

Tax Reforms in Pakistan

Historic & Critical View



Huzaima Bukhari
&
Ikramul Haq

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Dedicated to millions of Pakistanis who pay income tax at source, and may or may not be liable to tax under the law, yet are dubbed as “tax cheats” by the tax authorities, lenders, donors, media and many others!

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FORWARD

The False Narrative of Tax Cheating

For at least 3 decades, policy discussion and debate has been dominated by tax issues. The narrative has been fully accepted and shouted from pulpits that Pakistan is a country that neither collects enough taxes nor is there a tax paying culture here. The related narrative on corruption begin very high in Pakistan has served to paint the country as totally immoral as well as with a state that is bordering on failure. This is despite the fact that many of our comparator countries like Bangladesh, Indonesia, Malaysia and others are not doing much better than us.



Huzaima and Ikram have relentlessly written about the problems in taxation over the last 3 decades highlighting all the failures in law, policy and administration. In this collection of their writings is chronicled a compendium on these issues that should hopefully will be used by researchers and tax practitioners to delve deeper into the subject of our failures in revenue mobilization.

It is probably fair to argue that the many failures in tax policy, law and administration has led to the narrative now well established and backed by donors and our policymakers of pointing fingers at the poor taxpayer.

The Inability to Frame a Law

On September 13, 2001, General Pervez Musharraf-Shaukat Aziz government at the behest of the International Monetary Fund

(IMF)¹ promulgated a new income tax law. The new law repealed the time-tested Income Tax Ordinance, 1979 after 22 years when it attained acceptability and stability after authentic judicial pronouncements.

They point to the Income Tax Ordinance of 2001, drafted by an Australian Assistant Professor (Lee Burns) was hurriedly signed without even removing typographical errors because of the pressure of an IMF Stand-By Arrangement. It is an extremely good example of how policy has been and continues to be made in Pakistan- junior consultant and donor pressure and you have a law. Was there an adequate review or debate? The tax-watching duo are convinced there was not.

They also note that the 2001 ordinance required a large number of revisions to make it work but still leaving it open to court challenges which persist till today. However, it is sad that three elected parliaments since then have not found the time to straighten out the legal underpinnings of the income tax law. This apathy on the part of elected representatives is highlighted by Supreme Court in *CIT v Eli Lily (Pvt) Ltd* (2009) 100 Tax 81 (S.C. Pak) as under:

“Since the creation of Pakistan, we have not been able to frame any Income Tax Act duly debated in the Assembly. Both the Ordinances were promulgated during the Martial Law Regime otherwise the Constitution has prescribed a four-month life of an Ordinance in case the Ordinance is not be placed before the Assembly and it shall be enacted as an Act then the Ordinance will automatically cease to exist. This aspect also reveals that the Constitution has cast duty upon the legislative body to frame the laws within the parameters prescribed under the scheme of the Constitution....The fact that the Ordinance in question was issued and various amendments were incorporated before and even after the enforcement of the Ordinance 2001 raises the controversy that the Ordinance in question was promulgated without meticulous debate on the subject due to which assesseees and concerned departments were compelled to agitate the issues in different courts.”

¹**Undoing the legacy of military dictators**, *The News on Sunday* [Political Economy], October 8, 2017: <https://www.thenews.com.pk/tns/detail/564159-undoing-legacy-military-dictators>.

The Income Tax Ordinance, 2001, as Huzaima and Ikram show is a badly drafted and complex law which has been poorly amended over 2500 times since 2002. It has been generating enormous litigation since its inception. Since the Parliament and the Federal Board of Revenue (FBR) have failed to remove the inbuilt contradictions, revenue worth billions of rupees is lost till today. Supreme Court in (2009) 100 Tax 81 (S.C. Pak) pointed out:

“It appears that the Ordinance was drafted in post haste and the draftsman omitted to incorporate this important provision. This observation is supported from the fact that the Ordinance was subjected to speedy, successive and large-scale amendments, particularly at its very inception. It may be seen that section 238 provided that the Ordinance shall come into force on a date to be appointed by the Federal Government by notification in the official gazette. Accordingly, vide notification (SRO No. 381(I)/2002) dated 16.6.2002, the Ordinance came into force with effect from the first day of July 2002, but with more or less 1000 amendments inserted by the Finance Ordinance, 2002, as calculated by the learned counsel for the respondents.....Had the un-amended provision of subsection (1) of section 239 continued on the statute book, no difficulty would have arisen regarding the treatment of assessment orders passed in respect of the assessment year ending on 30th June 2003. In such eventuality, the assessments up to the said period would have been governed under the repealed Ordinance, while the assessments of the post enforcement period of the Ordinance of 2001 would be governed under the latter Ordinance.”

Despite these sharp admonishments by the Supreme Court no effort has been made to revise the law. Interestingly enough, Huzaima and Ikram are the only researchers to focus on this subject. I am afraid even academics are seriously remiss in producing enough material to help develop a much needed revision of the law.

Simplicity of Taxes and Better Administration Not Killing Transactions

Public finance theory has long argued that tax policy can distort incentives to save invest and trade the foundations of any economy.

Bad tax policies have been seen in history to have curbed economic growth and development. Rather than carefully develop such a policy with adequate legal basis, the hunger for revenues leads to more and more 'tax measures'--new taxes added on to existing measures regardless of their consequences for the economy. Sadly, even the IMF makes such recommendations. Thus, for example energy and imports are often taxed more than once. Despite hearty affirmations for an open economy, tariffs continue to be used for revenue purposes and often surcharges are added to further fragment the tariff structure.

Tax administration has serious issues as the book shows. Instead of a serious effort to reform it, proposals such as giving bonuses to a broken system have led to a doubling of FBR salaries with little change in the fundamentals of policy, law or administration. Recognizing the weakness of tax administration, withholding income taxes have been applied to all manner of transactions such utility bills, school fees, bank transactions, telephone bills etc. Business, utilities banks and even schools have become tax collection agencies adding to their costs of doing business.

Now as our authors show some 70% of taxes are collected though these transaction taxes collected for FBR by service providers and businesses. The adverse effect on the economy has never really been fully understood nor debated.

Bad Policy Leads to Uncertainty and Excessive Documentation

The thirst for taxation has driven the economy to the ground. Economic activity is now gasping for air.

We at the PIDE have been arguing for years that investment and growth have been declining over the last 3 decades. Investors have been arguing for years tax uncertainty has been routinely destroying their business plans. We all know that every Fund program review brings a minibudget mainly based on arbitrary tax measures mainly based on tariff surcharges and more transaction taxes in the form of withholding income taxes.

Not only are taxes increased or added arbitrarily, the narrative of tax thieving has also increased the cost of documentation. PIDE has estimated that the cost of documentation may be as large as Rs. 250,000 a year (excluding premises, utility

and other charges), an onerous amount for small businesses. The documentation in the form of paperwork and complex recording of transactions is increased alongside the new tax measures. This is despite the fairly large investment made in digital identity records and digital land titles.

We Need More Thought and Debate

Tax and revenue collection have dominated our economic policy for the last 3 or 4 decades. Yet we have had little debate relying on outsourcing to donors. Huziama and Ikram have kept this alive with a herculean effort writing in papers arguing on TV. PIDE will bring such work to you more frequently. Bringing such work and generating a debate on important subject of economic policy is our duty. We believe that policy without research and debate will fail to achieve desired economic goals. And our work on taxes as well as that of Haq's clearly show the value of research.

Yet there is much that we can learn about the principles of moving forward from available research. Decades of research has clarified the principles of taxation.

- A tax system must be simple and clear.
- It should not seek to tax different goods and services differently to allow all consumer and investment decisions to be based on market realities.
- Tax rates and policies should be stable and not changing in minibudgets every few months forcing all to speculate on tax policy.

Furthermore, the Government must not promote a narrative against its own people. Pakistanis have not failed the state and refused to pay taxes. As the Haq's show more than 80% of Pakistanis are paying income tax through withholdings on their transactions. Is that a good thing?

We would urge the government and its advisers need to change their analysis and make it more evidence based.

- First, they must understand that an economy is a set of transactions and more transactions means higher economic growth.

- Second, it is a fallacy to think that the government knows which transactions are better.
- Third taxing transactions beyond a simple GST or VAT is inefficient and counterproductive. It will kill transactions and slow down growth.

It is time that the government stopped making policy on rhetoric alone. There are no good and bad transactions. Documentation is a tax on transactions. The primary reason for much of the legal framework and government machinery is to facilitate transactions.

There is a clear need to be a *transaction-facilitating* government rather than a *transaction blocking* government. The economy is shrinking because of this policy of suspicion on all transactions. If the government wants to revive the economy, they should carefully review all policies to weed out those that are impeding transactions.

Huzaima and Ikram have performed a labor of love. And we are publishing it to enable our researchers to use and cite their work to build a better debate. World Bank and DFID consultants have spent 100s of millions of dollars without being able to make any serious change in thought or research into getting us a better policy. Through such publications we will.

Nadeem ul Haq
Vice Chancellor, PIDE

PREFACE

In one of our articles¹ published in 2014, we opined that “Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration—establishment of an efficient tax agency, capable of generating sufficient resources for the federal and provincial governments must be the top priority”. We wrote this article in the wake of a significant development—on September 25, 2014, the Government notified a 20-member Tax Reforms Commission (TRC) that submitted its final report on February 12, 2016 [though not published by the government marked as “strictly confidential”, although it is widely in circulation. All citizens have the fundamental right of access to information under Article 19A and there is no restriction explicit for its publication citing any law of the land. The TRC was asked “to review and rationalise direct and indirect taxes, customs tariff, structure of Federal Board of Revenue (FBR), evaluate possibility of creation of border security force and ponder on any other issue it deems fit”. For this huge agenda, the TRC was required to complete the task within 120 days—this was typical of our political leadership! They want everything to be done in utter haste without research, critique, debate and input from all stakeholders. The report of TRC took verbatim many paragraphs from our published work, acknowledging in these words: “*The Commission is also indebted to valuable contributions made by Dr. Ikramul Haq and Ms. Huzaima Bukhari for their suggestions, advice and their generosity to share time and knowledge and also sharing their research and published articles and their permission to allow TRC to either quote or reproduce some of the extracts from their articles*”.

The Finance Minister who notified TRC, and his team at FBR were naïve to think that they would get the report in 120 days (it actually took 500 days) and that reforms, as ‘one-time exercise’, could be done in one go. We all know that reforms are a continuous process. Like civilizations, tax systems evolve over a period of time. In today’s world, tax reforms mean good tax policy and administration, which we

¹ **Revamping Tax System**, *The News on Sunday* [Political Economy], December 7, 2014

totally lack. This book is an anthology [compilation of published and some unpublished articles] of our work of over 30 years in the area of tax reforms in Pakistan.

Taxation, a potent instrument to shape and influence the socio-economic policies of a country, has not received due attention in Pakistan. A rational tax policy discourages, even penalises, those who possess assets that are economically unproductive. There is a need for heavy taxation to discourage accumulation of such idle assets. In a social democracy, the most important objective of taxation is to provide economic justice, which relates to distribution of tax burden and benefits of public expenditure while maintaining vertical and horizontal equity. Taxing the rich for the benefit of the poor is at the core of social democracy. It encompasses, besides redistribution of wealth, such questions as treatment of weaker sections of society e.g. women and children, minorities, the disabled and unemployed. All these elements are missing in our polity and tax policy.

Unfortunately in Pakistan, successive governments, both military and civilian, used taxes as a tool to extort from the masses as much as possible for their own comforts and luxuries. By resorting to repressive tax laws, they have been making the rich, richer and the poor, poorer as well as stifling growth and discouraging business transactions (even in the absence of any semblance to income) through complex laws and cumbersome procedure.

Our financial managers are caught up in a dilemma. On the one hand, there is a mounting pressure to reduce fiscal deficit through improved collections and on the other, they are not ready to abolish innumerable tax exemptions and concessions available to the rich and mighty. The last quarter of fiscal year 2019-2020 badly hit economy of Pakistan as that of other countries due to Covid-19 endemic but the government conceded record tax expenditure of Rs. 1.5 trillion in the fiscal year 2019-2020.¹ In fact, more exemptions and benefits have been given to the rich and influential by the coalition government of Pakistan Tehreek-i-Insaf (PTI), despite claiming proudly, “No new tax” levied.² The PTI Government showed total apathy towards the weaker sections of society and small and medium enterprises (SMEs)

¹Annex-II appended to Economic Survey 2019-20.

²Analysing ‘tax expenditure’, *Business Recorder*, June 26, 2020.

facing the unsustainable economic toll of Covid-19 outbreak/lockdown. It could have reduced the incidence of exorbitant sales tax, withholding taxes and high cost of utilities and other oppressive levies like 12.5% advance income tax from all mobile subscribers, 166 million [80 million, 3G/4G subscribers, and 82 million broadband users as on May 31, 2020, according to data available on the website of Pakistan Telecommunication Authority.¹

In its two budgets for fiscal year 2019-20 and 2020-21, the PTI Government showed no inclination to simplify the tax system, tax the rich and mighty and plug revenue leakages. In fact, a progressive tax [‘Tax on luxury houses in Islamabad Capital Territory’ (ICT)] was part of Finance Bill 2020, but, unfortunately and lamentably, withdrawn by the political masters after the rich legislators and the influential, rich and mighty class opposed it,² while the poor are totally excluded from the city development of ICT. Whosoever proposed it deserves appreciation, but powerful vested interest both in the Senate and National Assembly and lobbies financing them or those who matter in the land due to their money power or position in the State have proved that they would not allow any government in Pakistan to accommodate the poor in the development process or tax the rich for the benefit of the less-privileged! It exposes the tall claims of PTI that it came to power to ensure socio-economic justice, uplifting the weaker segments, and establishing an egalitarian society!

In its first two years in power, the PTI Government incurred ‘tax expenditure (forgoing of revenues)³ of Rs. 1149.95 billion in FY 2019-20 and Rs. 972.4 billion in FY 2018-19 (total of Rs. 2122.35 billion (shown in Annex II of relevant Economic Surveys), but ignoring impact of asset-whitening schemes of 2018 and 2019 and many other items which FBR in ‘Statement of Estimated Tax Expenditure of Federal Government⁴ ‘says could not be quantified for lack of data! The total tax expenditure, according to independent estimates, was

¹<https://www.pta.gov.pk/en/telecom-indicators> accessed on July 16, 2020 at 12:10 pm.

²Finance Act 2020 and the FBR, *News on Sunday*, [Political Economy], July 5, 2020.

³For definition and detail, see Analysing ‘tax expenditure’, *Business Recorder*, June 26, 2020.

⁴<https://www.fbr.gov.pk/Budget2020-21/FinanceBill/Statement-of-Estimated-Tax-Expenditure.pdf>.

not less than Rs. 3 trillion. Even if half of the concessions were withdrawn through Finance Act 2020, fiscal space of about Rs. 600 billion could have been created for meaningful tax reductions for revival of economy, helping out the SMEs to survive and the needy without jobs.

There cannot be two opinions about the need for a paradigm shift in tax policy but also major information technology and human resource improvements in all tax administrations—both federal and provincial—as well as effective audit operations. However, first of all a rational tax policy and development-oriented fiscal reform agenda should be made public, after debate and consensus. Tax reforms without an effective tax administration and rational tax policy are meaningless.

Our politicians lack willingness or vision to achieve a sensible balance between income, capital and consumption taxes. They serve bureaucrats who conveniently go for ill-designed social programmes convincing politicians that these would attract more votes. The country actually needs more investments; for example in education, vocational training and health for creating human capital, as well as necessary public infrastructure to increase productivity of the economy. It is by no means an easy task in Pakistan but things are improving as the public is becoming increasingly critical of laxity of politicians. They are now better informed about the impacts of undisciplined public finance.

Pakistan can improve tax collections—the potential of which is around Rs. 12 trillion—at national and provincial levels. For this, we require fundamental reforms and the same should be done under the banners of Council of Common Interests (CCI) and National Economic Council (NEC). This is explained in detail in the Chapter, *Need for National Tax Authority* [NTA] and elsewhere in the book. 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. Through consensus and democratic process, all the parliaments can enact laws for establishing autonomous NTA, comprising specialists, rather than bureaucrats that would facilitate people 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 CCI [Article

153] and its control can be placed under NEC [Article 156]. The main goal of tax reforms should be aligned with economic policy i.e. how to unshackle the constituent elements of economic growth by letting market forces play their respective roles. This book stresses upon the government to transfer the benefits of economic growth to enhance social wellbeing and cohesion through transparent and well-designed taxation. If this paradigm could be made to work in Pakistan, then people will reap the real advantages of paying taxes.

Huzaima Bukhari

Dr. Ikramul Haq

Lahore, October 18, 2020

PART I

ISSUES

The elite is unwilling, even in its own enlightened self-interest, to contribute on the basis of capacity to bear the resource burden required to build a fairer society. Instead, it has instituted a social order that imbibes the feudal value system and promotes a culture of paternalistic and personal relations (in contrast to impersonal market relationships and a culture of competitiveness in other economies), nepotism and patronage, violation of the rule of law, non-acceptance of the norms of fair play and justice, etc; wrecking institutions meant for checking such excesses. Even a slowly growing middle class from non-elite backgrounds has adapted to these value systems, creating a crisis of legitimacy for the state and its institutions¹.

For the last many decades, fiscal (mis)management in Pakistan has been a serious cause for concern for all, except for the government and donors. ‘More and more taxes’ has been the slogan of donors and governments alike. The same voices have been advocating for structural reforms to end rent-seeking. Major issues like non-availability of impersonal market relationships, lack of competitiveness, violation of rule of law, non-acceptance of the norms of fair play coupled with reckless borrowing and ruthless wasteful spending have been side tracked or underplayed, harpooning the mantra of achieving higher (sic) tax-to-GDP ratio as if it would have solved all issues faced by the country. The real malady—an outdated, inefficient and non-productive tax system—remains untreated or even unnoticed by those who claim to know everything.

All efforts in the name of tax reforms (so-called) failed utterly as these were merely patchworks. Re-engineering and redesigning of the tax system has not been given any serious thought till today. The Sisyphean task of improving and reforming incorrigible tax machinery, mainly through donors’ money, is still on the agenda of our policymakers.

Since Pakistan’s tax system is shrouded in mysteries through myths and mystifications, an effort is made in this book to unveil them and present **reality** in its stark form and also to suggest ways to come out of prevailing fiscal mess. Starting from reforms to misleading claims about narrowed (sic) tax base all myths are discussed and busted². In the end some viable and pragmatic solutions are suggested for public debate—it can be adopted as part of manifesto by any party—to evolve a system that

1 **Overhaul the system**, Shahid Kardar, *Dawn*, September 16, 2014

2 The main reliance of FBR since 1991-92 has been on indirect taxes, even under the Income Tax Ordinance, 2001 that contains over 65 withholding tax provisions, many of which constitute full and final tax liability. Out of total collection of Rs. 1047 billion in FY 2017-18 under various withholding provisions, the element of full and final taxation (indirect tax in substance) was 64 percent!

best suits our peculiar culture, socio-economic milieu, and business environment. If adopted this can accelerate the growth, provide much-needed jobs and ensure funds for rapid infrastructure development and public services.

Existing tax structure & fiscal restraints

Presently, all broad-based and buoyant sources of revenue are with the federal government and contribution of provinces in total tax revenues is six percent—in overall national revenue base (tax and non-tax) it is around eight percent. This has made them totally dependent on the federal government for transfers from divisible pool—the National Finance Commission Award as envisaged in Article 160 of the Constitution. What makes the situation more disturbing is the fact that the right of provinces to levy sales tax on services is encroached by federal government through levy of presumptive taxes on services under the Income Tax Ordinance, 2001, sales tax on gas, electricity and telephone services and excise duty on a number of services.

Before independence in 1947, provinces had the exclusive right to levy sales tax on goods and services within their respective physical boundaries. This was snatched from provinces in 1948 by the Constituent Assembly with the promise to give back once the financial situation of the newly-independent State improved, but promise was never fulfilled. In the given circumstances when federations like Canada and India have moved towards harmonised sales tax on goods and services, there is a need to debate the issue in public and Parliament for reaching a consensus.

It is an established fact that federal government, even after levying all kinds of irrational and expropriatory taxes has miserably failed to reduce the burgeoning fiscal deficit. It reached the figure of Rs. 1.8 trillion in fiscal year 2015-14 and since then every attempt to bring it down to 4 percent of GDP has not succeeded. In fact, it reached a record level of Rs. 2.3 trillion (6.8 percent of GDP) in fiscal year 2017-18 and kept increasing thereafter too. In fiscal years 2018-19 and 2019-20, it was Rs. 3.4 trillion and Rs. 3.2 trillion, respectively.

Federal Board of Revenue (FBR), the apex revenue authority at the federal level, has persistently failed to tap the actual tax potential and bridge tax gap. For the last many years, it could not meet even the budgetary targets (**Annexure A**), what to speak of realising the real revenue potential, which at federal level alone is not less than Rs. 8 trillion.

