilitation and incentivisation for honesty and integrity for both Tax Payers and FBR.
- Severe accountability for FBR officials and non-compliant Tax Payers.

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The Way Forward (Continued...)

- There should be separate and effective policy making forum and FBR should only be a Revenue Collection and Policy implementation body
- The Policy Forum should be an independent body and its Board of Governance be comprised of Chairman FBR, Nominees of Parliament, Economists, other professionals which should develop and effective and dynamic strategy and monitor implementation of the Tax Policy. The forum should on a periodic basis report to Ministry of Finance and Standing Committee of Parliament on implementation of the Strategy

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The Way Forward (Continued...)

- In medium to long term, there is a need to set up National Tax Agency to collect all taxes (Federal, Provincial and Local) and the robust technology should support its' allocations to Federation, Provinces and Local Bodies

**THANK
YOU**