Tax gap of a country is measured by the amount of tax that remains uncollected due to non-compliance with tax laws. *Pakistan Tax Gaps: Estimates by Tax Calculation and Methodology*, a joint study of FBR, Andrew Young School of Policy Studies at Georgia State University and

World Bank, provides in detail, tax gaps by type of tax and describes the methodologies and data used for such estimates. The report prepared in December 2008 by Rubina Ather Ahmad (FBR) and Mark Rider (Andrew School) says that views expressed “are of the authors and not of the Government of Pakistan”. For fiscal year 2004-2005, according to this report, Pakistan’s federal tax gap was Rs. 409.5 billion or approximately 69% of actual tax receipts of Rs. 590.4 billion. Terming this as “conservative estimate”, the report claims direct tax gap at Rs. 262.8 billion (around 143% of actual collection of Rs. 183.1 billion) and indirect tax gap at 146.7 billion (36% of actual tax collection of Rs. 407 billion). In 2008, the data selected was for fiscal year 2004-2005 and tax gap was estimated at 45%. Since then tax gap has increased and according to FBR’s own admission it is not less than 70% of actual tax potential.

Tackling twin menaces of underground economy and tax evasion has always been a failure in Pakistan. An in-depth analysis of *FBR’s Year Book 2017-18*¹ exposes the tall claims of expanding tax base, extraordinary growth in collection and improving tax-to-GDP ratio to a satisfactory level (9% in FY 2013-14 to 11.2% in FY 2017-18). The reality is known to all—reporting of higher (sic) collection figures by FBR was due to over 65 withholding tax provisions and enhancement of their rates, blocked refunds of billions and advances from taxpayers.

FBR has been single handedly destroying Pakistan’s business climate, especially between 2013-18 when the then Finance Minister, Ishaq Dar, now a proclaimed offender of the Accountability Court and suspended Senator by Supreme Court, gave free hand to tax officials to block *bona fide* refunds, take huge advances, use negative measures like raising illegal and exorbitant demands and freezing bank accounts even before appellate orders. Exporters and other taxpayers are still waiting for refunds and PTI Government like its predecessors is delaying the same till the writing of these lines. Had Ishaq Dar and others concentrated on growth of 6% and above, as done by China, India and Bangladesh in the region, we could have avoided the present fiscal and economic mess—taxes are a byproduct of growth and harsh taxation only hampers expansion and discourages fresh investment and expansion of existing businesses

The total revenue collection in 2016-17 was Rs. 3368 billion. FBR missed the original target by a wide margin of Rs. 250 billion. In 2015-16, FBR, despite imposing additional taxes of Rs. 360 billion, blocking over Rs. 220 billion refunds and taking Rs. 30 billion as advance failed to meet the third-time revised target showing shortfall of Rs. 222 billion vis-à-vis

1 [http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18\(03-09-18\).pdf](http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18(03-09-18).pdf)

original target of Rs. 2810 billion, which was first reduced to Rs. 2691 billion and then to Rs. 2605 billion.

FBR has a long history of overstating¹ revenue collections by manipulating figures through blocking² bona fide refunds and taking enormous advance payments from banks and other large taxpayers. Way back in 1999, ‘Revenuecracy’³ (term borrowed from Dr. Pervez Tahir) inflicted shame on the country by gross misreporting of data to the IMF⁴. Subsequently, a commitment was made to the IMF to review fiscal data from financial year 1989-90 onwards. The data compiled for financial years 1994 to 2000 confirmed that billions of rupees inflated tax revenues. The tax collectors—data manipulators is a more appropriate term for them—showed higher tax collections through fudging of figures and for which the nation had to pay a heavy cost not only in terms of fine paid to the IMF but also by a tarnished image of the country in the international community that nothing is transparent here.

The persistent manipulation of revenue collection figures by FBR is a serious, but neglected matter. Time and again independent analysts and foreign institutions have expressed their indignation over this malpractice, but the successive governments have never ordered any inquiry into the matter. It was noted in an op-ed, “*Never ever has FBR disclosed in its collection statements how much undisputed and established refunds remained unpaid on the closing date of the fiscal year, which must be subtracted from the gross revenue receipts to portray the correct net revenue collection. It only mentions the actual refunds issued, whereas accrued and ascertainable liability of refunds should also be taken into account to reflect the true picture of net revenue realised during a financial year. Will Mr. Asad Umar, who claims to believe in transparency, make the true facts public for 2013-18*”⁵

In fiscal year 2015-16, FBR collected Rs. 3.3 trillion against documented GDP of around US\$ 300 billion. The underground economy is driven by many aspects of poor fiscal policy, and as highlighted by Dr. Arthur B. Laffer: “it isn’t just high tax rates that indicate whether illicit trade activity will be a problem, but rather high tax rates coupled with other factors such as affordability, level of corruption, effectiveness of enforcement, and cultural and societal reasons.”

The collection of taxes at federal level is much below the actual potential and the way it is collected creates doubts and suspicions [see Historical Data of tax collection in **Annexure A**].

1 <http://fp.brecorder.com/2014/07/201407041199043/>

2 <https://www.thenews.com.pk/print/43963-fbrs-refund-system-bleeding-both-ways-i>

3 <https://tribune.com.pk/story/1808253/6-ptis-budget-old-normal/>

4 **History of figure fudging**, Dr. Pervez Tahir, *The Express Tribune*, July 28, 2011

5 **Growth slayer**, *The News*, October 21, 2018

In 2014-15, as in the past, FBR failed to meet the third revised target. The original target of Rs. 2810 billion was first reduced to Rs. 2691 billion and then to Rs. 2605 billion. The claim by Finance Minister that FBR

Tax collection figures for 2014-15 & 2017-18

For the fiscal year, 2017-18, revenue target was Rs. 4013 billion that was later revised downwards to Rs. 3935 billion. FBR collected only Rs. 3842 billion. It collected income tax of Rs. 1441 billion against the target of Rs. 1562 (deficit of Rs. 121 billion). Sales tax collection at Rs. 1491 billion against target of Rs. 1541 billion witnessed shortage of Rs. 50 billion. Shortfall of Rs. 26 billion was under the head Federal Excise Duty, collection was of Rs. 206 billion against the target of Rs. 232 billion. Only collection under Customs exceeded target by Rs. 8 billion against the assigned target of Rs. 600 billion as hundreds of items were subjected to regulatory duty. The overall shortfall of Rs. 93 billion vis-à-vis revised target of Rs.3935 billion and that of Rs. 171 billion from original target pushed the fiscal deficit to a record Rs. 2.5 trillion as on June 30, 2018.

The total revenue collection in 2016-17 was Rs. 3368 billion. FBR missed the original target by a wide margin of Rs. 250 billion.

In 2015-16, FBR, despite imposing additional taxes of Rs. 360 billion and blocking¹ refunds of over Rs. 220 billion refunds and taking Rs. 30 billion as advance failed to meet the third-time revised target showing shortfall of Rs. 222 billion vis-à-vis original target of Rs. 2810 billion, which was first reduced to Rs. 2691 billion and then to Rs. 2605 billion.

Income tax collection in fiscal year 2014-15 was Rs. 1033.7 billion² and projection for 2015-16 was Rs. 1307 billion³. The actual collection, reported by FBR, was Rs. 1220 billion⁴—showing shortfall of Rs. 87 billion. Collection of sales tax in 2014-15 was only Rs. 1088 billion⁵ and projection for 2015-16 was Rs. 1230.3 billion⁶. By raising sales tax on POL products from 17% to 30-50%, the government managed to collect Rs.1329⁷ billion in 2015-16. Customs collection in 2014-15 was Rs. 306 billion⁸ and projection for 2015-16 was Rs. 348.5 billion⁹. After levying regulatory duty on over 300 items, it was increased to Rs. 404 billion¹⁰ in

1 **Musical Chairs?: a clean-up job in the FBR on the cards**, *The Express Tribune*, July 25, 2015

2 <http://www.sbp.org.pk/ecodata/tax.pdf>

3 http://www.finance.gov.pk/budget/Budget_in_Brief_2016_17.pdf

4 <http://www.fbr.gov.pk/PressRelease.aspx?type=A>

5 <http://www.sbp.org.pk/ecodata/tax.pdf>

6 http://www.finance.gov.pk/budget/Budget_in_Brief_2016_17.pdf

7 <http://www.fbr.gov.pk/PressRelease.aspx?type=A>

8 <http://www.sbp.org.pk/ecodata/tax.pdf>

9 http://www.finance.gov.pk/budget/Budget_in_Brief_2016_17.pdf

10 <http://www.fbr.gov.pk/PressRelease.aspx?type=A>

2015-16. Federal Excise collection in 2014-15 was Rs. 162 billion¹. Against projection of Rs. 200.9 billion², actual collection for 2015-16 was Rs. 177 billion³.

exceeded target for fiscal year 2015-16 was also contested by many. In a report, it was alleged that Rs. 195 billion collection on account of non-tax revenue “is shown as ‘other taxes’ to claim higher tax collection”. It is further alleged that “Rs. 30 billion on account of Natural Gas Development Surcharge (GDS) is accounted for as ‘other taxes’ whereas it was placed under non-tax revenue till 2013-14”.

In another report, it is observed that “after withholding all the tax refunds during the last fiscal year and forcing companies to pay advance income tax, the Federal Board of Revenue (FBR) announced on Friday that it had achieved the tax revenue collection target of Rs 3.1 trillion set for Fiscal Year 2015-16.” It further says that “FBR was holding more than Rs 250 billion in tax refunds during the last fiscal year. The tax refunds were kept to maintain the tax revenue target agreed with the IMF.”

The meeting of target by FBR through “undesirable means” was also highlighted in yet another report as under:

“...that the overall collection of Rs 3.1 trillion was a result of one of the largest clandestine operations, as the FBR took over Rs150 billion in advance taxes from oil and gas, telecommunications and banking companies. The government also blocked payment of over Rs250 billion genuine refunds of the taxpayers”.

The failure to tap real tax potential poses a tough challenge to both the federal and provincial governments. Poor performance of FBR adversely affects the provinces as they are overwhelmingly dependent on what the Centre collects and transfers to them from the divisible pool.

Provinces are not ready to collect taxes wherever due and generate their own resources after establishment of local governments as envisaged under Article 140A of the Constitution. The Centre is unwilling to grant provinces their legitimate taxation rights while it collects too little to meet their overall financial demands. The size of the cake—divisible pool—is so small that nothing substantial can be done to come out of debt enslavement and to spend adequately for the welfare of the people, no matter to which part of the country they belong.

It is obvious that on the one hand, FBR is facing the challenge of bridging tax gap and on the other collection figures are not reliable. The way

1 <http://www.sbp.org.pk/ecodata/tax.pdf>

2 http://www.finance.gov.pk/budget/Budget_in_Brief_2016_17.pdf

3 <http://www.fbr.gov.pk/PressRelease.aspx?type=A>

forward is suggested in a study¹ published by **Prime Institute** in 2016 and revised in 2020. This study, ***Towards Flat, Low-rate, Broad and Predictable Taxes***², can be considered by policymakers and all stakeholders. The study gives a detailed roadmap for low-rate, predictable taxes that can accelerate economic growth and yield substantial revenues for the government—much more than what is being presently collected.

Track record of FBR shows remote possibility of collecting even Rs. 6 trillion in the next three years to give enough fiscal space both to the Centre and the provinces to come out of the present economic mess, thus providing some relief to the poor as well as trade and industry. Under the given scenario, federation-provinces tax tangle will continue unchecked and further taxation through local governments, if ever made, would not serve any useful purpose—there will be no relief to the people, rather tax burden will increase manifold. Thus, Pakistan will remain in debt enslavement and more and more people will be pushed below the poverty line. If we want to come out of this crisis, the parliament will have to reconsider the prevailing social contract between federation and the provinces. Provincial autonomy and local self-governance without taxation rights and equitable distribution of income and wealth is meaningless. We cannot overcome perpetual economic crises unless the provinces are given true autonomy; ownership of all resources; generation of own revenue and exclusive right to utilise it for the welfare of their denizens.

Distorted tax base & fiscal consolidation

Fiscal consolidation should be as growth-friendly as possible. In general, tax base-broadening reforms are identified as growth-oriented reforms. To the extent that they reduce distortions to economic decisions on work, saving, investment and consumption, they should increase output and improve social welfare—*Choosing a Broad Base–Low Rate Approach to Taxation*, OECD Tax Policy Studies No. 19³

The policymakers (sic) sitting in the Ministry of Finance and FBR always make a totally fallacious assertion that “only 0.9 percent of the population of the country pays income tax”. It is shocking that even the top men of FBR do not know the difference between a “taxpayer” and “return filer”. Secondly, they are keen to retain higher rate of taxes (both under income tax and sales tax laws) on narrowed tax base rather than imposing lower

1 <http://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

2 <https://primeinstitute.org/towards-low-flat-broad-and-predictable-taxes-2016/>

3 <http://www.oecd.org/ctp/tax-policy/choosing-a-broad-base-low-rate-approach-to-taxation-9789264091320-en.htm>

taxes on broader base. It has been mentioned¹ many times by us in various published articles that there are more than 95 million unique mobile users² who pay advance **income tax** in Pakistan but return filers are pathetically low (around 1.42 million by end of December 2018³). Now this number is claimed to exceed 2.6 million but over one million declared nil or below taxable income.

Pakistan's real dilemma is that the rich and mighty are not paying taxes according to their actual incomes as on and off they get amnesties. Tax Directories for Tax Year 2013 to 2016, published by FBR confirm that on an average less than 4000 persons paid tax between Rs 1,000,000 and Rs. 10 million (individuals declaring tax of over Rs 10 million are less than 4000). According to a report⁴, a total of 100 parliamentarians did not file income tax returns for the year 2017 (during 2016, the number of non-compliant was 116 and in 2015, it was 120) and FBR did not bother to take action against them. Majority of parliamentarian show salary from State as the only source of income whereas their standard of living does not justify it.

In Pakistan, the rich are avoiding tax obligations but millions of mobile users having no income or incomes below taxable limit are being forced to pay advance income tax in gross violation of Article 4 of the Constitution which assures that the State cannot force a person to do what the law does not require him to do. When they are not chargeable to tax, how can they be forced to pay tax in advance that is never refunded even if return is filed? In some cases and others having income or income below taxable limit do not file returns.

According to 2017 census, our population is 207.77 million [provisional]. The dependent population of children under the age of 15 years is 35.4% whereas 4.2% people are above 65 years. Out of total population, 60 million are below poverty line earning less than two dollars a day. Our labour force, among the tenth largest in the world, is around 70 million.

1 'Of taxpayers & non-filers', *Business Recorder*, October 27, 2016, 'The tax base', *Business Recorder*, November 2, 2012, 'Ailing tax system', *Business Recorder*, August 21, 2015 and 'Improving tax compliance', *Business Recorder*, November 16, 2012

2 According to a report of Groupe Speciale Mobile (GSMA), there were 90 million unique mobile users in 2017-18 that had been paying advance adjustable income tax of 12%. According to FBR's own admission, it received only 1.39 million returns in 2017. An earlier disclosure by FBR confirms that return filers in 2016 were 1.02 million. It is pertinent to mention that in 2011 this number was 1.57 million. Jorge Martinez-Vazquez and Musharraf Rasool Cyan in their book, '*The Role of Taxation in Pakistan's Revival*', mentioned at page 676 [Figure 36] that 2.1 million Pakistanis (individuals) filed income tax returns in 2006-07. **This shows that FBR has lost one million return-filers since 2007 despite prescribing higher withholding tax rates for non-filers. FBR needs to conduct a study to find out what has gone wrong after penalizing non-filers (sic) who are happier to pay more by way of advance tax rather than file returns!**

3 According to a story in *The Express Tribune* by Shahbaz Rana, "for the tax year 2017, there are about 1.733 million taxpayers on the ATL and 20% of them have not filed their returns for the tax year 2018".

4 <https://tribune.com.pk/story/1836974/1-100-lawmakers-not-file-tax-returns-2017/>

Majority of rural labour force [42.3%] earns income that is below taxable limit or agricultural income falling outside the ambit of Income Tax Ordinance, 2001. Analysing all these figures (juxtaposed), individuals liable to income tax cannot be more than 10 million, whereas, the government is getting 12% advance adjustable income tax from 95 million mobile users alone (total subscribers were 152 million¹ as on October 30, 2018).

All commercial electricity users pay advance income tax under section 235 of the Income Tax Ordinance, 2001 with their bills, and if monthly bill is up to Rs. 30,000, tax paid is treated as minimum tax with no claim to a refund! A report² observes: *“The idea of the transaction tax was two folds—one was to increase the tax revenues and the other was to incentivise the non-filers to file by penalising them. But the adverse impact of documentation was not well thought of. Spanning over three years, neither the tax revenues increased significantly nor the tax filing enhanced meaningfully. On the flip side, the informality in the economy increased disproportionately”*.

It is an undeniable fact that FBR has failed to get due tax from the rich and mighty and thus its main emphasis is on withholding taxes (WHT). FBR’s *Year Book 2017-18* concedes that *“WHT contribute “a major chunk i.e. 65% to the total collection of income tax”*. It adds that *“the WHT collection during FY 2017-18 has been Rs. 1047 billion against Rs. 944 billion indicating a growth of around 10.9%”*. The actual contribution of WHT is 68.5% that is 3.5% more than what FBR has claimed in *Year Book 2017-18*.

According to details given in *Year Book 2017-18*, total direct tax collection was of 1536.6 billion, out of which income tax was Rs.1528.5. *Year Book 2017-18* does not mention what was the nature of direct tax of Rs. 8.1 billion, other than income tax, collected by FBR. In respect of income tax, besides collection of Rs. 1047 billion from WHT(68.5%), Rs.335.79 billion came as advance tax (21.9%), Rs. 41.64 billion with returns (2.7%) and Rs.1.31 billion under ‘Tax Arrears Settlement Incentive Scheme (TASIS) 2008’ (.08%). **FBR’s own efforts (collection on demand) yielded only Rs. 102.82 billion (6.7%)—from arrears Rs. 17.69 billion (1.2%) and from current demand Rs. 85.13 billion (5.6%).** It confirms negligible share on the part of FBR to tap actual tax potential as it would have been hurtful to the rich, majority of which are non-filers, despite having substantial undeclared, untaxed wealth and the audacity of ruling this country as a matter of right. They are ready to pay additional tax at source as non-filers but are not inclined to file tax returns.

1 <https://pta.gov.pk/en/telecom-indicators>

2 **Doing away with the transactional tax**, *Business Recorder*, October 30, 2018

The poor collection under income tax head testifies to the fact that it is not tax on total income base, but indirect tax on many items that include consumption, expenditure, investment, and in many cases just transactions that are devoid of any income-yielding activity. For example, a person sells a house of his brother who lives abroad and on withdrawing cash on his instructions has to pay tax under section 236P of the Income Tax Ordinance, 2001. A salaried person, after paying tax under section 149, is compelled to pay tax on cash withdrawal (section 231A). In 2017-18, collection under section 231A (cash withdrawal) was Rs. 34 billion. On commercial/industrial electricity bills advance tax collection was Rs. 33.8 billion and from mobile users it was Rs.47.3 billion and from contracts Rs. 283 billion (this is full and final tax). On imports, Rs. 218.7 billion, salary Rs. 133.3 billion, dividends Rs. 57.8 billion, bank interest Rs. 35.6 billion, exports Rs. 28.2 billion and fees for technical services Rs. 26 billion.

It is an irrefutable fact that about 7.5 percent of the country's workforce, approximately 4.5 million, earns taxable income of Rs 400,000 or above. However, tax returns received by FBR for tax year 2015 were only 1,064,108. Out of these, 90% filers paid income tax of less than Rs 10,000! **The issue is not only that of low return filers but also total gross under or non-reporting of income/transactions.**

Tax base under indirect taxes (sales tax and excise) is also extremely narrow. According to FBR Year Book 2017-18, "the collection of sales tax domestic is concentrated in few commodities. The major commodities are petroleum products, electrical energy, cement, sugar, aerated water/beverages and cigarettes, which shared around 68% of sales tax domestic revenue". [See data in **Annexure A**]. In sales tax on imports, top 10 commodities [details in **Annexure A**] contributed the major chunk i.e. 80.1%. In fiscal year 2017-18, total collection of sales tax (import) was Rs. Rs. 814.6 billion out of which share of POL (petroleum, oil & lubricants) was Rs. 264 billion (32.4%). In sales tax (domestic) total collection was Rs. 676.6 billion, out of which share of POL was 41.8%.

Failure to harness the real tax potential¹ is the real dilemma of our policymakers and tax administrators. The existing tax structure is not only detrimental for economic growth but is also not yielding required revenues for the State. The economic managers have failed to realise that excessive taxation on savings does not increase government revenues. Once income has been taxed then savings and transactions should not be subjected to tax. Is there any country in the world where banking transactions and withdrawal of cash are being taxed like it is done in Pakistan?

The donors and lenders (IMF, ADB, World Bank and DFID etc) never mention the oppressive side of our tax system and non-availability of

¹ 'Oppressive taxes & unabated outflows', *Business Recorder*, February 20, 2015

public services. They are fond of discussing “low-tax-to-GDP ratio” in isolation. Initiatives like Research and Advocacy for the Advancement of Allied Reforms (Raftaar¹), funded by Britain’s Department for International Development (DFID), have been emphasising need² for more revenues, without pointing out where the taxpayers’ money goes to.

Raftaar has mentioned that “**more than 53% of federal government’s expenditure is incurred on interest payments, defence, and the wage bills**”. But then why does it still want to support the incorrigible FBR, the dismal performance of which is brilliantly exposed by Mr. Shahbaz Rana in ‘*Despite host of measures, tax filers increase by just 10,745*’³. Paying proper taxes or filing returns, people say, is meaningless and unjustified when the State is indifferent towards public welfare and elites blatantly show apathy towards their fundamental needs.

Our elected rulers have been living lavishly since 2008 when democracy was restored while Pakistan ranks at 146 out of 187 countries in the 2014 Human Development Index (HDI)⁴. Even after Decade of Democracy [2008-18] not less than 25 million⁵ children remained out of school in Pakistan in gross violation of Article 25A of the Constitution—see detailed judgement of Supreme Court 2014 SCMR 396 re *Petition regarding miserable conditions of schools*. Raftaar⁶ and other initiatives like, Make Tax Fair⁷, Pakistan Tax Justice Network⁸, Tax Justice Coalition⁹ etc, must campaign for a just tax system.

Our successive governments have been taxing the poor and giving extraordinary benefits to the rich. Abuse of taxpayers’ money for personal comforts and luxuries of the ruling elite is the main malady. The government’s yearning for “more and more taxes” has become a source of irritation for the citizens who argue that they get nothing in return and their plight is worsening every day.

Irrational taxes have failed to solve any problem—debts, both internal and external, are rising and high inflation is crushing the poor. We need all-out reforms and complete overhauling of the system. Voicing this concern, Nadeem Ul Haque, ex-Deputy Chairman of Planning Commission, in *Reform or face fundamental ascendancy*¹⁰, emphasised:

1 <https://www.dawn.com/news/1202741>

2 <http://towelassociation.com/userfiles/files/NEWS%202015/August/27-08>

3 *The Express Tribune*, September 18, 2016

4 <https://www.dawn.com/news/1133117>

5 <https://www.thenews.com.pk/print/35514-25-million-children-out-of-school-in-pakistan>

6 <https://www.facebook.com/pg/raftaarpakistan/about/>

7 <http://maketaxfair.net/country/pakistan/>

8 <https://www.taxjustice.net/tag/pakistan/>

9 <https://www.facebook.com/TaxJustPak/>

10 <https://www.brecorder.com/2018/10/19/446791/reforms-will-not-work-unless-civil-services-are-decentralised/>

“The State must first provide the social contract i.e. good law and order and security of life. It must dismantle the rent seeking that protects the rich. Rent seeking relies on three main components: state subsidies, licensing and regulation; special perks and privileges for ministers and army and civil service employees and land distribution system that allows the poor man’s land to be acquired for the elite especially the army and civil service.”

Political economy of tax reforms

The debates and discourse concerning political economy of tax reforms in Pakistan lack objective analyses and rational approach as evident from the book, published by Oxford University Press, *The Role of Taxation in Pakistan’s Revival*, edited by Jorge Martinez-Vazquez & Musharraf Rasool Cyan. The book contains nine chapters, which are in fact, studies conducted for 7 years [December 7, 2004 to December 31, 2011] Pakistan Tax Administration Reform Programme (TARP¹), carried out with total cost of US\$149 million, out of which US\$ 102.90 million came as loan from World Bank. The book confirms why TARP was a great failure—on its conclusion not only did tax-to-GDP ratio fall substantially, there was a tremendous decrease in the number of return filers. After reading the book, a logical conclusion which can be drawn is that prescription of the World Bank (WB) and International Monetary Fund (IMF) suggesting “more taxes” without growth, equity and delivery of social services to the citizens is a lethal pill, based on a diagnosis by a quack rather than by a qualified physician.

Imposition of regressive, high rate taxes, especially sales tax on essential items, in an underdeveloped, informal and struggling economy has been the tax policy of Pakistan, on the dictates of IMF and WB and the disastrous results are before us in the form of economic and fiscal mess².

None of the studies in the book has highlighted the most painful aspect of Pakistan’s oppressive and unjust tax system. On the one hand, the State is least pushed to provide free education and health facilities and on the other, individual income taxation is insensitive to family circumstances to determine ability to pay, in utter violation of Article 3 of the Constitution of Pakistan.

In civilized, democratic countries income tax laws recognise the cost of living alone or with family—expenses to nurture children are always taken into account. The laws, thus, allow deductions/allowances according to size of family. In Pakistan, FBR not only denies any such allowance or deduction, but extorts advance income tax on facilities like mobile phones even from the low-income earners and their family members having no

1 <http://projects.worldbank.org/P077306/pakistan-tax-administration-reforms-project?lang=en>

2 See detailed analysis in **Illogical Taxes**, *Business Recorder*, September 18, 2015

taxable income. Adding insult to injury, FBR expects them to file tax returns to get refund of their money withheld as tax, whereas the cost to get it is much more than the amount due and chances of harassment after filing return are obnoxiously high.

The so-called “experts” on Pakistan’s taxation system, at home and abroad, do not try to comprehend the basic elements of a repressive system, let alone suggesting ways to reform it. Their popular slogan is more taxes to improve tax-to-GDP ratio, but no concern for utilisation of money collected as taxes and its ruthless abuse for providing extraordinary perks and perquisites to the ruling elites. They want what is prevalent in the West without studying and considering the mundane realities of Pakistan where the State is not providing even security of life and property, what to speak of taking care of fundamental needs of all citizens—the denial of fundamental right of free education to children under Article 25A is the most glaring example of State’s apathy.

The real issue of taxation in Pakistan is lack of a judicious balance between direct and indirect taxes. Appeasing the rich and mighty and lavish spending on comforts of elites is the main cause of the huge budgetary gap. Such wrong policies are continuously increasing miseries of the people, 12.7 percent of Pakistan’s population now lives below \$1.25 per day, which is categorised as extreme poverty—*World Development Indicators (WDI) 2015*¹. Non-collection of taxes from the rich and generously extending exemptions/concessions is the root cause of our unjust tax system.

In the book, edited by Jorge Martinez-Vazquez & Musharraf Rasool Cyan, even the internationally-acclaimed writers have failed to dislodge the claim of FBR that share of direct taxes is about 40% in total tax collection. They have blindly adopted the figures of FBR without examining their authenticity. They could not discern that under Pakistan’s Income Tax Law, overwhelming collection is through indirect taxes that are camouflaged as direct taxes. These presumptive and transactional taxes have nothing to do with the income of a person—the incidence of which is passed on to the clients/customers.

In our article, *FBR Year Book 2013-14: concealing the truth*², it is established with facts and figures that share of direct taxes in GDP is continuously shrinking—during the last 20 years, it was never more than 4% of GDP. If the experts engaged by IMF/WB to suggest tax reforms could not analyse the data properly, what can one expect from the commentators talking about taxation system in different TV talk shows or writing columns/articles in the vernacular Press. No expert hired by WB

1 <http://documents.worldbank.org/curated/en/795941468338533334/World-development-indicators-2015>

2 *Business Recorder*, November 7, 2014

or IMF, as the book reveals is aware of the reality, or has not intentionally highlighted that the main incidence of taxes in Pakistan is on the middle-low-income groups, while the beneficiaries of taxpayers' money are rich members of the militro-judicial-civil complex and public office holders who get huge tax-free perquisites and benefits. The State, captive in the hands of a few, is facing enormous challenges on fiscal front as parasitic elites¹ have failed to deliver.

In our fiscal woes, there is also criminal culpability of IMF "bosses", who pressurize our economic managers to follow their faulty prescriptions. They plead for more regressive taxes and do not care even if the federal government raises sales tax rate to the extent of 50% on high speed diesel oil, 30% on kerosene, 29.5% on light diesel oil, 26% on motor spirit excluding HOBC and 24% on HOBC through statutory regulatory orders (SROs). They know that such actions not only burden the poor but also constitute open violation of Articles 77 and 162 of the Constitution of Pakistan². In their countries, they talk about "rule of law" and in Pakistan they ignore our rulers' blatant violations of the supreme law of land.

The Supreme Court in *Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi v. Federation of Pakistan and Others* (2013) 108 TAX 1 (S.C.Pak.) held that:

"Parliament/Legislature alone and not the Government/Executive is empowered to levy tax. As far as delegation of such powers to the Government/Executive is concerned, the same is for the purpose of implementation of such laws, which is to be done by framing rules, or issuing notifications or guidelines, depending upon case to case, as we have come across some of the cases noted hereinabove. But in no case, authority to levy tax for the Federation is to be delegated to the Government/Executive. Therefore, arguments so raised by learned counsel have no force and the same are repelled hereby."

The IMF in its parleys with Pakistan has never raised the issue of violation of constitutional provisions and burdening the poor with unprecedented taxes on petroleum products. Why should they? They are mainly concerned with getting their own money back, no matter if it means sucking blood of the poor. The fault of course, mainly lies with our shameless ruling elites, who beg before them, thrive on borrowed funds and taxes paid by the masses.

1 <http://epaper.brecorder.com/m/2013/07/26/20-page/366498-news.html>

2 Constitutional violations in taxation, *Business Recorder*, October 9, 2015

We should set our house in order and stop blaming lenders. An undeniable reality is that the Pakistani nation is the most heavily¹ taxed in the entire region and the citizens get neither education nor health facilities from the State, what to speak of social protections like pension for all, out of taxes paid over a period of time. There is overwhelming reliance on indirect taxation [even under the garb of direct income taxation through presumptive tax regime on a number of transactions] without evaluating its impact on the economy and life of the less privileged sections of society.

In the face of declining income tax contribution (after excluding indirect ones levied under Income Tax Ordinance, 2001) to GDP, Finance Minister, Ishaq Dar, and FBR officials had been making tall claims about “impressive” (sic) increase in taxes. The reality of this “impressive” performance was exposed² in various columns, but IMF and WB remained mum as they were party to portraying all-good “projection saga”³.

The existing tax system is not taxing the rich⁴ and main collection is from indirect taxes. Resultantly, income and wealth distribution disparities are rapidly widening in the country leading to social and political unrests. Under the given scenario, efforts are needed both at federal and provincial levels to enlarge the size of the pie by shifting to growth-oriented taxation⁵.

Though many authors, including ourselves, have presented suggestions and a road-map⁶ for reforming the existing tax system and raising taxes to the level of Rs. 8 trillion at federal and Rs. 4 trillion at the provincial levels has already been given, our more-loyal-than-the-king stalwarts sitting in Ministry of Finance & FBR want “advice” and “assistance” from IMF & World Bank that miserably failed in the past. Their predicament can well be explained in the following couplet of great Urdu poet Mir Taqi Mir:

*Mir kya sada hain beemar huway jis key sabab
ussi attar key londay sey dawa laitay hein*

(What a simple soul is Mir; he seeks medication from the healer’s boy who is the cause of his ailment).

Failed tax reforms with borrowed funds

The World Bank extended to Pakistan \$125.9 million grant, including IDA credit of \$102.9 million, and a UK DFID grant of \$23 million, for the tax administration reform project (TARP, sarcastically called TRAP). The

1 “People of Pakistan are the most heavily taxed”, *The News*, October 10, 2010

2 Reality of statistical discrepancies, *Business Recorder*, September 4, 2015

3 **FBR reforms-II**, *Business Recorder*, August 3, 2015.

4 **Improving Tax Compliance**, *Business Recorder*, August 21, 2015

5 See details in Chapter 16 of *Return to Prosperity* by Arthur B. Laffer & Stephen Moore

6 **New Tax Model**, *Business Recorder*, August 28, 2015

objective of the project, according to official quarters, was to improve the integrity and fairness of tax administration by improving organizational efficiency and effectiveness of the revenue administration. TARP was aimed at promoting compliance through strengthened audit and enforcement capacity and transparent as well as high quality tax services. The project was also to focus on improving trade facilitation through modern and internationally acceptable customs procedure', says an official handout.

It was a national shame that for improving the integrity and fairness of tax administration we needed such a heavy borrowing from the World Bank and other donors. Although a part of revenue collection by the FBR could have been earmarked on annual basis for this purpose, but the Government was bent upon borrowing funds. It is obvious that the actual aim behind this project was to make us subservient to the agenda of foreign donors. In the name of tax reforms project, certain forces wanted to gain control over our revenues and tax machinery readily obliged them just for a few tours and chances to meet the old colonial masters. This was like the re-emergence of East India Company's operations during the British *raj* in the Subcontinent. On the one hand, our imported Prime Minister [who also retained the portfolio of Ministry of Finance] was claiming to free this nation from the clutches of IMF, and on the other was negotiating fresh loans/grants even for such projects like tax reforms.

The World Bank successfully convinced the Government of Pakistan that it needed substantial loan for its tax reform agenda. This reform agenda was prepared by the IMF and World Bank, and they wanted to give money to their "experts" (sic) by lending us money. The main chunk of loan went to their hand-picked consultants! This modus operandi was not new; all the subjugated nations underwent similar exploitation at the hands of international donors. Responsibility for this kind of maltreatment and exploitation of a nation lies with its inept, incompetent and anti-people leadership that succumbs before donors.

Our history of economic subjugation commenced in the 1960s when our rulers set themselves on large intakes of foreign loans. With every loan comes a host of conditions. These conditions ostensibly aim at reforms, in fact meant to subjugate a nation in complete terms, i.e. economically, politically and mentally. In recent years our economic managers have started claiming that they are severing all ties with IMF and other foreign donors, whereas the truth is that new loans for reforming (sic) tax, banking and justice systems—just to mention a few—continue to be negotiated with unprecedented vigour to please the foreign masters.

The process of so-called tax reforms was initiated in 2000. Way back in 2001 promising "a big change of culture" in FBR in the next 12 months, our then Prime Minister as Finance Minister, toeing IMF conditionalities,

announced that massive tax reforms were on the cards. He specified the following outline for intended tax reform agenda:

- Heavy investment in Information Technology (IT) to facilitate collectors.
- Massive surgery in the tax system through human resource development and use of computers, which would increase efficiency and image of the department.
- Good officers would get compensation on the achievement of targets.

In 2000 while commenting on the tax reform drive (sic) launched by the Finance Minister, we made the following remarks, which are relevant even today:

*The tall claims made by the government about six months back that by 1st January 2001, it would introduce major tax reforms and even a new Income Tax law proved to be yet another promise not kept. The deadline has now been extended to the budget time when the Finance Ordinance will be announced. This was not something that came as a surprise to many, including ourselves, as most of the claims by our government are **wo wada hi kya jo wafa ho gaya** (promise does not remain a promise if fulfilled). We would have been much happier if the hasty attempts to further destroy the existing enactments and tax structures were abandoned, but it seems that some vested interests are bent upon to do so in the hope that they will get enormous money (for this poor nation it will be a loan of \$100m) from the World Bank for this vandalism. This is the most painful part of the whole exercise.*

Since 2001, in the name of simplification of tax laws, FBR is imposing more and more obligations on the citizens of Pakistan without corresponding tax rights in tax codes. The nation has been burdened with a number of more cumbersome tax terms and new enhanced obligations of withholding taxes without any compensation. This is the sordid story of tax reform in Pakistan so far. With every new round of reform comes foreign loan. More money to handpicked consultants, who hardly know anything about pragmatic tax policy and its administration. More workshops to mercilessly squander public money. At the end of every reform programme, the nation is faced with more well-equipped tax dacoits who play havoc with its peace and tranquility and destroy economic growth..

The great failure of all reform programmes is now well-documented in *The Role of Taxation in Pakistan's Revival*, edited by Jorge Martinez-Vazquez & Musharraf Rasool Cyan, and published by Oxford University Press.

Real dilemma of tax system

The real dilemma of our tax system is that it is not equitable. The burden of taxes is less on the rich and more on the poor. In the face of this stark reality, the government since 1991 has been resorting to regressive taxation like presumptive taxes in income tax and turnover taxes in the shape of multi-point sales tax. Over the period of time our tax system has become rotten, oppressive, unjust and target-oriented. There is a dire need to discuss philosophical framework, principles of equity and justice that should be the main concern of our tax policy; not mere achieving of targets set out by the foreign donors. Our worthy tax managers are more concerned with meeting budget targets through presumptive tax regime which is a distortion under the direct tax legislation shifting tax incidence on consumers rather than the actual income earners.

The great divide between the poor and the rich will further expand if the present tax policies continue. We may manage to collect higher taxes but it will not serve the real purpose of redistribution of wealth which is at the core of any direct tax philosophy. On the one hand we are not collecting taxes according to capacity to pay and on the other, annual targets are fixed to further squeeze the already dried tax base. During the colonial era when salt tax was imposed, the visionary leaders of that time staged a revolt against such high-handedness. But now in the so-called post-independence age the IMF/World Bank imposed rulers are playing havoc with the life of the common man by levying exorbitant tax on salt and many other every-day items. It is tragic that neither any politician nor a public-spirited NGO has agitated against this injustice.

We can collect much higher taxes if the present tax laws are rationalised and incompetent, inefficient and corrupt tax machinery is overhauled. We should liberate ourselves from the reform game of the World Bank and other foreign donors. The tax policies implemented by us on the dictates of foreign donors have led to abject poverty for vast majority of people. These policies are not making us self-reliant but on the contrary are destroying our industry and businesses. If we manage to formulate a rational tax policy through public debate and parliamentary process and implement it through consensus and not coercive measures, there is every possibility to get rid of World Bank and IMF in a short span of time. However, if we continue following their prescription, we will neither realise real tax potential, nor achieve the cherished goal of self-reliance through rapid industrial growth.

Our tax revenue potential is not less than Rs. 8 trillion provided that the existing tax base is made wider and equitable, tax machinery is completely overhauled and exemptions and concessions available to the privileged sections of society are withdrawn. To achieve these goals we do not need any loan from anyone. If we take money from World Bank or any

other lender then we are bound to follow their conditions because beggars cannot be choosers. Many local experts can do reform work either voluntarily or at much less cost than what may be wasted on foreign consultants at the command of World Bank and others.

Fiscal decentralisation and municipal self-rule

Taxation should essentially be linked with a social policy based on the principle of universal entitlements for all residents in terms of access to social benefits and social services. Taxation without representation also means denial of spending for the essential entitlements guaranteed in the Constitution. The principle of universal entitlements aims preventing the formation of inequalities and dismantling the foundation of the poor as a separate social group, whereas residualism/marginalism takes the form of assisting only the poor and the needy, thus implicitly defining them as certain types of social groups.

The provincial parliaments in Pakistan should enact laws for establishment of local governments as ordained under Article 140A of the Constitution on the basis of social policy—they have so far just copied the previous outdated ones with patchwork here and there. The bureaucrats do not want to empower people through self-governance. They want to enjoy total control over resources. The local governments will not be meaningful unless entitled, within national economic policy, to have adequate financial resources of their own, of which they may dispose freely within the framework of their powers and for public welfare.

Taxes and self-reliance

For achieving the goal of fiscal decentralisation, local governments' financial resources must commensurate with the responsibilities provided for by the constitution and the law to ensure welfare of the people and ensure sustainable growth at grass root level. Part of the financial resources of local authorities should derive from local taxes and spent for providing universal entitlements as well as development. Pakistan must follow the model of welfare states where resources available to local governments are based on a sufficiently diversified and buoyant nature to enable them to keep pace with the real evolution of the cost of carrying out their tasks.

There is no political will to implementing any rational fiscal reform agenda, though general consensus on it exists in society. Addiction to borrowed money and lust for wasteful spending are the main stumbling blocks for achieving the cherished goal of self-reliance that can pave way for rapid growth, employment generation and substantial spending for social sectors.

The ever-widening fiscal deficit amongst many other reasons has its roots in wasteful funding of a monstrous government machinery, especially

corruption-ridden-inefficient public sector enterprises (PSEs), and extending of tax-free perks and perquisites to elites. These profusely bleed the already scarce resources—both tax and non-tax.

The story of persistent failure of implementing a prudent fiscal policy in Pakistan and poor management of economic affairs is thus, not unknown or untold—it is even candidly admitted in all official documents, released from time to time, relating to taxation, public expenditures and public borrowing.

Pakistanis are one of the most heavily taxed nations in the world¹

The yearning for “more and more taxes” by successive governments—civilian and military alike—has become a source of irritation for the citizens. They argue as to why pay taxes when in return they do not even get basic amenities of life. In a true social democracy people pay taxes as their collective responsibility while the State looks after their needs. Pakistanis are subjected to exorbitant taxes while the country is caught in debt enslavement. The major reason for tax defiant behaviour is lack of trust in the government—abuse of taxpayers’ money for personal comforts and luxuries by the rulers. The State has failed to protect the life and property of the people, what to talk of providing them basic needs e.g. health, education and civic amenities. The populist argument against paying taxes is ‘why should we pay when the government cannot even ensure safety of our lives?’ This scenario and narrative is paving the way for radicalisation of society. Our so-called experts have never thought of analysing this as a significant internal security threat.

Over-taxation to the extent of expropriation is Pakistan’s real dilemma². Collection of unjust taxes is no answer to resolving existing maladies. Rather, they add to them. Rise in internal and external debts is a security threat as economic destabilisation can lead to dismemberment of the State—as was proved in the case of erstwhile USSR. We cannot overcome challenges on political fronts, including the twin menaces of terrorism and militancy, unless we restructure our economy for social democracy. For this we need thoroughgoing reforms in all institutions as elaborated by Dr. Nadeem Ul Haque, former Vice-Chancellor of Pakistan Institute of Development Economics (PIDE) and ex-Deputy Chairman of Planning Commission, in *Change the Sherriff*³ as under:

“..... people in Pakistan are asking what their taxes are used for. ‘I get no public service, yet I pay high taxes. Why?’ This is a frequent lament. People are intuitively in line with enlightenment thinking. Surprisingly donor philosophy remains anti-enlightenment, forcing all Pakistanis to pay more regardless of the quality and quantity of public service. Remember there is no applause when the Sheriff of Nottingham raises his tax collection because everyone knows he is collecting for

1 *The News* [Political Economy], October 10, 2010

2 *The News*, February 18, 2016

3 *The News*, February 16, 2015

his own welfare. Our poor governance and failed public service delivery mechanisms are well-known. Should we give such a system more revenues? Surprisingly that has become the mantra. What did the system do well when they had more money in their hands? They engaged in poor quality projects that did not deliver social returns. They also engaged in self-dealing—maximising their own perks plots and welfare schemes. They created unnecessary and unprofitable public sector enterprises.”

In *Reform or face fundamental ascendancy*, Dr. Nadeem rightly suggested that “the state must first provide the social contract i.e. good law and order and security of life. It must dismantle the rent seeking that protects the rich..... Rent seeking relies on three main components: state subsidies, licensing and regulation; special perks and privileges for ministers and army and civil service employees and land distribution system that allows the poor man’s land to be acquired for the elite especially the army and civil service”.

Dr. Nadeem has made a very valid point that “about 60 million uneducated children will enter our labour force over the next decade. All of us should focus our attention to jobs and growth if we are to have any peace here. Yet our policymakers are tailing donors into thinking that all economics revolves around increasing tax/GDP—as if tax alone will solve all our problems.”

Level of taxation in a country is traditionally judged in terms of the ratio, which taxes bear to some measure of national income. The study of tax-GDP ratio is considered important because trends in taxation in a country or group of countries are analysed mainly in terms of this ratio, and the composition of tax revenues. Are inter country comparisons of taxation levels meaningful? Some fiscal experts have sharply criticized these attempts. According to critics, the economic, political, and institutional characteristics of individual countries are so different that neither theoretical nor empirical studies provide useful information of policy relevance. Tax-GDP ratios do not consider the fact that some countries are more favourably placed to levy and collect taxes than others. For example, Lotz and Morssan analysed a sample of 72 developed and developing countries to examine the relationship between tax ratio variations and differences in per capita income and degree of openness. The sample included a wide spectrum of dissimilar economies ranging from Nepal to Singapore. It is *prima facie* erroneous to compare Nepal’s high rural and agricultural economy with a high commercial and industrial city-state of Singapore. Generally the tax revenue to GDP ratio in developed counties has been high and in the less developed countries, low.

In *Change the Sherriff*¹, Dr. Nadeem rightly argued that “donors point to selected countries with a higher tax-to-GDP ratio without establishing a basis for a comparison. Are they implying all countries should have the same ratio? Examine the advanced countries: the US with 27 percent, the UK with 39 percent, Sweden with 46 percent, and Germany with 41 percent. Does this mean the US should increase taxes to 46 percent? Yet the US wants to lower taxes. Let us face it: there is no theory that tells us that all tax-to-GDP ratios should be the same. Those who use this argument on the media should be reminded of this simple truth.”

The root cause of our economic woes is the outlandish living style of the elites off taxpayers’ money. Look at the residences of judges, generals and high-ranking civil officials with an army of servants and fleets of cars. Wasteful spending on elites and disinclination to tax the rich is playing havoc with the economy. Behind the present chaotic socio-economic and political situation in Pakistan, amongst other factors, is fiscal indiscipline.

A democratic tax system is one under which tax payments are based on the amount of benefits received from government services—the Scandinavian social democracy model is a good example to quote. In social democracies, the cost of government services are apportioned amongst individuals according to the relative benefits they enjoy. In economic terms, this is called “benefit principle” that presupposes determination of the incidence of public expenditure before deciding distribution of tax burden.

The existing tax system is a worst expression of manipulation and exploitation. A highly unjust and distorted tax base benefits the rich and mighty (exploitative elements having monopoly over economic resources) and fleeces the economically-deprived classes. There is no political will to tax the privileged classes in Pakistan. The common man is subjected to exorbitant sales tax (though standard rate is 17% but actual incidence is over 40% in many cases after applicable customs duty, regulatory duty, mandatory value addition and advance income tax). In return, a common citizen even does not get what is guaranteed by Constitution e.g. free education and health cover—what to speak of affordable shelter and transport. On the other hand, the mighty sections of society—monopolistic industrialists, absentee landowners, generals, judges and bureaucrats—get exemptions and concessions. The cost of tax free perks and perquisites to members of militro-judicial-civil and political elite alone is in billions—it is borne by taxpayers!

Determination of a tax base capable of measuring an individual’s ability-to-pay is a major problem of our tax system. In all democracies, this rule is followed by adopting progressive rate schedule for personal income tax and property tax. In Pakistan, we have moved from this policy to unequal

1 *The News*, February 16, 2015

sacrificial rule where the mighty militro-judicial-civil complex (now an integral part of our landed aristocracy by earning State lands as awards and rewards) and political elite are paying meagre taxes while actual incidence is shifted to the less-privileged. The businessmen are offered presumptive tax regime, even under income tax law, to pass on their burden to the customers. The masses are overburdened with oppressive indirect taxes, ever rising costs of public utilities and petroleum products.

It was Louis XIV's finance minister, Jean-Baptiste Colbert, who claimed that the art of taxation was "**to pluck the maximum amount of feathers from the goose with the least amount of hissing**". Colbert's view is close to the truth, even in today's world, but taxation in his day was not used as an instrument to achieve a broad range of economic and social objectives. Rather, it was a tangle of practices and customs designed to finance wars, private and public works, as well as the pet schemes of the royal family—and their aristocratic hangers-on. In fact, until the 20th century, the notion of a progressive tax on income did not strike them as being virtuous. Our rulers are, however, still living in that state of mind.

In the second half of the 20th century, a number of governments in the West realised that taxation was indeed a multifaceted instrument which, if used sensibly, could help each society attain its economic and social goals. This required a delicate balance between rewarding entrepreneurship, innovation and risk-taking on the one hand, and the need to finance important public expenditures on the other, including education and social programmes, as well as the traditional public works which attracted Colbert. Not easy to do, and few countries, if any, can be fully satisfied with the balances they have struck. Pakistan, of course, is not among such countries.

There are only three main sources of tax revenue upon which government treasuries depend: income, capital and consumption. Too heavy a tax burden on any one of these will cause it to become unreliable as a source of revenue, as well as generating distortions and inequities. In some cases, it might spur tax evasion or drive part of the economy underground or in this age of globalization, flight of capital to tax havens. Any well-intentioned politician sees no limits to levels of taxation and redistribution. If an elected politician has the courage to tax and spend in a transparent way on his or her perceived worthy social objectives, then it must happen in a democratic way. The politician must be sanctioned or approved by the electorate to go for great revolution.

However, a government can be tempted to exercise a philosophy of social responsibility by penalising the productive sectors instead of introducing reforms which require greater political courage. Yet, in doing so, it runs the risk of undermining the economy's growth potential. Many do not

believe that tax systems should be over-burdened with the social convictions of politicians. Have individuals and corporations pay their fair share of taxes, yes! Have social charges disrupt the good functioning of economies, no! Excessive and unbalanced taxation can prevent many individuals and businesses from taking full advantage of opportunities of the new knowledge-based economies.

Taxpayers (including businesses) should share the burden of protecting those who are vulnerable as a result of change, either through well-designed social protection measures or re-training, not through excessively rigid job protection measures and inflexible labour regimes that penalise productivity. That is why a fair and transparent tax system is so essential for maximising economic growth. In this regards, a detailed study¹ is available that can be debated publically to find a workable tax model for Pakistan. Politicians must have the courage to achieve a sensible balance between income, capital and consumption taxes. And they must also have the courage to spend, not on ill-designed social programmes introduced more to collect votes than social returns, but on important investments in creating human capital (e.g. education, training and health), and necessary public infrastructure to increase the productivity of the economy.

It is by no means an easy task in Pakistan but one expects the public gets increasingly suspicious of political motivations and better informed about the impacts of undisciplined public finance. At least, one hopes so! We must all do better. Independent observers should monitor tax data and survey the costs and benefits of various approaches to taxation that have been adopted, changed, abandoned and reinvented over many years; experts should give frank advice on reform and best practices, and help the government reach consensus on tax matters. Politicians should listen to them. They should explore new challenges, such as the taxation of e-commerce, the problems of harmful tax competition and transfer pricing within large corporations. Simply put, the government must unshackle the constituent elements of economic growth by letting market forces play their respective roles. And governments must transfer the benefits of economic growth to enhance social well-being and cohesion through transparent and well-designed taxation. If the paradigm could be made to work, then Colbert's geese would barely hiss at all!!

Tax policy should be aimed at achieving the cherished goal of distributive justice. The government should launch programmes, financed mainly through taxes, to solve the twin problems of unemployment and poverty. These welfare-oriented schemes may also include subsidised/free medical and educational facilities, low-cost housing, and drinking water facilities in rural areas, land improvement schemes, and employment guarantee

1 *Towards Flat, Low-rate, Broad and Predictable Taxes*, Islamabad: PRIME Institute, April 2016

programmes. Once people see the tangible benefits of the taxes paid, there will be better response to tax compliance. Taxes cannot be collected through harsh measures and irrational policies. The government must demonstrate by its action to the taxpayers that money collected from them is being spent for collective welfare

At present, both the Centre and provinces are not collecting taxes according to their respective potential due to weak enforcement and inherent problems of an outdated tax system. Total tax potential of Pakistan is around Rs. 12 trillion if agricultural income tax and other provincial and local taxes are also collected efficiently. As shown below, at federal level, income tax alone can be collected to the tune of Rs. 5 trillion provided the entire undocumented economy is brought into tax net. So far, all efforts to achieve this objective have miserably failed. The existing tax system itself is the root cause for encouraging parallel economy, the reform of which is a fallacy. Patchwork here and there is just an exercise in futility and no matter how many tax reform commissions or committees are constituted the consequence would be attempting to cure the incurable. Remedy lies in dismantling the existing oppressive tax system and shifting to a flat-rate that is pragmatic, growth-oriented, workable and acceptable to all stake-holders. Under this flat rate taxation, those not coming into tax net or avoiding true disclosures would opt to pay voluntarily as rate would be minimal and compliance cost almost nil. Tax system is meant to incentivize growth and not otherwise as is the case in the present system.

After levying all kinds of oppressive taxes, the federal government has failed to bridge the ever-increasing fiscal deficit that is creating a greater debt burden—at present 65% of tax revenues are going towards debt servicing alone. On the other hand, provinces are critical of inefficiencies of FBR due to which their share in the overall divisible pool is insufficient to meet their annual budgetary requirements. Since the share of every province in federal taxes under the National Finance Commission (NFC) is dependent on how efficiently taxes are collected by FBR, it is important that the Centre and federating units actively participate in tax collection apparatus/processes/efforts. No serious debate has ever been initiated on the issue as to how we should increase the size of the cake to ensure that both the Centre and provinces flourish as sufficient funds are made available to run the governments and fulfill the needs of the people.

The ever-growing size of parallel, undocumented economy has much to do with the way taxes are being administered for the last many decades—from a tax compliant public to a tax rebellious one, from high tax-to-GDP ratio to an obnoxiously low one, from greater revenue from fewer taxpayers (2 million) to very low revenue from a broad-based population (approximately more than 20 million), from a relatively thriving economy where debts were at their lowest to an apparently prosperous one where share of debts is 68% of the GDP, from a comparatively greater reliance

on direct taxes to a complete turn-around towards indirect ones (even in the garb of income tax law which is essentially a form of direct tax), from relative simplicity of compliance to complicated procedures both at the federal and provincial levels especially in the aftermath of the Eighteenth Constitutional Amendment for which the PPP government (2008-2013) takes immense credit. Even the Inland Revenue Service has transferred a major portion of its responsibilities of collecting tax, on withholding tax agents leaving very little to justify its own existence.

In short, all that could have been done has been done to make the life of a compliant taxpayer as miserable as possible and snatching from him that little iota of motivation that was egging him on to be an obedient citizen of this country. The helplessness of seeing one's hard-earned money going down the drain has compelled many to look for greener pastures around the world where their taxes would trickle down in the form of some benefit coming back to them. With this in mind, it becomes imperative at this stage to rethink and devise a scheme that would alleviate the sufferings of the common man and help generate substantial revenue for governments to function comfortably. Our country is rich in resources and its people are very generous. There is no doubt that a logical scheme of things capable of sucking in large revenues without disrupting the common man's life would be a welcome respite from the constant lashing by tax collectors.

Another important factor that discourages compliance with tax laws is the extremely complicated and cumbersome nature of procedure involved in being registered with the revenue authorities. Even the corporate and educated class finds it difficult to comprehend, follow and observe the simultaneously applicable innumerable legal obligations, what to talk of the illiterate and ordinary man on the street. If a survey is conducted with respect to merely the advance tax provisions (almost 66 in number), it would reveal how a person is supposed to be aware of so many avenues where either tax is being withheld or he is himself paying income tax and the consequences of these taxes, the credit of which he may or may not be allowed to take while filing his return. In the first instance, a highly meticulous record of all such transactions that invoke taxes would have to be maintained and secondly, an even higher level of grasp over the law would be required to apply it.

Considering the present level of inflation and the high cost of living, the minimum threshold of income where no income tax is to be paid nor a return needs to be filed is within reach of an overwhelming population including people who are earning income from simple employment, trade and vocations. With the prevailing standards of literacy in the country how can it be expected that the common man has any cognizance about tax laws let alone complying and then tackling the authorities who are perpetually ready to whip anyone—innocent or guilty. Had it been

restricted to simple arithmetic, things could have improved but the cruel methods adopted to teach the nation lessons in paying taxes have only proved detrimental rather than motivating.

People take pride in beating the authorities, no exemplary punishment has been meted out to confirmed evaders, no effort has been made at the grass root levels to educate the public about its obligations and instead of serving the nation, officials of the revenue department are poised to pounce upon the first stray taxpayer to squeeze him dry. Revenue officers are trained to look suspiciously at every registered taxpayer—their motto being “guilty until proven innocent.” Even though law requires that officers should counsel and guide the taxpayer with respect to his duties and rights, he is conveniently forced to engage a tax consultant who, if professionally unethical, is capable of causing much more financial damage to his client than the amount of tax in question. FBR mercilessly wasted borrowed funds of millions of dollars given by the World Bank and other donors for implementation of a comprehensive five-year-long Tax Administration Reform Project (TARP) that was extended for another year on the request of Pakistan. During and after TARP, FBR has failed on all fronts—in meeting revenue targets, broadening of tax base, countering corruption and leakages, implementing sales tax, increasing share of direct taxes and improving tax-to-GDP ratio. At the end of TARP, tax-to-GDP ratio nosedived to 8.8% from 9.4% in the year when the programme started! Despite having both money and expertise, FBR could not introduce an effective automated tax intelligence system to bridge the huge tax gap of over 200%. The World Bank in its report, **“Implementation, Completion and Result Report”** issued on the completion of TARP, observed: “The current narrow-base of general sales tax (GST) in Pakistan remained almost entirely unchanged throughout 2005-2012, despite efforts to overhaul the indirect taxation structure by introducing a reformed GST featuring few exemptions and wide coverage of goods and services.”

The solution for tax reforms is NTA that would have innovative structure: an independent Board of Management, accountable to Parliament through the Minister of Finance and Revenue. The Minister would have the authority to ensure that the NTA operates within the overall government framework and treats its clients with fairness, integrity, and consistency. The Board of Management would consist of 15, three each to be nominated by the provinces and rest by the central government. The Board would have the responsibility of overseeing the organisation and management of the NTA. Chief Executive Officer of the NTA, being a member of the Board, elected by majority of members, would be responsible for the NTA’s day-to-day operations. The NTA Board would have no role in legislation, which under the Constitution of Pakistan is the exclusive domain of the national and provincial assemblies.

NTA would contribute to the well-being of Pakistanis and the efficiency of government by delivering world-class tax and benefit administration that is responsive, effective, and trusted. It would provide unparalleled service and value to its clients, offering its employees outstanding career opportunities.

The guiding principles of NTA would be:

Integrity: foundation of administration. It means treating people fairly and applying the law fairly.

Professionalism: key to success in achieving the mission. It means being committed to the highest standards of achievement.

Respect: the basis for dealings with employees, colleagues, and clients. It means being sensitive and responsive to the rights of individuals.

Co-operation: the foundation for meeting the challenges of the future. It means building partnerships and working together toward common goals.

At present, both the centre and provinces are not collecting taxes diligently. Our tax potential at federal level alone is Rs. 8 trillion¹. If agricultural income tax and other provincial and local taxes are also collected efficiently, the total figure at national level would be Rs. 12 trillion. For harnessing the full tax potential at federal, provincial and local government levels, a centralised tax agency is a prerequisite [see details in Chapter 4] as we highlighted way back in 2014. This idea was later borrowed by Tax Reforms Commission and many others without acknowledging and citing our published work on this subject. Many writers are posing as if idea of National Tax Authority (NTA) is their brainchild. This is the height of intellectual dishonesty that even academicians and professionals do not bother to cite the work of others and take credit of ideas never perceived by them.

Determination of Direct Tax/Income-Based Method

According to available data, income tax base is around Rs. 50 trillion (after taking into account informal economy). Flat rate taxation of just 10% with strong enforcement system will yield Rs. 5 trillion under income tax alone.

Determination of the Indirect Tax Base

All existing indirect taxes should be replaced both at the federal and provincial levels with Harmonized Sales Tax (HST). There are multiple tax collection authorities now, rendering the life of the ordinary citizen miserable since he is unable to comprehend complex laws without having to pay heavily to professionals.

¹ **Flat-rate taxation: Alternate solution**, *Business Recorder*, November 20 and 22, 2015

If the present indirect taxation is replaced with HST as in a comparable federation like Canada, it would not only improve revenue collection but would also help to alleviate the sufferings of taxpayers who have suddenly been bombarded by multiple tax authorities.

In the Pakistani milieu if a single-stage 5% HST is levied, it would yield at least Rs. 3 trillion both at federal and provincial levels [see a study by Tax Reform Commission (TRC)—**Part V**].

Conclusions

1. The above discussion shows that tax collection under the model suggested in *Towards Flat, Low-rate, Broad and Predictable Taxes*¹ would yield at least Rs. 8 trillion at federal level alone, much higher than what is being collected at the moment. Additionally, the proposed tax system being simple, predictable and growth-oriented will be taxpayer-friendly. It will also remove the bases of shadow economy, corruption, rent-seeking and lobbying by the unscrupulous businessmen.
2. If we want optimum collection of taxes fairly and without hampering growth, it is imperative to abolish the present tax laws and enact new ones.
3. With simplified Income Tax, Harmonised Sales Tax (HST), collection and compliance can be improved through a single tax collection agency—National Tax Authority (NTA). The NTA as a model for trusted tax and benefit administration would provide unparalleled service and value to its clients, and offer its employees outstanding career opportunities. The present tax agencies at federal and provincial levels would merge in NTA.
4. An integrated Tax Intelligence System would be implemented by NTA that can capture all inflow and outflows and correlate sales tax collections on goods and services with income tax returns and monitor entire transactions at all levels. This alone can ensure proper tax compliance as mere reduction in tax rates may not induce many to discharge their tax obligations diligently.
5. A fully automated, professional and efficient NTA would alone be in a position to enforce tax obligations. Before establishing NTA, major information technology and human resource improvements in tax collection methods as well as effective audit techniques should be developed.

1 PRIME Institute, Islamabad, (2016)

6. Establishment of a 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.
 7. Establishment of National Tax Tribunal for expeditious justice delivery.
 8. Prudent spending of public money through a transparent process enjoying the confidence of the people.
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In the wake of dismal results on the fiscal front for the first quarter of the financial year 2018-19, serious debate and action plans are needed for tapping the real tax potential of the country which is not less than Rs. 12 trillion. 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, if we minus refund blocked, is not collecting even half of it. The same is the position of provincial tax authorities that have failed to realise the tax potential of Rs. 4 trillion. At present, all broad-based and buoyant sources of revenue are with the federal government while 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 and/or direct grants.

During July-September 2018 quarter, fiscal deficit was Rs. 541.7 billion (1.4% of GDP), mainly due to “inflexible” and “compulsive” expenditure under the head debt servicing and defence. The colossal deficit was despite massive cut in development spending and securing Rs. 246.6 billion in terms of provincial surpluses. Startlingly, the current expenditure increased by nearly 20%, whereas tax revenues grew only by 7%. The Federal Government showed deficit of Rs.733.3 billion or 2.5% of GDP. The rise of fiscal deficit of 1.4% should be a cause for concern vis-à-vis revised annual target of 5.1% of GDP or Rs1.9 trillion set for fiscal year 2018-19.

Debt servicing in the first quarter stood at Rs. 507 billion, higher by Rs. 90 billion or 20.2% and defence spending amounted to Rs. 219.4 billion, up by Rs. 37 billion or 20.3%. Together, these two consumed Rs. 726 billion or 67.7% of the total expenditure incurred by the federal government. Domestic debt servicing increased to Rs. 461.7 billion, a surge of Rs. 44.2 billion or one-tenth over the same quarter of previous year. Foreign debt servicing of Rs. 45.4 billion was higher by 63%. The Government of Pakistan Tehreek-i-Insaf (PTI) is still optimistic that it would achieve the deficit to 5.1% of GDP announced in the supplementary budget presented in September after assumption of power.

In the Supplementary Budget, the PTI Government reduced the target of Federal Board of Revenue (FBR) from Rs. 4435 billion to Rs. 4398 billion. However, the collection in the first quarter was only of Rs. 886.5 billion or 18.8% of the annual target. The Government also revised upwards the total expenditure estimate to Rs. 5.3 trillion. The results of first quarter show total federal expenditures at Rs.1.07 trillion or 20.2% despite a

slowdown in development spending. In terms of the size of national economy, total revenues remained stagnant at the level of last quarter (2.9% of GDP). On the other hand, current expenditures that stood at 3.5% in the first quarter of previous fiscal year rose to 3.9% of GDP. **Provincial governments recorded a cash surplus of Rs. 246.6 billion out of the Rs. 662.6 billion that the federal government transferred as their share under the 7th National Finance Commission (NFC) Award.**

The performance of the provinces in collecting revenue is more pathetic than that of the Federal Government. The share of provincial taxes in total revenues has slipped to only 11%. All the federating units, except for Sindh, could not enhance revenues, thus, their reliance on NFC Award would continue unabated. In the first quarter, cumulatively, all the four provinces collected merely Rs. 88.6 billion in taxes, higher by only Rs. 1.7 billion or 2% over the same quarter of previous year (FBR showed growth of 8%). The declining figures of provincial taxes for the July-September quarter have underlined the need for revamping of the provincial tax regimes. The provincial tax collection was 0.22% of gross domestic product (GDP), which was far lower than the potential.

According to a report¹, “the provincial share in federal revenues has jumped to Rs. 663 billion or 84% of their total revenues in the first quarter, partly due to delayed transfers by the federal government. In July-September 2017, the provincial share in federal revenues was equal to 74.4% of their total revenues. In June this year, the finance ministry blocked the release of the last tranche under the NFC Award to the provinces aimed at restricting the budget deficit to 6.6% of GDP. Had the money been timely transferred to the provinces, the budget deficit could have gone up to 7.1% at the end of last fiscal year. Like the federal government, the provincial current expenditures also registered a double-digit growth. The provincial governments cut their development spending to Rs. 55.7 billion—41.7% less than first quarter of the previous year. The steep decline in the federal and provincial development spending is likely to adversely affect economic growth in the current fiscal year, which is now projected to remain at around 4%”.

In the first quarter, Punjab collected only Rs. 42.6 billion in taxes, which was lower by Rs. 2.4 billion or 5.3%. Due to this, the share of tax collection in total revenues dropped from 16% to only 10.8%. Punjab received Rs. 326 billion from the federal government under the NFC Award, higher by 63%. The provincial government saved Rs.126.4 billion from its budget. The provincial government’s collection on account of sales tax on services dropped 8.7% in the first quarter. However, the total

1 <https://tribune.com.pk/story/1853746/2-provinces-except-sindh-fail-boost-tax-revenues>

expenditures increased to Rs. 264.4 billion in spite of the fact that development budget was slashed by 54% to only Rs. 30.3 billion during July-September 2018.

Sindh emerged as the only province that registered a 10.8% growth in provincial taxes in the first quarter. The provincial government collected Rs. 40 billion, constituting nearly one-fifth of the total revenues. It collected Rs. 20.6 billion in sales tax on services alone showing growth of 10%. Sindh received Rs. 163.7 billion as its share under the NFC Award, higher by 53.7%. Out of Rs. 163.7 billion received from Federal Government, Sindh gave a surplus of Rs. 64 billion.

The government of Khyber Pakhtunkhwa generated a mere Rs. 4.1 billion in taxes through its own efforts which was equal to 3.6% of the total revenues. The Khyber Pakhtunkhwa government received Rs. 107.7 billion from the centre under the NFC Award, higher by 62.6% and gave back cash surplus of Rs. 29.4 billion. The provincial expenditures stood at Rs. 86.6 billion, showing an increase of 30%.

The government of Balochistan generated a meagre sum of Rs. 2 billion in taxes which constituted just 2.8% of the total provincial revenues. The largest province in terms of area received just Rs. 65.6 billion under the NFC Award, which was higher by 18.5%.

The overall picture that emerges from the results of first quarter of the current year, it is clear that the country is confronted with daunting fiscal challenges requiring immediate action and prompt solutions based on rational and bold decision-making. The fiscal crisis faced by Pakistan, 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 and defense expenditures, poverty alleviation and pro-poor economic growth.

Pakistan needs¹ to increase collection at all levels of governments to bridge the monstrous fiscal deficit that reached a level of 6.8% of GDP (Rs. 2.3 trillion) for the fiscal year 2017-18. It was suggested that the 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. However, no heed was paid to this proposal. It was also suggested that along with 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. For achieving this goal, the federal government, after consultation with provinces, should introduce harmonised sales tax (HST) on goods and services.

1 PTI and tax reforms, *Business Recorder*, August 17, 2018

It was stressed in ‘**Overcoming fragmented tax system**’, *Business Recorder*, October 19, 2018 that all the tax collection agencies in Pakistan should be dismantled and merged into a single National Tax Authority (NTA), which should effectively enforce tax laws at federal, provincial and local levels, besides providing single window facility to taxpayers [**See its blueprint in Annexure B**]. A timeframe was also mentioned but unfortunately the PTI Government did not bother to consider it. Even the recommendations of sub-committee on tax of Economic Advisory Council (EAC), approved by Prime Minister on November 25, 2018, show complete apathy on this issue. The report prepared by EAC’s sub-committee is so superficial that it even does not take into account the most vital issue of fragmentation of taxation in Pakistan. One wonders how easily the Prime Minister and his financial team were hoodwinked by the same officials of FBR who earned notoriety as cronies of Nawaz Sharif and Ishaq Dar.

Before establishing NTA, all the four provinces should be consulted and consensus must be reached for establishing an All Pakistan Unified Tax Service (APUTS) as suggested and elaborated in ‘**Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms**’, *Business Recorder*, August 31, 2018, and ‘**Doing business under scattered taxation**’, *Business Recorder*, September 7, 2018.

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 strengthened consequent to the 18th Constitutional Amendment after which the provinces established their own tax collection agencies at the provincial level. However, these provincial tax authorities still lack skilled manpower, tax collection expertise and other necessary human capital and paraphernalia to collect taxes. To meet these objectives, the services of FBR officers were requisitioned by the provincial authorities for their posting at provincial tax collection agencies on deputation basis. Resultantly, many of the FBR officers were sent to provincial tax agencies such as Sindh Revenue Board (SRB) and Punjab Revenue Authority (PRA). Although the 18th Amendment was widely appreciated by the provinces, it created fissures in the revenue collection authority of FBR resulting in further decline in tax collection because tax on services fell in the provincial domains. On one side, the move was hailed by the provinces but, on the other, the taxpayers immediately started raising their eyebrows because they had to now 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) department is already working as a separate entity under the provincial governments. The E&T departments have no formal administration connection with SRB, PRA and other provincial tax

collection agencies. Unless, all federal and provincial tax agencies are unified and harmonized, the dream of optimum tax collection cannot materialize.

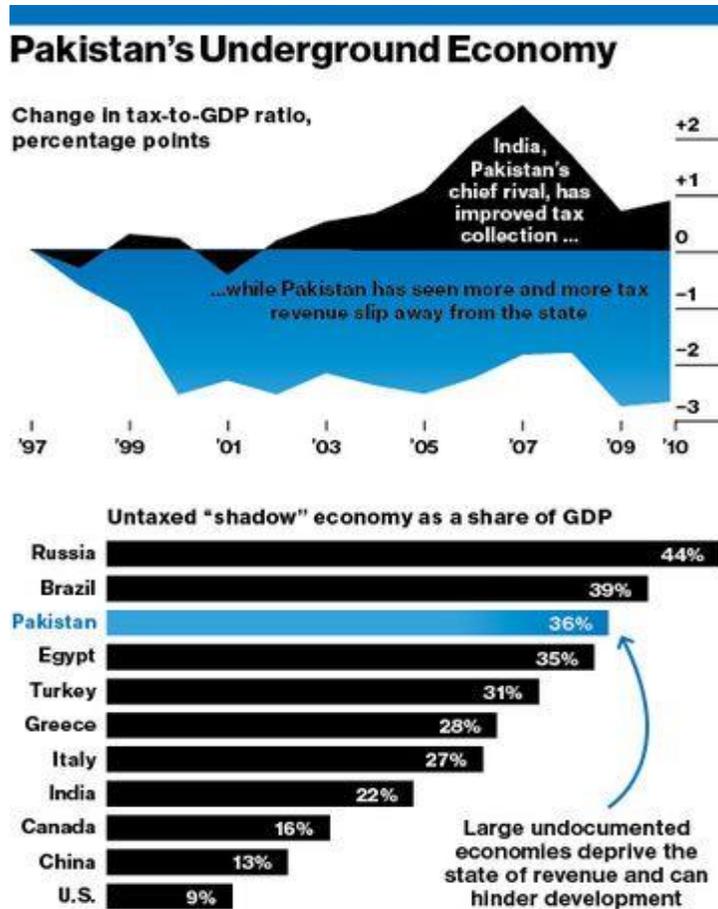
The PTI-led coalition government, if really serious in moving towards “New Pakistan” [New and reformed Pakistan] must address the administrative issues of tax collection necessary for optimizing revenue collection as per the country’s potential. In this regard, the formation of APUTS is the first major step towards harmonizing the tax system and culture 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. The officers will be posted anywhere in Pakistan, both at federal and provincial levels, directly from FBR Headquarters. An officer of the rank of Joint Secretary from Establishment Division may also be posted in FBR who could keep liaison with FBR over administrative issues of posting and transfers of officers. 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 power under the 18th Amendment as is the case of working of the PAS and PSP officers. 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 advantages towards maximizing revenue collection at the federal and provincial levels:

- 1- The officers will 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 IRS, for paying taxes and redressal of their grievances.
- 3- The formulation of APUTS will 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.
- 4- Inland Revenue Service (IRS) will emerge as a strong but accountable government service spreading over the federal government, all four provinces, Gilgit-Baltistan and Azad Jammu & Kashmir.
- 5- APUTS will better help the PTI government achieve its tax vision and targets.

NTA, having officers from APUTS, will be a competent and effective body, representing all constituents of the federation of Pakistan. NTA having nation-wide data at one place and centralised processing will certainly be able to compel all taxable persons to fulfill tax obligations and pay due taxes under various tax codes. NTA must replace Federal Board of Revenue (FBR) and all provincial revenue authorities that have miserably failed to collect revenues according to their actual potential. For example, provincial Revenue Boards have not been collecting agricultural income tax, imposed since 2000—collection of less than Rs.2 billion by all provinces together on this account in fiscal year 2017-18 is highly lamentable. In the same manner, provincial excise and taxation departments are not collecting taxes they are entrusted to administer. Same is the story of Punjab Revenue Authority (PRA), Sindh Revenue Board (SRB) and Khyber Pakhtunkhaw Revenue Authority (KPRA) in respect of sales tax on services—their capacity to tax all taxable services is quite inadequate.

Tackling the twin menaces of black money and tax evasion has always been a failure in Pakistan. The study¹ by Ahmed Gulzar, Novaira Junaid and Adnan Haider, shows that corruption and tax evasion are not only causing an expansion in the size of the informal economy but also hampering the growth rate, thereby adding more to economic uncertainty, income inequality and poverty. Successive governments, instead of dealing with these issues have been pardoning and appeasing tax evaders through various laws and amnesty schemes.



GRAPHIC BY BLOOMBERG BUSINESSWEEK. DATA: ASIAN DEVELOPMENT BANK, PAKISTAN FEDERAL BOARD OF REVENUE, TAX JUSTICE NETWORK

1 *What is hidden, in the hidden economy of Pakistan? size, causes, issues and implications*

The result is obvious—there is an ever-growing informal economy, which is ironically declared as *‘The Secret Strength of Pakistan’s Economy’*¹. Only 25 percent of the economy is taxed if the undocumented sector is taken into account. It means that tax gap in Pakistan is 75%. The tax-to-GDP ratio is much less than what is claimed by FBR. They do not take into account informal (untaxed) part of economy. Former Finance Minister Shaukat Tarin said in 2010 that “Pakistan loses 800 billion rupees a year in tax evasion”. The tax collection of each year, after blocking refunds and taking advances of billions of rupees is not enough to bridge the budget gap, which last year was over 5 percent of GDP. The present accumulated size of informal (untaxed) economy is estimated at Rs. 50 trillion. If tax at flat rate of 10% is offered to all who have failed to pay in the past, in just one year FBR will collect Rs. 5 trillion and then in future this figure would be much higher compared to what is collected at present—in fiscal year 2015-16 FBR collected merely Rs. 3.1 trillion against documented GDP of around Rs. 24.7 trillion.

The New Paradigm

Under the afore-stated situation of imbalances, a fresh approach and a renewed policy are urgently needed to replace the entire taxation system for fiscal stabilization. The equation is simple. Federal government needs at least Rs. 8 trillion of revenue (for meeting all development and non-development expenditure along with retirement of expensive loans), for which determination of a fair tax base is imperative. The current complex system, only favours a few thousand officers and their staff along with people having money power and who can blatantly flout the law. It is possible to suggest a simple flat rate tax that is neither burdensome nor difficult to implement but it would deprive the bureaucracy and some vested-interests who would be most likely to oppose it. Nonetheless there is no option but to dismantle the existing, out-dated and anti-growth tax system if we have to overcome the twin but inter-related malaises of fiscal deficit and debt burden.

Arthur B. Laffer and Stephen Moore in their book *“Return to Prosperity,”* have expanded upon a theory that meets our existing conditions. While elaborating upon the practicality of flat rate of tax, they write:

“Excessive taxation is detrimental to labor and capital, poor and rich, men and women, old and young. Excessive taxation is an equal opportunity tormentor. Businesses locate their plant facilities in order to make higher after tax returns for their owners. In the short run, higher taxes on labor or capital lower after tax earnings. During depressed times, businesses are often desperate to reduce costs because of a shortfall in revenues.

1 Naween A Mangi, *Bloomberg*, April 6, 2012

Increased taxes in one location can be the final straw leading to businesses' relocating to more tax friendly locations or making the ultimate decision to close down operations. In the longer run, immobile factors (such as low wage workers and commercial and residential real estate) are left to suffer the tax burden."

Referring to the significance of mode of taxation, the writers draw justification from a noted nineteenth century American economist Henry George who wrote in his book,

"Progress and Poverty" (1879):

"The mode of taxation is, in fact, quite as important as the amount. As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in any other way, could be borne with ease."

There has to be a source of motivation for taxpayers to comply voluntarily and to some extent eagerly in contributing towards the national exchequer. Whenever the governments resort to high-handedness in collecting taxes, the people term it as broad daylight robbery, instrumental in encouraging tax evasion. As propounded by the eminent authors of *"Return to Prosperity"* on pg. 174:

"The theory of incentives provides the basis for the concept of a flat-rate tax, which is so called because a tax applies equally to all sources of income and does not change as a result of taxpayer's volume of income. Any exemptions, deductions, differential rates, or progressivity would, as a matter of linguistics, preclude the name flat tax. They also represent a deviation from the principles of efficient taxation. Such exemptions to the even application of a single narrow tax base, lead to a higher tax rate, make for greater complexity, and increase tax avoidance."

They further say that:

"In the realm of economics taxes are negative incentives and government spending entails positive incentives, subject to all the subtleties and intricacies of the general theory of incentives. People attempt to avoid taxed activities—the higher the tax, the greater their attempt to avoid."

The tax system that will work smoothly for Pakistan, keeping in view our peculiar socio-economic circumstances and mind-set of masses, must be a flat rate with no compliance hassles. All taxes should be merged into one single tax with complete assurance to the masses that they would be free

from any kind of harassment; and money collected would be spent towards their welfare. The agenda of fair taxation cannot succeed if wastage of public funds and its abuse by the rulers continue unabated. The *quid pro quo* for paying taxes is as important as the system to collect tax. Where the public is blamed for not paying their due share, public authorities are equally, if not more, responsible for indulging in corrupt means taking cover of complicated procedures that eventually lead to poor collection of revenue. As mentioned by the writers:

“A flat rate eliminates much of the inefficiency in a convoluted tax system by broadening the tax base and sharply reducing marginal tax rates. Many of the distortions that exist with the current tax system are minimized. A flat tax rate reduces the collection cost per dollar of tax revenue and eliminates much of the bureaucracy necessary to monitor and enforce numerous taxes. Its adoption leads to a surge in growth and creates a more competitive economy.”

The tax base with respect to direct tax vis-à-vis fair distribution of incidence can be achieved by imposing 10% flat rate tax on net income of individuals subject to alternate minimum tax of 2.5% on net wealth exceeding Rs. 10 million and reducing corporate tax rate to 20%. This kind of simple taxation would induce voluntary compliance provided all the citizens are aware of the fact that competent and effective tax machinery exists having a tax intelligence system that can easily detect tax avoidance. Without this deterrence even the new system which is a great deal simpler, will be unworkable. Nowhere in the world is proper collection of taxes possible without a strong enforcement apparatus. However, the apparatus should be friendly and firm—friendly, to the extent of educating and guiding the people for fulfillment of their tax obligations, and firm to the extent of punishing willful defaulters.

As far as sales tax is concerned, it has been emphasized time and again that Pakistan needs harmonized sales tax (HST) which should be single-stage and single-digit. This envisages collection through a National Tax Authority which should replace all existing authorities at both federal and provincial levels. Further details of simplified, flat-rate taxation can be seen in our detailed paper¹ published in 2016.

Income Tax

Income taxation at the moment is highly complex and fragmented. There is classical taxation under various heads of income, while many transactional taxes, presumptive and minimum taxes have been added to distort the entire concept of personal income taxation. There are around 60 withholding taxes—adjustable, non-adjustable and minimum—and those

¹ *Towards Flat, Low-rate, Broad and Predictable Taxes*, Islamabad: PRIME Institute, April 2016

subjected to these, whether having taxable income or not, are in millions. It includes not only total population liable to income tax, but millions of those who have no taxable income. Since millions, having no taxable income, do not file income tax returns/statements, a wrong impression exists that our income tax base is narrow.

Sales Tax

Presently, collection of sales tax is concentrated in few commodities. This is confirmed by the fact that petroleum products alone contribute around 44 percent of the total sales tax in domestic collection. Just 10 items including POL and natural gas yielded 73 percent of the total net sales tax domestic in 2015 and 2016¹. Against the prescribed rate of 17%, the effective sales tax rate for total domestic sales is 4.55 percent. This rate is 6.81 percent, 7.96 percent, 8.36 percent and 13.56 percent for top 40, 30, 20 and 10 sales tax paying entities respectively. This shows that domestic sales made by more than 99 percent of taxpayers contribute sales tax at effective rate less than 4.55 percent [effective rate is the actual rate that yielded the total collection²].

Customs

Customs collection in Pakistan faces serious issues of smuggling, under invoicing, over- invoicing, mis-declarations and valuation rulings etc—these are not only causing a loss to national exchequer but also hurting open markets. The enhanced collection from 2015-16 to 2017-18 was due to imposing regulatory duty on hundreds of items. The rationalisation of customs revenue is not possible through narrow bases (10 items contribute more than 80% receipts), in the presence of numerous statutory regulatory orders (SROs) and numerous valuation rulings—all leading to complexity and leakages. The existing tariff slabs with the peak of 20 percent and floor of 2 percent is source of corruption and leakages.

“Such a menu of tariff rates endows custom officials with the opportunity to extract rent from the importers. If officials have sufficient discretionary power, they might threaten to misclassify goods into more heavily taxed categories unless importers pay them a bribe. Because of the bribe, the effective tariff rate faced by the importing firm increases and the demand for the imported goods therefore decreases. It can be easily shown that the resulting drop in import demand implies an efficiency loss as well as lower government revenues, when compared with the optimal taxation benchmark without corruption. A similar argument applies when customs officials offer to classify goods into low tariff categories in exchange for a bribe. The empirical evidence confirms that the interaction described

1 FBR's *Biannual Review* (January-June 2014-15)

2 See details in *Effective rate of Sales Tax on 60 major sectors stands at 4pc, Customs Today* (online edition, January 31, 2015).

might have significant relevance, as a robust association between standard deviation of trade tariffs—a measure of the diversification of tariff menus—and corruption emerges across countries”¹.

“The issue of a uniform tariff across goods has received substantial attention by both economists and policymakers. Among other things, uniform tariffs have been shown to reduce gains from lobbying for protection and thus enhance economic efficiency, increase the cost to future governments of protecting favoured sectors, and in general improve transparency” [Panagariya and Rodrick (1993)].

The study suggests uniform rate of 2 percent for all items that will eliminate the menace of smuggling, arbitrary and/or favourable valuations, complicated registration processes as well as the SRO-ridden system. This low, uniform rate would generate at least revenue of Rs. 1200-1500 billion.

Federal Excise

Federal Excise Duty [FED] should be imposed as a **sin tax** on tobacco, alcohol and other harmful items. The amount so collected should be utilised for improving national education and health services. In the same manner, FED should be imposed as carbon tax for fighting environment degradation as well as on luxury goods to discourage their consumption, especially import. The study also recommends imposition of FED on natural gas and oil at well-head as provided in Article 161(1)(a) & (b) so that provinces can get more revenue in the form of net proceeds from these sources.

1 **Corruption and Trade Tariffs, or a Case for Uniform Tariffs**, Roberta Gatti, The World Bank, Development Research Group

PART II

PAST LEGACY & CURRENT CHALLENGES

*An unusual decline in revenue collection and steep rise in current expenditures caused a deterioration in all major fiscal indicators during FY19. The overall budget deficit during the year stood at a historic high of 8.9 percent of GDP, which was also in excess of the 4.9 percent target set in the Budget 2018-19. Meanwhile, the primary and revenue balances worsened substantially, highlighting growing debt stress for the government and a shrinking space for the needed development expenditures—State Bank of Pakistan, **Annual Report 2018-19—The State of Pakistan’s Economy**¹*

*“Their [provinces] revenue efforts have been unimpressive to say the least, whereas their allocation on social development has been much less than what is required to bridge the existing service delivery gap. Therefore, it requires strong commitment from the provincial governments to support the fiscal consolidation efforts, bring the needed diversification in the revenue base, and gear themselves up to carry out effective public financial management to improve the quality of public spending”—State Bank of Pakistan, **Annual Report 2018-19—The State of Pakistan’s Economy***

“Higher reliance on withholding taxes and within withholding taxes a high concentration on a few items makes the income tax revenues vulnerable. Moreover, taxing the already taxed, is a regressive approach which creates burden on the compliant taxpayers hence, FBR is focusing on working out a plan to diversify the base of income tax in the country”—FBR Year Book 2018-19²

*A tax gap analysis recently completed by the World Bank indicates that Pakistan’s tax revenue would reach 26 percent of GDP if tax compliance were raised to 75 percent—World Bank \$400 million **Pakistan Raises Revenue Project**³*

For the last many decades, fiscal (mis)management in Pakistan has been a serious cause for concern for all—the government, people and donors. The problems diagnosed by experts are rent-seeking structures, wasteful expenses, un-tapping of resources, inefficient and corrupt institutions,

1 <http://www.sbp.org.pk/reports/annual/arFY19/Anul-index-eng-19.htm>

2 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

3 <https://www.worldbank.org/en/news/loans-credits/2019/06/13/pakistan-raises-revenue-project>

oppressive and excessive taxation, non-availability of impersonal market relationships, lack of competitiveness, violation of the rule of law, non-acceptance of the norms of fair play and coupled with ‘reckless’ borrowing and ‘ruthless’ spending amidst burgeoning fiscal, trade and current account deficits—just to mention a few.

During the Decade of Democracy [2008-18], the governments of Pakistan People Party and Pakistan Muslim Leagues (Nawaz) showed extreme callousness towards economic well-being of the voters who elected them, especially the less-privileged. Their performance on economic front was abysmal. They resorted to regressive taxes, yet failed to bridge the burgeoning fiscal deficit—it hit historic high of 8.9% of GDP for fiscal year 2018-19. A report¹, issued by the International Monetary Fund (IMF) says that Pakistan’s public debt² may surge this year to 78.6% of GDP.

Historically, our rulers, military and civilian alike, have been seeking bailouts from IMF—many call it *death-blows*³. With every loan came harsh conditions—ostensibly meant for economic revival/reforms by every time left us in deeper quagmire. Musharraf-Shaukat duo hoodwinked the nation by claiming that they were severing all ties with IMF, whereas in reality huge loans were secured for reforming (sic) the tax, banking and justice systems—just to mention a few. Fresh loans were negotiated with renewed enthusiasm by all the successive governments. This undesirable trend continues under the economic ideologues of Pakistan Tehreek-i-Insaf (PTI) who were claiming before coming to power that they would make Pakistan self-reliant and never seek any IMF’s bailout.

Pakistan signed \$11.3 billion Stand-by Arrangement (SBA) with IMF in 2008 and got disbursements of about \$7.6 billion. It failed to get the remaining \$3.7 billion due to lapses in performance criteria, leading to suspension of the programme in May 2010, culminating in an unsuccessful ending on September 30, 2011. The main responsibility of failure was with then Economic Minister of PPP, Dr. Abdul Hafeez Shaikh, who is now selected by the government of PTI for economic revival. We have secured yet another bailout from IMF of US\$ 6 billion. Will Hafeez Shaikh turn his past failures into a success this time?—there is optimism as per Premier Imran Khan and he reassured nation on

1 <https://www.imf.org/en/News/Articles/2019/10/25/na102819-why-improving-fiscal-institutions-is-critical-to-the-middle-east-and-central-asia>

2 Way back in January 2016, in a paper, **Rising Debt: A Serious Threat to the National Security**, Ashfaq H. Khan aptly noted: *The speed at which the governments have borrowed over the last several years in general and during the last two and a quarter years in particular has caused serious alarm in various circles. These circles consider the pace of borrowing as something that is posing a serious threat to the national security. If the pace of borrowing remained unchecked then the size of the external debt, in particular, would become large enough for Pakistan to service its external debt obligations in an orderly manner.*

3 <https://tribune.com.pk/story/2081024/2-pakistans-debt-rise-78-gdp-imf>

December 5, 2019 that “good days” are coming and “you have not to worry” [*Ghabrana nahi hai!*]

However, many say that there are many valid reasons to be worried e.g. inflation in November 2019 skyrocketed at 12.7%¹—highest during the last nine years. The PTI government took foreign loans of US\$ 10.4 billion² in its first year in power resultantly Rs. 571.6 billion³ were consumed by debt servicing alone from July to September 2019—foreign debt servicing was Rs. 77.7 billion⁴, showing an increase of 70%. Circular debt is expected to swell to Rs. 1700 billion⁵ by end of this current fiscal year! But we should not panic as Prime Minister assured that all these challenges will be met successfully by his team soon and that IMF has given us very good review as well as other international bodies and agencies like, the World Bank, Asian Development Bank and Moody’s etc. Moody’s has recently upgraded⁶ Pakistan’s credit rating outlook to stable, with an accompanying report saying it reflected the country’s relatively large economy and robust growth potential.

The most challenging areas of our fiscal management are inadequacy of resources, huge debt servicing and high current expenditure. In 2018 and 2019, expenditure amounted to over 21 percent of GDP. On account of debt servicing in FY 2018, actual expenditure was Rs. 1987 billion against the budgeted figure of Rs. 1620 billion. Allocation for the current fiscal year is 2891 billion, 78% higher than last year!

The target assigned to FBR for 2018-19 was Rs. 4435 billion [revised downwards to Rs. 4398 billion and then to Rs. 4150 billion]. FBR collected merely Rs. 3828.5 billion showing negative growth of 0.4%. This resulted in fiscal deficit of **8.9 percent of GDP**. PTI Government is not responsible for it—it was due to wrong policies and fiscal mismanagement of economic wizards (sic) of Pakistan Muslim League (Nawaz).

The dismal performance of FBR in 2018-19 adversely affected the provinces, heavily dependent on collection by the Centre from the divisible pool. The size of the cake is so small that even provinces are facing crunch of funds. In these circumstances, we cannot come out of debt trap or spend adequately for the welfare of the people. Provinces are also not ready to collect taxes due from the rich and generate their own resources and initiate fiscal devolution as envisaged under Article 140A of the Constitution. Failure of FBR to meet the assigned target, what to speak of tapping the real tax potential of Rs. 8 trillion, and inability of

1 <https://tribune.com.pk/story/2112066/1-inflation-skyrockets-9-year-high-12-7-nov>

2 <https://tribune.com.pk/story/2111842/2-borrowing-soars-10-4b-ptis-first-year-power>

3 <https://tribune.com.pk/story/2109592/2-debt-servicing-eats-rs571-6-billion-q1>

4 <https://tribune.com.pk/story/2109592/2-debt-servicing-eats-rs571-6-billion-q1>

5 <https://tribune.com.pk/story/2107887/2-circular-debt-projected-touch-rs1-7t>

6 <https://www.newsweekpakistan.com/moodys-raises-pakistans-outlook-to-stable/>

provinces to raise sufficient resources at their own has created a fiscal fiasco.

The root cause of our fiscal mess is, however, not inadequate (sic) tax collection alone, as highlighted by many, especially foreign donors and lenders, but mammoth debt servicing burden, monstrous current expenditure (mostly unproductive and wasteful), inefficient and corrupt government apparatus, loss-bearing public sector enterprises, circular debt and blocking of genuine refund by FBR—just to mention a few. For progressing, we need fiscal consolidation through decentralisation, dismantle all elitist structures and empowerment of masses at grass root level that is possible by implementing Article 140A of the Constitution of Islamic Republic (“the Constitution”) in letter and spirit. This alone can ensure economic prosperity for masses. No other strategy will work, not even the recent US\$ 400 million loan from World Bank for Pakistan Raises Revenue¹ Project.

The biggest challenge faced by FBR is bridging monstrous tax gap. The World Bank in its report, *Pakistan Revenue Mobilisation Project*², has rightly noted:

Pakistan’s tax revenue potential would reach 26 percent of GDP, if tax compliance were to be raised to 75 percent, which is a realistic level of compliance for lower middle income countries (LMICs). This means that the country’s tax authorities are currently capturing only half of this revenue potential, i.e. the gap between actual and potential receipts is 50 percent. The size of the tax gap varies by tax instrument and by sector. The tax gap in the services sector is larger than in the manufacturing sector (67 percent vs. 46 percent respectively) and it is larger for the GST/GSTS than for income tax (65 percent vs. 57 percent respectively).

It is clear from *FBR Year Book 2018-19*³ that over 70% tax collection came from exorbitant taxes at import stage, withholding tax regime under income tax law and advance tax. This pattern continues under the government of PTI—it has taken no corrective measures till today. The main reliance of FBR since 1991 has been on indirect taxes, even under the Income Tax Ordinance, 2001—after Finance Act, 2019 it contains over 70 withholding tax provisions, many of which constitute minimum tax liability! Is it direct taxation? Even Chairman Shabbar Zaidi will certainly say NO!!

1 <https://projects.worldbank.org/en/projects-operations/project-detail/P165982?lang=en>

2 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

3 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEJEDIVISION YEARBOOK2018-19.pdf>

*FBR Year Book 2018-19*¹ concedes that withholding taxes constitute 67% of the total collection of income tax (it was 65% last year). Out of total collection of Rs. 1445.5 billion [it was Rs. 1536.6 billion in 2017-18], Rs. 39.2 billion [2.7%] received with returns and Rs. 344.2 billion [23.8%] as advance tax. FBR's own efforts (collection of demand created) yielded only Rs. 84 billion (5.8%, it was 7% last year) and from arrears Rs. 18.6 billion (1.3%, it was 1.2% last year). It confirms negligible share [7.3%] on the part of FBR—the same trend continues in the first five months of the current fiscal year; even after imposing oppressive taxes, FBR faced shortfall of around Rs. 218 billion².

In an article [**Flawed tax reforms agenda**], it was observed as under:

FBR closed fiscal year 2018-19 under renowned tax expert, Syed Muhammad Shabbar Zaidi, and it is hoped that for the first time correct disclosure of collection figures will be provided to the nation after deducting the actual amount of refunds payable—withheld for years merely to show 'extraordinary performance' (sic) by stalwarts of FBR. Not only true disclosure is essential but all due refunds should be paid with compensation without any further delay. Stringent action should also be taken against those who criminally avoided giving appeal effects in favour of taxpayers, blatantly violating order of the higher courts and Tax Tribunals.

It is strange that FBR in its annual year books does not give total number of income tax filers and total number of registered sales tax persons on the closing date of every financial year for which it highlights its performance. For the sake of transparency, they must give on website historic and current up-to-date data of return filers and sales tax registered persons as early as possible. Hopefully, Mr. Shabbar Zaidi will take a serious note!

In the light of above note, for the first time, FBR disclosed details of income tax returns filed historically as under:

The trend for filing of income tax returns has not been satisfactory in Pakistan. Keeping in view very low compliance, FBR had initiated a Broadening of Tax Base (BTB) drive few years ago, which has not started paying dividends in shape of growth in the number of filers. The income tax returns which were just 1.5 million in TY 2016 have crossed the two million mark first time in the history of FBR. During TY 2017 the

1 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

2 <https://tribune.com.pk/story/2109154/2-tax-revenue-shortfall-widens-rs218b>

number of income tax filers reached to 1.9 million and in TY 2018 2.2 million (Table 7). During TY 2018 the number of return filers increased by 17.1% or 316,526 in absolute terms. This performance in terms of number of returns is satisfactory but payment with returns has a meager growth of 3.0%, which is the matter of concern. The desk audit of filed returns can be helpful in increasing the amount paid with returns.

An analysis of *FBR Year Book 2018-19*¹ reveals the following:

- “The target for FY 2019-20 i.e. Rs.5503 billion requiring around 43% growth, is highly challenging, which would be possible only through extraordinary concerted efforts by the senior FBR management and field formations”.
- FBR has collected Rs. 3,828.5 billion during FY 2018-19 against Rs. 3,843.8 billion during FY 2017-18 indicating a negative growth of 0.4%. The revised revenue target of Rs. 4,150 billion was achieved to the extent of 92.3%. The direct taxes, sales tax, FED and customs missed their respective targets by 12.9%, 2.1%, 10.5% and 6.7% respectively.
- During FY 2018-19, FBR has missed the target by around Rs. 321.5 billion mainly for the following major reasons:
 - Petroleum (-) Rs. 96 billion
 - Telecom—Suspension of withholding tax by Honorable Supreme Court (-) Rs. 55 billion
 - Reduced Government Spending (-) Rs. 80 billion
 - Import compression (withholding at import stage) (-) Rs. 16 billion
 - Reduced rates on salary income announced in the Budget 2018-19 (-) Rs. 50 billion
 - Reduction in Customs Duty (-) Rs. 50 billion
- As per the collection FY 2018-19, sales tax is the top revenue generator with 38.1% share followed by direct taxes with 37.8%, customs 17.9% and FED 6.2%. During FY 2018-19 the share of customs duty and FED has increased, whereas the share of direct taxes and sales tax has decreased slightly.
- The overall growth in collection remained dismal during FY 2018-19. The overall collection ended at (-) 0.4%, which is Rs. 15.3 billion lesser than the collection of FY 2017-18.

¹ <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

- During FY 2018-19 refunds of around Rs. 121.6 billion were paid, as compared to around Rs.154.7 billion in FY 2017-18. The refund amount paid during FY 2018-19 is 33.1 billion less as compared to previous fiscal year (PFY).
- Direct taxes have contributed 37.8% to the total tax collected during FY 2018-19. Net collection stood at around Rs. 1,445.4 billion reflecting a growth of (-) 5.9 % over the PFY collection of Rs. 1,536.6 billion. An amount of Rs. 83.9 billion has been paid back as refund to the claimants in FY 2018-19 as against Rs. 69.5 billion during FY 2017-18. Collection of income tax comprises withholding taxes (WHT), Advance Tax/Payments with Returns and collection on demand (COD). Collection from arrear demand and current demand has been Rs. 18.7 billion and Rs.84.2 billion respectively during FY 2018-19. Collection from current demand showed negative growth of (-)1.1%.
- **Advance Tax/Payments with Returns under the head income tax:** Rs. 384 billion was collected during FY 2018-19 as compared to Rs 374 billion in the FY 2017-18. Major component of this mode of payment is Advance Tax where a sum of Rs 344.2 billion stood collected as against Rs. 335.8 billion in FY 2017-18 registering a growth of 2.5%. The second component is payment with returns, where a sum of Rs 39.3 billion has been collected during FY 2018-19 against Rs. 38.1 billion in FY 2017-18 registering a growth of 3.0%.
- WHT contributes a major chunk i.e. 67% of the total collection of income tax. The WHT collection during FY 2018-19 has been Rs. 960.7 billion against Rs. 1047 billion indicating a negative growth of 8.2%. The nine major components of withholding taxes that contributed around 80% to the total WHT collection are: contracts [Rs. 235.4 billion], imports [Rs. 221.8 billion], salary [Rs. 76.4 billion], telephone [Rs. 17.1 billion], dividends [Rs. 57.0 billion], bank interest [Rs. 58.1 billion], cash withdrawal [Rs. 32.0 billion], electricity [Rs. 35.5 billion] and exports [Rs. 34.4 billion]. **As far as growth is concerned, collection from bank interest grew by around 27%, exports (22%), electricity bills (5%), imports (1%) while rest of the items recorded a negative growth in collection.** The highest contributor in withholding taxes is contracts with 24.5% share, followed by imports (23.1%) and salary (8%). Further break-up reveals that the share of only two heads of WHT i.e. contract and imports is around 48% and further addition of withholding tax on salary raises the share of these three items to more than 55% of the total withholding taxes, showing high reliance on fewer heads.

- Higher reliance on withholding taxes and within withholding taxes a high concentration on a few items makes the income tax revenues vulnerable. Moreover, taxing the already taxed, is a regressive approach which creates burden on the compliant taxpayers hence, FBR is focusing on working out a plan to diversify the base of income tax in the country.
- Direct taxes are collected from manufacturing, services, construction, whole sale and retail trade, transport and mining and quarrying. Major contributor is manufacturing sector with around 34.5% share in direct tax collection. Second major contributor is the services sector with around 24.2% share in collection. The share of wholesale & retail trade and transport sector is 2.9% and 2.3%, which is in fact very low as against the existing potential in the country.
- Wholesale and Retail Trade sectors together paid Rs. 48.2 billion: **Large Retail Trade (7.9 billion), Small Retail Trade (9.7 billion) and Wholesale Trade (25.1 billion).**
- During FY 2018-19, **sales tax remained top revenue generating sources of federal tax receipts after direct taxes. It constitutes around 38.1% of the total net revenue collection. Collection during FY 2018-19 has been around Rs. 1,459.2 billion against around Rs. 1,485.3 billion in the PFY.** Overall sales tax collection registered negative growth of -1.8% and around Rs. 26.1 billion of lesser amount has been collected during FY 2018-19 as compared to the collection of previous year. The downward revised target of sales tax has been met to the extent of around 97.9%. Major reasons of shortfall in the collection of sales tax domestic and imports during FY 2018-19 are following:
 - A sharp reduction in the GST rate on Petroleum Products at both import and domestic stages
 - Reduced GST on Natural Gas
 - Import compression
- Domestic sales tax collection recorded a negative growth of 1.9%, whereas collection of sales tax on imports recorded a negative growth of 1.7%. The overall net collection of Sales Tax Domestic (STD) was Rs. 648.9 billion against Rs. 661.1 billion in the PFY and the net collection grew by (-) 1.9%. In absolute terms Rs. 12.2 billion less amount of revenue has been collected in FY 2018-19 as compared to PFY. The POL products the top revenue generating source, with 38.3% share, its collection grew by 4.9% during FY 2018-19. The collection

from sugar, cigarettes, withholding agents, food products and electrical energy recorded a growth of 31.8%, 12.6%, 9.9%, 9.6% and 7.5% respectively during the period under review. On the other hand negative growth was recorded in cement, aerated waters, iron & steel and motor cars.

- Sales tax on imports (STM) is a significant component of federal tax receipts. The share of STM in total sales tax net collection has reached to around 55.5%. The net collection of STM during FY 2018-19 stood at Rs. 810.4 billion against Rs. 824.2 billion in FY 2017-18, registering a negative growth of 1.7%.
- Top 10 commodities of sales tax import have contributed a major chunk i.e. 76.5% in STM collection. The detailed data indicates that more than 59.6% of STM is contributed by POL products (Ch:27), machinery (Ch:84 & 85), iron & steel (Ch:72) and vehicles(Ch:87).
- Like sales tax (domestic), petroleum is the leading source of sales tax collection at import stage as well. Its share in sales tax imports is around 27.3%. During FY 2018-19 collection from POL products was Rs.221 billion against Rs. 264 billion during FY 2017-18 reflecting a growth of (-)16.2%.
- Customs duty constitutes around 28.7% and 17.9% of the indirect taxes and federal taxes respectively. The share of customs duties in FBR collection is gradually increasing. The net collection from customs duty during FY 2018-19 has been around Rs. 685.6 billion indicating growth of 12.7%. The healthy growth in customs collection has helped the overall FBR revenues positively. Out of total net collection under the head Customs of Rs. 685.575 billion, the share of vehicle (non-railways) is Rs. 81.459 billion. POL products are the second major contributor of customs duty [Rs. 79.3 billion], Machinery & Mechanical Appliances [Rs. 42.5 billion] and Electric Machinery [Rs. 42.4 billion].
- Collection from Federal Excise Duty (FED) was Rs. 238.2 billion. FED constitutes 10.0% of indirect taxes and 6.2% of total federal taxes. The major sectors which contribute in FED revenues are tobacco [Rs. 91 billion], cement [Rs. 56 billion], beverages [Rs. 23 billion], natural gas [Rs. 10 billion] and edible oil [Rs. 6 billion] and some of the services. The tobacco (cigarette) is the top source of FED collection with around 38% share in FED revenue. The collection from cigarettes grew by around 36% during FY 2018-19. The second major sector is the

cement which contributes about 24% in FED revenue. Nearly 94.6% of FED collection is realized from five items.

Once again, the FBR in *FBR Year Book 2018-19*¹ has not disclosed total number of registered sales tax persons and how many are actually paying tax despite others and ours asking repeatedly. It should be done on the closing date of every financial year. For the sake of transparency, FBR must provide on website historic and current up-to-date data of return filers and sales tax registered persons.

FBR Year Book 2018-19 exposes the tall claims of the apex revenue authority of expanding tax base, extraordinary growth in collection and improving tax-to-GDP ratio to a satisfactory level (9% in FY 2013-14 to 11.2% in FY 2017-18 to only 12.6% in 2018-19). The reality is quite evident to all—higher (sic) collection has been due to exorbitant sales tax on POL products, due to over 70 withholding income tax provisions and enhancement of their rates, blocked refunds of billons and by taking advances from taxpayers.

It is clear by now that the sordid story of collection through withholdings and advances continues even under the government of PTI as it took no corrective measures after coming into power. The main reliance of FBR since 1991 has been on indirect taxes, even under the Income Tax Ordinance, 2001 that after Finance Act, 2019 contains over 75 withholding tax provisions, many of which constitute minimum tax liability. Out of total collection under withholding provisions of Rs. 1047 billion in FY 2017-18, the element of full and final taxation (indirect tax in substance) was 64 percent! In FY 2018-19, the same situation remains unchanged.

It is an undeniable fact that FBR has failed to get due tax from the rich and mighty and thus its main emphasis is on withholding taxes (WHT). *FBR Year Book 2018-19*² concedes that “WHT contributes a major chunk i.e. 67% to the total collection of income tax”. Out of total collection of Rs. 1445.5 billion [it was Rs. 1536.6 billion in 2017-18], with returns came Rs. 39.2 billion [2.7%] and advance tax of Rs. 344.2 billion [23.8%]. FBR’s own efforts (collection of demand created) yielded only Rs. 84 billion (5.8%, it was 7% last year) and from arrears Rs. 18.6 billion (1.3%, it was 1.2% last year). It confirms negligible share [7.3%] on the part of FBR.

FBR has failed to tap the actual tax potential as it would have hurt the rich, the majority of which, despite having substantial undeclared, untaxed wealth and the audacity of ruling this country as a matter of right and adding insult to injury got enormous benefit through two assets

1 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

2 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

whitening schemes of 2018 and 2019. As many as 135 persons, named in the OECD database, availed the 2018 tax amnesty scheme of PML-N and declared Rs. 62.4 billion in assets. They paid only Rs. 2.9 billion whereas, their actual liabilities without the tax amnesty could have been Rs. 43.7 billion, getting a relief of Rs. 40.8 billion from the last government. About 56 people, whose data was shared by the OECD, availed PTI's tax amnesty scheme and declared Rs. 31.8 billion worth of assets. They paid only Rs. 1.7 billion and got a relief of Rs. 20.6 billion.

Perpetual failure of FBR [see Table] to meet assigned targets is not something new. A large part of the blame goes to political masters who keep on giving amnesties, waivers and immunities.

During the last fiscal year, negative growth was the result of policies of appeasement on the part of PMLN and then PTI. Every year FBR fails to collect downward revised target what to speak of originally assigned one in the budget estimates. This widens fiscal deficit resulting in more borrowing and taking away a large part of the budget for debt servicing/payment of principal amount.

Fiscal consolidation is one of the daunting challenges faced by Pakistan. Successive governments have failed to end harmful tax policies and reduce wasteful expenses. No serious effort has been made by any government to broaden the tax base through lowering of rates and effective enforcement.

Our real dilemma that is very high level of current expenditure has yet not been touched by the Prime Minister. Obviously, the monstrous size of government, army of ministers, state ministers, advisers etc would not like to brief Prime Minister on it as reducing wasteful expenditure will mean fewer luxuries for the elite—militro-judicial-civil complex and politicians in power.

According to Budget Documents for 2019-20¹:

“During the last five years, total revenue as percent of GDP on average reached to 14.9 percent, whereas it stood at 15.1 percent in FY2018. The total expenditures as percent of GDP on average reached to 20.5 percent, while during the FY2018, it was the highest at 21.6 percent. Resultantly, fiscal deficit on average stood at 5.5 percent, while during the last year it was recorded at 6.5 percent.

¹ http://www.finance.gov.pk/budget/Budget_in_Brief_2019_20.pdf

FBR's performance (1996-97 to 2019-20)
(Rs. in billions)

Year	Targets	Collection	Growth in Collection (%)	Target Achieved (%)	Tax to GDP ratio	Ratio in total taxes (%)	
						Indirect taxes	Direct taxes
1996-97	286.0	282.1	5.2	98.6	11.6	69.8	30.2
1997-98	297.6	293.6	4.1	98.7	11.0	64.9	35.1
1998-99	308.0	308.5	5.1	100.2	10.5	64.3	35.7
1999-00	351.7	347.1	12.5	98.7	9.1	67.5	32.5
2000-01	406.5	392.3	13.0	96.5	9.3	68.2	31.8
2001-02	414.2	404.1	3.0	97.6	9.1	64.7	35.3
2002-03	458.9	460.6	14.0	100.4	9.4	67.0	33.0
2003-04	510	520.8	13.1	102.1	9.2	68.3	31.7
2004-05	590	590.4	13.4	101.8	9.1	68.9	31.1
2005-06	690	713.4	20.8	103.4	9.4	68.5	31.5
2006-07	935	847.2	18.8	101.5	9.8	60.6	39.4
2007-08	1,000	1008.1	18.9	100.8	9.8	61.5	38.5
2008-09	1,179	1157.0	14.8	98.1	8.9	61.8	38.2
2009-10	1,380	1327.4	14.7	69.0	9.0	60.4	39.6
2010-11	1,667	1587.0	19.6	95.2	8.8	61.3	38.7
2011-12	1952.3	1883.0	18.2	96.5	9.1	60.8	39.2
2012-13	2007	1939.4	03.0	96.6	8.5	61.8	38.2
2013-14	2275	2254.5	16.0	99.0	8.8	61.1	38.9
2014-15	2810	2589.9	13.0	92.2	9.2	60.1	39.9
2015-16	3103.7	3112.4	20.2	100.3	9.6	60.9	39.1
2016-17	3621	3367.8	8.0	92.9	9.8	60.1	39.9
2017-18	4013	3842.1	14.1	97.6	10.4	60.0	40.0
2018-19	4435	3828.5	-0.4	86.3	10.2	62.5	37.7
2019-20	3908	3996.7	4.4	102	9.6	68	32

Source: Economic Surveys, State Bank Data & FBR Year Books

In FY2016, fiscal deficit was brought down to 4.6 percent of GDP but the low trajectory could not be maintained and increased to 5.8 percent and 6.5 percent during FY2017 and FY2018, respectively.

The performance of fiscal indicators shows that total revenue growth experienced a slowdown (5.9 percent in FY2018 against 11.0 percent growth in FY2017), while, total expenditure growth was contained at 10.1 percent in FY2018 as compared to 17.3 percent in FY2017.

The net revenue receipts for 2018-19 were estimated at Rs 3,070.4 billion, which decreased to Rs 2,569.0 billion or by 16.3% in revised estimates 2018-19. The provincial share in federal revenue receipts was estimated at Rs 2,590.1 billion during 2018-19, which decreased to Rs 2,462.7 billion or by 4.9% in revised estimates.

The overall expenditures during 2018-19 were estimated at Rs 5,932.5 billion, out of which the share of current expenditure was Rs 4,780.4 billion. Current expenditure in revised estimates 2018-19 showed an increase of Rs 809 billion from budget estimates. After the share of Provinces in gross revenue is transferred, the net revenue receipts of Federal Government were at Rs 3,070,439 million in the budget 2018-19, which later revised downwards to Rs 2,568,977 million in the revised estimates 2018-19 showing a decrease of 16.3%.

The budget estimates 2018-19 of the overall expenditure were Rs 5,932,463 million, which increased to Rs 6,419,111 million in revised estimates 2018-19 or by 8.2%. Current expenditure: Rs. 7. 288 trillion (FY 2019-20) showing an increase of 52.5% and 30.4% in budget and revised estimates respectively of the fiscal year 2018-19.

Within development expenditure, total Public Sector Development Program (PSDP) expenditures posted a negative growth of 7.7 percent in FY2018 and stood at Rs 1,456.2 billion as compared with Rs 1,577.7 billion (growth of 33.1 percent) recorded in FY2017. Federal PSDP (net excluding development grants to provinces) spending witnessed negative growth of 20.6 percent (Rs 576.1 billion) in FY2018 against growth of 22.3 percent (Rs 725.6 billion) in FY2017. Provincial PSDP registered a growth of 3.3 percent in FY2018 compared with 43.8 percent in FY2017. Non-tax revenue decreed to Rs. 427.3 billion in FY 19 from Rs 760.9 billion in FY 18.

Total Revenues of all provinces in FY 19 were Rs. 2995.9 billion [in FY 18 it was Rs. 2,938.5 billion] out of which share

from federal taxes was Rs. 2397.8 billion [in FY 18 it was Rs. 2,217.4 billion]. Total revenues of all provinces were Rs. 488.1 billion [in FY 18 it was Rs. 548.1 billion], out of which taxes were of Rs. 401.8 billion [in FY 18 it was Rs. 401.4 billion]. Total expenditures of all provinces were Rs. 2,857 billion [in FY 18 it was Rs. 2,960.9 billion] of which current expenditure were Rs. 2350.8 billion [in FY 18 it was Rs. 2,080.7 billion]”.

The above shows that our real issue is high current expenditure of both the federal and provincial governments. The reduction of the same should be our top agenda and not following the mantra of more regressive and oppressive taxes that are anti-people and anti-growth.

Let Prime Minister be informed that the iniquitous prescription of IMF of more taxes, austerity and high interest rate will not solve our problems—this has miserably failed in the past. The only solution is to reduce wasteful expenditure, right-size the monstrous size of the government, monetize all the perquisites of bureaucracy and make taxes simple and low-rate. State lands, lying unproductive, should be leased out for industrial, business and commercial ventures. It will generate substantial funds and facilitate rapid economic growth.

It is an undisputed fact that FBR has not only miserably failed to tap the real tax potential despite imposing all kinds of oppressive taxes, it has been single handedly destroying Pakistan’s growth by anti-business actions especially during 2013-18. The then Finance Minister, now a proclaimed offender of the Accountability Court and suspended senator, gave free hand to tax officials to block bona fide refunds, take undue advances from large business houses, use negative tactics like raising unjust demands and freezing bank accounts for recovery. Exporters and other taxpayers, still waiting for refunds, have been denied lawful right of payments/compensation within stipulated time. Had Ishaq Dar concentrated on growth above 6%, as done by China, India and even Bangladesh in the region, we could have avoided the present fiscal and economic mess. Tax is a byproduct of growth and harsh taxation only hampers expansion and prevents investment in existing and new businesses. Will Dr. Abdul Hafeez Shaik and Syed Muhammad Shabbar Zaidi care to take corrective measures and reverse this trend.

Track record of FBR shows remote possibility of collecting even Rs. 6 trillion in the next three years to give enough fiscal space both to the Centre and the provinces to come out of the present economic mess, thus providing some relief to the poor as well as trade and industry. Under the given scenario, federation-provinces tax tangle will continue unchecked and further taxation through local governments, when elected, would not serve any useful purpose—there will be no relief to the people, rather tax burden will increase manifold.

The main reliance of FBR since 1991-92 has been on indirect taxes, even under the Income Tax Ordinance, 2001 that after Finance Act, 2019 contains over 75 withholding tax provisions, many of which constitute minimum tax liability. Out of total collection under withholding provisions of Rs. 1047 billion in FY 2017-18, the element of full and final taxation (indirect tax in substance) was 64 percent!

FBR has been persistently failing to meet budgetary targets for the last many years what to speak of realising the real revenue potential, which is not less than Rs. 8 trillion¹. An in-depth analysis of *Year Book 2017-18*² of FBR exposes the tall claims of expanding tax base, extraordinary growth in collection and improving tax-to-GDP ratio to a satisfactory level (9% in FY 2013-14 to 11.2% in FY 2017-18). The reality is known to all—higher (sic) collection was due to exorbitant sales tax on POL products, due to over 65 withholding income tax provisions and enhancement of their rates, blocked refunds of billions and by taking advances from taxpayers. It is clear by now that the sordid story of collection through withholdings and advances continues even under the government of PTI as it took no corrective measures after coming into power.

For the fiscal year, 2017-18, revenue target was Rs. 4013 billion that was later revised downward to Rs. 3935 billion. FBR collected only Rs. 3842 billion. It is an undeniable fact that FBR has failed to get due tax from the rich and mighty and thus its main emphasis is on withholding taxes (WHT). FBR's *Year Book 2017-18*³ concedes that "**WHT contribute "a major chunk i.e. 65% to the total collection of income tax"**". It adds that "**the WHT collection during FY 2017-18 has been Rs. 1047 billion against Rs. 944 billion indicating a growth of around 10.9%**". The actual contribution of WHT is 68.5% that is 3.5% more than what FBR has claimed in *Year Book 2017-18*⁴.

FBR's own efforts (collection on demand) yielded only Rs. 102.82 billion (6.7%)—from arrears Rs. 17.69 billion (1.2%) and from current demand Rs. 85.13 billion (5.6%). It confirms negligible share on the part of FBR to tap the actual tax potential as it would have been hurtful to the rich, majority of which are non-filers, despite having substantial undeclared, untaxed wealth and the audacity of ruling this country as a matter of right. They are ready to pay additional tax at source as non-filers but are not inclined to file tax returns.

The total revenue collection in 2016-17 was Rs. 3368 billion⁵. FBR missed the original target by a wide margin of Rs. 250 billion¹. In 2015-16, FBR,

1 FBR: new chairman, old challenges, *Business Recorder*, August 2, 2013.

2 [http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18\(03-09-18\).pdf](http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18(03-09-18).pdf)

3 Ibid

4 Ibid

5 <http://www.sbp.org.pk/ecodata/tax.pdf>

despite imposing additional taxes of Rs. 360 billion, allegedly² blocking over Rs. 220 billion refunds and taking Rs. 30 billion as advance failed to meet the third-time revised target showing shortfall of Rs. 222 billion vis-à-vis original target of Rs. 2810 billion, which was first reduced to Rs. 2691 billion and then to Rs. 2605 billion. In 2012-13, it even failed to collect Rs. 2000 billion.

In fiscal year 2013-14, the target was revised downward twice, yet FBR could not meet it. The failure to tap real tax potential poses a tough challenge to both the federal and provincial governments. Poor performance of FBR adversely affects the provinces as they are overwhelmingly dependent on what the Centre collects and transfers to them from the divisible pool. Provinces are not ready to collect taxes due from the rich landowners and generate their own resources after establishment of local governments as envisaged under Article 140A of the Constitution. Centre is unwilling to grant the provinces their legitimate taxation rights while it collects too little to meet their overall financial demands. The size of the cake—divisible pool—is so small that nothing substantial can be done to come out of debt enslavement and to spend adequately for the welfare of the people, no matter to which part of the country they belong.

Fiscal decentralisation requiring the transfer of taxing and spending powers to sub-national levels of government is totally non-existent in Pakistan despite clear command contained in Article 140A of the Constitution of Islamic Republic of Pakistan. The provincial performance in the case of sales tax on services completely belies the impression that provinces do not have the capacity to generate taxes. If sales tax on goods is given back to provinces, as was the case at the time of independence, they would perform much better as experience of handling sales tax on services shows. However, the performance of provinces in collecting agricultural income tax is extremely poor. This is a common issue both at federal and provincial level arising from absence of will to collect income tax from the rich and mighty—the meagre collection of agricultural income tax—less than Rs. 2 billion by all provinces and Centre in fiscal year 2018-19—should be a serious cause for concern. It is imperative that right to levy tax on income, including agricultural income, should be with the Centre. In return, the Centre should hand over sales tax on goods to the provinces³.

1 <https://timesofislamabad.com/02-Jul-2017/fbr-missed-the-tax-collection-target-by-rs-250-billion-for-fy-2016-17>

2 <https://tribune.com.pk/story/926029/musical-chairs-a-clean-up-job-in-fbr-on-the-cards>

3 **Taxing “agricultural income: qua Constitution**, *Business Recorder*, April 9, 2010.

The fiscal consolidation is one of the daunting challenges faced by Pakistan, especially the debt servicing. In fiscal year 2018-19, total payment, as per budget documents¹, on account of debt servicing, was Rs. 1987 billion against the budgeted figure of Rs. 1620 billion. Allocation for the current fiscal year is 2891 billion, 78 % higher than last year! If FBR achieves reduced target of Rs. 5503 billion² (original fixed in budget was Rs. 5555 billion and after request from Government, IMF agreed for reduction to the tune of Rs. 233 billion against the demand of Rs. 300 billion), after transfer to provinces under 7th National Finance Commission (NFC) Award of Rs. 3200 billion, **net tax collection** available to the federal government will be Rs. billion 2300 billion, which is short by Rs. 591 billion of debt servicing of Rs. 2891 billion! This shows the gravity of the fiscal crisis faced by Pakistan and aptly highlighted by Prime Minister in his address to FBR's to notches on November 13, 2019. He rightly pointed out that successive governments failed to end harmful tax policies and reduce wasteful expenses. It a sad but incontrovertible reality that no serious effort has been made by any government, military and civilian alike, to give relief to the people by spending money for their welfare which was and is still possible by getting revenues—taxes and non-taxes—by broadening the tax base through lowering of rates and effective enforcement as well as taking utilising untapped resources—mineral wealth lying ideal—and state land to be leased out for commercial ventures.

Pakistan will remain in debt enslavement and more and more people will be pushed below the poverty line. If we want to come out of this crisis, the parliament will have to reconsider the prevailing social contract between federation and the provinces. Provincial autonomy and local self-governance without taxation rights and equitable distribution of income and wealth is meaningless. We cannot overcome perpetual economic and political crises unless the provinces are given true autonomy; ownership of all resources; generation of own revenue and exclusive right to utilise it for the welfare of their denizens.

Fiscal decentralisation and municipal self-rule should essentially be linked with a social policy based on the principle of universal entitlements for all residents in terms of access to social benefits and social services. Taxation without representation also means denial of spending for the essential entitlements guaranteed in the Constitution³. The principle of universal entitlements seeks to prevent the formation of inequalities and the foundation of the poor as a separate social group, whereas residualism/marginalism takes the form assisting the poor and the needy, and thus implicitly defining them as certain types of social groups.

1 http://www.finance.gov.pk/budget/Budget_in_Brief_2019_20.pdf

2 <https://propakistani.pk/2019/11/05/imf-cuts-fbrs-tax-collection-target-by-rs-233-billion-report/>

3 **Municipal self-governance**, *Business Recorder*, July 19, 2013.

The provincial parliaments in Pakistan should be pressurized by civil society to enact laws for establishment of local governments as ordained under Article 140A of the Constitution on the basis of social policy—they have so far just copied the previous outdated ones with patchwork here and there. The ruling classes do not want to empower people through self-governance. They want to enjoy total control over resources. The local governments will not be meaningful unless entitled, within national economic policy, to have adequate financial resources of their own, of which they may dispose freely within the framework of their powers and for public welfare.

In a nutshell, for achieving the goal of fiscal decentralisation, local governments' financial resources must commensurate with the responsibilities provided for by the constitution and the law to ensure welfare of the people and ensure sustainable growth at grass root level. Part of the financial resources of local authorities should derive from local taxes and spent for providing universal entitlements and development. Pakistan must follow the model of welfare states where resources available to local governments are based on a sufficiently diversified and buoyant nature to enable them to keep pace with the real evolution of the cost of carrying out their tasks.

There is no political will to implement the above mentioned well-defined fiscal reform agenda, though general consensus on it exists in society. Addiction to borrowed money and lust for wasteful spending are the main stumbling blocks for achieving the cherished goal of self-reliance that can pave way for rapid growth, employment generation and substantial spending for social sectors. The ever-widening fiscal deficit amongst many other reasons has its roots in wasteful funding of a monstrous government machinery, especially corruption-ridden-inefficient public sector enterprises (PSEs), and extending of tax-free perks and perquisites to elites. These profusely bleed the already scarce resources—both tax and non-tax. The story of persistent failure of implementing a prudent fiscal policy in Pakistan and poor management of economic affairs is thus, not unknown or untold—it is even candidly admitted in all official documents, released from time to time, relating to taxation, public expenditures and public borrowing.

It is a bitter reality that after the 7th NFC Award, both the federal government and provinces failed to observe strict financial discipline. Monstrous size of government machinery at all levels, largely inefficient, corrupt, incapable and outdated, is causing colossal wastage of resources. The governments are spending recklessly, a tendency that continues under civilian and military regimes, alike since the last many decades.

In the recent months, many economists and analysts have showed with facts and figures that the 18th Amendment and 7th NFC Award are harming fiscal stability. So is the underlying message of SBP in its **Annual Report 2018-19—The State of Pakistan’s Economy**¹. In a write-up, *Federation’s fiscal dismemberment*², it is insinuated that “the imbalances triggered by the 7th NFC Award directly and indirectly contributed to a range of macroeconomic problems and turned out to be an unmitigated disaster for the federation”. Ali Salman highlighted in his op-ed, *Economic stability put on back burner by major political parties*:

“Pakistan’s economic progress notwithstanding still faces uphill challenges on its path of development, including sustained economic growth, while creating more jobs through the expansion of private sector. The energy sector does require deeper policy engagement to improve governance. Tax environment remains on the weakest front”.

Since 2009, our politicians sitting in parliaments—federal and provincials—and their economic managers have been following the 7th NFC Award—even in 2019 budgets exercises by the federation and federating units, it was followed without taking into account results of the latest census in utter violation of supreme law of the land! It is thus clear that the federal and provincial governments have never been concerned with the fundamental issue of judicious and evenhanded distribution resources between Centre and federating units to ensure prosperity for all. Balochistan should have exclusive right to levy sales tax on natural gas and Khyber Pakhtunkhwa on electricity, just to mention two for illustration. This levy can make them rich. Their present share in sales tax from divisible pool is as low as 9% and 14% respectively. They have rich natural resources and wealth of oil, gas and electricity but due to low population get a small share for goods they produce. The same is the case for Sindh having gas and coal reserves.

1 <http://www.sbp.org.pk/reports/annual/arFY19/Anul-index-eng-19.htm>

2 By Mohammad Zubair Khan, Dawn, July9, 2018

Position under 7th NFC Award

Salient features	Who will get what?			
* Final share of provinces: Punjab 51.74 percent, Sindh 24.55 percent, Khyber Pakhtunkhwa (KPK) 14.62 percent and Balochistan 9.09 percent.	Vertical distribution			
	7th NFC	6th NFC	Change	
	Centre	44%	52.5%	-8.5
	Provinces	56%	47.5%	+8.5
* Federal collection charges to be reduced from 5% to 1%	Horizontal distribution			
	7th NFC	6th NFC	Change	
* Sindh to receive additional transfer of Rs. 6 billion from federal government	Punjab	51.74%	53.01%	-1.27%
* Provinces in agreement on multiple indicators and respective weights ¹	Sindh	24.55%	24.94%	-0.39%
* Sales tax acknowledged as provincial subject	KPK	14.62%	14.88%	-0.26%
* KPK to be given additional 1% from federal divisible pool	Balochistan	9.09%	7.17%	+1.92%
	Projected amount (in billions)			
	FY 2018	FY 2019	FY 2020	
	Punjab	1282	1205	1611
	Sindh	649	616	814
	KPK	426	404	533
	Balochistan	233	238	295

Source: *Budget in Brief*²—a synopsis of the Federal Budget 2019-20

The target of Rs. 5.5 trillion for the current fiscal year is still achievable provided collection is fully automated, tax machinery is overhauled, leakages are plugged and all exemptions/concessions to the privileged classes are withdrawn. Banks, WAPDA, PTCL and mobile companies that collect advance taxes on behalf of FBR are fully computerised. By using their database, FBR can easily determine fair tax base. Provisional assessments can be made in respect of persons who are not filing tax returns and recoveries can be made in the remaining months of the current fiscal year.

Pakistan is in dire need of fiscal decentralisation—presently major fiscal powers are concentrated in the hands of federal government. Even the Constitution denies provinces the right to levy sales tax on goods within

¹ The province-wise ratios given above are based on multiple indicators and their respective weights as agreed are: **population** (82%), **poverty or backwardness** (10.3%), **revenue collection or generation** (5%) and **inverse population density** (2.7%).

² http://www.finance.gov.pk/budget/Budget_in_Brief_2019_20.pdf

their respective territories—a right available to the provinces before the independence. The provinces also have shown apathy to devolve administrative and fiscal powers to local governments.

Presently, all broad-based and buoyant sources of revenue are with the federal government and contribution of provinces in total tax revenues is only six percent—in overall national revenue base (tax and non-tax revenue) it is around eight percent. This has made them totally dependent on the Centre for transfers from divisible pool. What makes the situation more disturbing is the fact that right of provinces to levy sales tax on services is encroached by federal government through levy of presumptive taxes on services under the Income Tax Ordinance, 2001, sales tax on gas, electricity and telephone services and excise duty on a number of services¹.

Pakistan has failed to achieve durable political stabilisation and fast economic growth due to perpetual failure of the ruling elites. The twin menace of burgeoning debt and monstrous fiscal deficit testify to continuous fiscal mismanagement. The government has to borrow more and more money—externally and internally—just to meet day to day expenses. The historic high fiscal deficit of 8.9% of GDP for Fiscal Year 2018-19, posed enormous challenge for the Government of Pakistan Tehreek-i-Insaf (PTI) that also inherited record public debt, trade deficit and current account deficit. The callous economic policies of Pakistan Muslim League (Nawaz) from 2013 to 2018 left the PTI Government with no choice but to seek yet another bailout from the International Monetary Fund (IMF) and resort to massive rupee devaluation along with austerity measures leading to stagflation. The result of IMF-imposed policies is: Trade deficit fell from \$11.7 billion from July-October of FY18-19 to \$7.8bn during the same period this year and current account deficit dropped to \$1 billion a month (in FY2019) compared to \$2 billion a month in FY 2018. However, the critics say that total debt & liabilities as on September 30, 2019 rose to Rs. 41.5 trillion² and inflation in October was 11% and in November even higher and figure at the end of 2019 will not offer any substantial relief, especially record high food inflation that is hitting the common citizens drastically.

After review³ on December 19, 2019, the IMF posted the following at its website:

- “Pakistan’s economic reform program is on track. Decisive policy implementation by the Pakistani authorities is helping

1 **Centre-provincial harmony: Equitable distribution of fiscal rights needed**, *Business Recorder*, March 13, 2006.

2 <http://www.sbp.org.pk/ecodata/Summary.pdf>

3 <https://www.imf.org/en/News/Articles/2019/12/19/pr19477-pakistan-imf-executive-board-completes-review-of-pakistans-extended-fund-facility>

to preserve economic stability aiming to put the economy on the path of sustainable growth.

- Transition to a market-determined exchange rate has been orderly; inflation has started to stabilize, mitigating the impact on the most vulnerable groups of the population.
- The authorities remain committed to expanding the social safety nets, reducing poverty, and narrowing the gender gap.
- The Executive Board of the International Monetary Fund (IMF) on December 19, 2019 completed the first review of Pakistan’s economic performance under the Extended Fund Facility (EFF). The completion of the review will allow the authorities to draw SDR 328 million (about US\$ 452.4 million), bringing total disbursements to SDR 1,044 million (about US\$ 1,440 million).
- The Executive Board approved the 39-month, SDR 4,268 million (about \$6 billion at the time of approval of the arrangement, or 210 percent of quota) EFF for Pakistan on July 3, 2019 (see Press Release No. 19/264¹).

Following the Executive Board’s decision, Mr. David Lipton, First Deputy Managing Director and Acting Chair, issued the following statement:

“Pakistan’s program is on track and has started to bear fruit. However, risks remain elevated. Strong ownership and steadfast reform implementation are critical to entrench macroeconomic stability and support robust and balanced growth.

“The authorities are committed to sustaining the progress on fiscal adjustment to place debt on a downward path. The planned reforms include strengthening tax revenue mobilization, including the elimination of tax exemptions and loopholes, and prudent expenditure policies. Preparations for a comprehensive tax policy reform should start early to ensure timely implementation. Enhanced social safety nets will help alleviate social costs and build support for reforms.

“The flexible, market-determined exchange rate remains essential to cushion the economy against external shocks and rebuild reserve buffers. The current monetary stance is appropriately tight and should only be eased once disinflation is firmly entrenched. Strengthening the State Bank of Pakistan’s autonomy and governance will support these efforts.

¹ <https://www.imf.org/en/News/Articles/2019/07/03/pr19264-pakistan-imf-executive-board-approves-39-month-eff-arrangement>

“Faster progress is needed to improve the AML/CFT framework, supported by technical assistance from the IMF and other capacity development providers. Swift adoption of all the necessary measures is needed to exit the FATF’s list of jurisdictions with AML/CFT deficiencies.

“The authorities have adopted a comprehensive plan to address the accumulation of arrears in the power sector. Its full implementation is key to improve collection, reduce losses, and enhance governance. Timely and regular adjustment of energy tariffs will bring the sector in line with cost recovery.

‘Efforts are ongoing to further improve the business environment, strengthen governance, and foster private sector investment. Reform of the state-owned enterprise sector will help put Pakistan’s public finances on a sustainable path and have positive spillovers by leveling the playing field and improving the provision of services.’

The country is surviving on bailouts from IMF due to perpetual failure of the ruling elite to tax the rich and mighty and cutting enormous expenditure that are over 21% of GDP. Revenues worth trillions of rupees have been sacrificed by governments—civil and military alike—since 1977 extending unprecedented exemptions and concessions to the privileged classes.

The dire need in today’s Pakistan is to tap the real tax potential and make the country a self-reliant economy, stop wasteful, unproductive expenses, cut the size of cabinet and government machinery, restructure or privatise loss-bearing government-owned corporations, accelerate industrialisation and increase productivity, improve agricultural sector, reduce inequalities through a policy of redistribution of income and wealth. It is high time that professionals and civil society campaign against oppressive, anti-people tax policies and relentlessly raise their voice for establishment of an egalitarian state.

We can make Pakistan a self-reliant and prosperous country through fiscal decentralisation and grass root taxation at local government level. There is nothing to be pessimistic. Solutions are available. The only thing we require is to present the same, debate these publically and convince our political parties to make them part of their manifestos. Elections should be fought on these issues and with the pledge that on winning, they would be tackled and solved.

Municipal taxation should be our top priority as envisaged under Article 140A of the Constitution. Political, administrative and fiscal decentralisation is the key to democratisation of institutions. This is the most neglected area in Pakistan. Article 140A requires that decision-making power should be with the

elected local governments. A council, elected by the residents, must enjoy the right to levy municipal taxes. Municipalities should be given wide-ranging powers. Extensive functions that fall within the specific sphere of authority must include education, health care and social welfare services. The municipalities should also be responsible for matters related to the residents' free-time, recreation, housing, and the management and maintenance of their living environment (i.e. roads, streets, water supply and sewerage), as well as land-use planning and functional municipal structures.

In all successful democratic models, taxes at grass root level play a critical role in municipal self-governance. The power to levy and collect taxes is one of the cornerstones of municipal self-governance as it ensures that the municipalities can manage the functions that they have undertaken to execute or those for which they are responsible for under the law. In social democratic countries e.g. Sweden, Norway, Denmark and Finland, the most important feature of fiscal management and delivery of social services is municipal tax. Local governments in Finland in 2018 spent €42 billion. Country tax collection was 43% of GDP [\$274 billion]. In Pakistan, total tax collection—both at federal and provincial level—in fiscal year 2018-19 was around US\$ 37 billion (just 12% of GDP \$314.5 billion)!

If a country of 5.5 million people (Finland) can achieve 43% tax-to-GDP level and through municipal taxation can provide free services of health and education, we a nation of 220 million can definitely do much more, provided there is political will. One of the central constitutional principles regarding municipal self-governance in Finland is that when allocating new functions to municipalities, the State has also to ensure that they have the necessary resources to carry them out. Finland has a well-functioning relationship between the State and the local authorities, as well as a state-subsidy system which ensures municipal resources and residents' equal access to services. We can learn from this great innovation of Finland. It can change the fate of our nation in a short span of time. We have the resources but the system for self-governance as in vogue in Finland and elsewhere in the world is non-existent despite clear command contained in Article 140A of the Constitution. Resultantly, power is not with the people but in the hands of the privileged few.

The Parliament, first of all, should introduce **Taxpayers' Bill of Rights** assuring that money collected from citizens would be spent prudently on their welfare and not for the benefit of a few. Secondly, there should be taxation of all incomes irrespective of their source (agricultural or non-agricultural). Thirdly, broad-based and harmonised sales tax (HST), covering all goods and services, at a low rate of 8% should be introduced and implemented. Economic equality and prosperity, peace and social

tranquility can never be achieved unless the taxation system is restructured and social welfare model is implemented as explained and elaborated in a study, *Towards Flat, Low-Rate, Broad & Predictable Taxes*¹ [Prime Institute, 2016].

It also needs to be highlighted that the performance of provinces in collecting agricultural income tax is extremely appalling. After 18th Amendment, right to levy wealth tax, capital gain tax on immovable property, gift tax, inheritance tax etc is with provinces but they are not ready to levy such taxes on the rich and mighty. This is a common issue both at federal and provincial level arising from absence of political will to collect income tax from the rich classes—the meagre collection of agricultural income tax—less than Rs. 2 billion by all provinces and the Centre in fiscal year 2018-19—is lamentable.

We need to formulate a rational economic/tax policy aimed at incentivising investment, encouraging savings and facilitating capital formation in the private sector for job creations, innovations and rapid economic development. Our policymakers have miserably failed to achieve these goals—for them taxation means raising more money and nothing else.

Overemphasis on regressive taxation by the successive governments could not avert record fiscal, trade and current account deficits. For achieving fiscal stabilization/consolidation in Pakistan, it is imperative that right to levy tax on income, including agricultural income, should be given to the federal government. In return, the federal government should hand over sales tax on goods to the provinces as was the case before independence.

There should be single tax agency to collect all taxes—it alone can generate sufficient funds for the federation and federating units. The share will be distributed as per Constitution and provinces are wrongly opposing it as centralisation of taxation. It is in fact federalisation of tax collection in the wake of 18th Constitutional Amendment. The detail discussion is available in ‘Overcoming fragmented tax system’², *Business Recorder*, October 19, 2018 and ‘Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms’³, *Business Recorder*, August 31, 2018.

We need to implement Article 140A in letter and spirit. Mere existence of local governments without devolvement of political, administrative and financial power is not the fulfilment of constitutional command. Decentralization of financial powers requires levy and collection of taxes

1 <https://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

2 <https://fp.brecorder.com/2018/10/20181019416917/>

3 <https://fp.brecorder.com/2018/08/20180831403398/>

by local governments for meeting the needs of local residents in the form of education, health care and social welfare services. Municipalities working on the principle of self-governance alone can ensure that revenues are spent exclusively for the benefit of public and not the powerful segments of society alone.

The provinces should have the exclusive right to levy indirect taxes on¹ goods and services within their respective physical boundaries. Right to levy any tax on goods should be restored to the provinces as was the case at the time of independence. Despite levying taxes that should have been with provinces, the by federal government has miserably failed to reduce the burgeoning fiscal deficit that reached historic high of 8.9 percent of GDP, which was in excess of the 4.9 percent target set in the Budget 2018-19².

Meanwhile, the primary and revenue balances worsened substantially, highlighting growing debt stress for the government and a shrinking space for the needed development expenditures³. Had provinces been allowed to generate their own resources, the present chaotic situation could have been averted. Centre has been claiming that provinces lack infrastructure to efficiently collect sales tax. This has proved wrong as Sindh and Punjab collected much more sales tax on services after establishing their own tax apparatuses in 2011 and 2012 respectively than collected by Federal Board of Revenue (FBR). In 2013 Khyber Pakhtunkhwa also followed in their footsteps and results shown for fiscal year 2013-14 were impressive.

We need amendments in Constitution to ensure judicious distribution of taxation rights between the federation and its units. Unless it is done, the provinces will continue to remain hugely dependent upon federal transfers. Transferring of indirect taxes on consumption of goods to the provinces will empower the federating units and raise the tax-to-GDP ratio.

The Government of PTI is claiming to have been taking the right steps/measures/policies to put the country back to higher growth path in the coming years after achieving stabilisation and overcoming the chronic challenges on external front inherited from the previous government. Let us all pray and work for a prosperous Pakistan in 2020 and beyond. We can resolve all the irritants in the way of rapid progress and increasing local and foreign investment by open public debate and not seeking inputs from the bureaucrats alone sitting behind closed doors, through rational

1 Sales tax on goods at time of independence was a provincial subject. In 1948 it was made a federal subject by the Constituent Assembly of Pakistan through the Pakistan General Sales Tax Act, 1948 enacted on 31st March 1948. It was deviation from section 100(1) of the Government of India Act, 1935 providing that provinces will have right to levy taxes on sale of goods and advertisement.

2 The State Bank of Pakistan (SBP), **Annual Report 2018-19—The State of Pakistan's Economy**.

3 Ibid

policies and pragmatic decisions based on research suggesting solutions and taking all the stakeholders on board. There is no dearth of experts and worthwhile studies. The only shortcoming is that we are not trying to implement the same after due consideration and meaningful consultation with all the concerned parties.

*An unusual decline in revenue collection and steep rise in current expenditures caused a deterioration in all major fiscal indicators during FY19. The overall budget deficit during the year stood at a historic high of 8.9 percent of GDP, which was also in excess of the 4.9 percent target set in the Budget 2018-19. Meanwhile, the primary and revenue balances worsened substantially, highlighting growing debt stress for the government and a shrinking space for the needed development expenditures—State Bank of Pakistan, **Annual Report 2018-19—The State of Pakistan’s Economy**¹*

*“Their [provinces] revenue efforts have been unimpressive to say the least, whereas their allocation on social development has been much less than what is required to bridge the existing service delivery gap. Therefore, it requires strong commitment from the provincial governments to support the fiscal consolidation efforts, bring the needed diversification in the revenue base, and gear themselves up to carry out effective public financial management to improve the quality of public spending”—State Bank of Pakistan, **Annual Report 2018-19—The State of Pakistan’s Economy***

“Higher reliance on withholding taxes and within withholding taxes a high concentration on a few items makes the income tax revenues vulnerable. Moreover, taxing the already taxed, is a regressive approach which creates burden on the compliant taxpayers hence, FBR is focusing on working out a plan to diversify the base of income tax in the country”—FBR Year Book 2018-19

The elite is unwilling, even in its own enlightened self-interest, to contribute on the basis of capacity to bear the resource burden required to build a fairer society. Instead, it has instituted a social order that imbibes the feudal value system and promotes a culture of paternalistic and personal relations (in contrast to impersonal market relationships and a culture of competitiveness in other economies), nepotism and patronage, violation of the rule of law, non-acceptance of the norms of fair play and justice, etc; wrecking institutions meant for checking such excesses. Even a slowly growing middle class from non-elite backgrounds has adapted to these value systems,

¹ <http://www.sbp.org.pk/reports/annual/arFY19/Anul-index-eng-19.htm>

creating a crisis of legitimacy for the state and its institutions—Shahid Kardar, ***Overhaul the system***, Dawn, September 16, 2014.

The root cause of our economic destruction has been the policy of ‘reckless borrowing and ruthless spending’—Dr. Ashfaq H Khan, *The News*, August 8, 2012.

A tax gap analysis recently completed by the World Bank indicates that Pakistan’s tax revenue would reach 26 percent of GDP if tax compliance were raised to 75 percent—World Bank \$400 million **Pakistan Raises Revenue Project**¹

The Pakistan Tehreek-i-Insaf (PTI) on assumption of power in August 2018 with the help of coalition partners, after general elections held on July 25, 2018, contrary to its election promises, failed to undertake much-needed and long-delayed fundamental structural reforms and restructuring of Federal Board of Revenue (FBR) that could have yielded required revenue to overcome monstrous fiscal deficit and make Pakistan self-reliant in the coming years. It also could not reduce wasteful, unproductive expenditure by right-sizing and revamping the loss-bearing Public Sector Enterprises (PSEs). It only resorted to patchwork here and there, thus, 2019 witnessed securing record loans, external and internal, no privatisation or revamping of PSEs, ending of circular debt, meaningful efforts to cut unproductive/wasteful expenditure, introducing further regressive taxes—just to mention a few. The poor fiscal management, wrong economic policies, and adoption of failed strategies pushed the country into stagflation leading to recession, high inflation and unemployment, closing down of industries/businesses leading to job losses, high interest rates and extremely low growth. It also created disappointment and despair in general public. The reasons for sluggishness in business and lack of any further investment, among many other factors, have roots in oppressive taxes and highly anti-business behavior of FBR.

The very first action of ex-Finance Minister, Assad Umar, of presenting the Finance Supplementary (Amendment) Bill 2018 on September 18, 2018 in the National Assembly showed the traditional *babu* [clerical—typical of bureaucracy] approach to balance the books. He failed to include the key areas of Theme-3—**Revitalise Economic Growth**—part of **First 100 Days Plan of PTI after forming Federal Government**², unveiled during the election campaign and to give a roadmap to fulfill the promise of collecting Rs. 8 trillion by PTI. On the contrary, the target of FBR was reduced by Rs.169 billion—a reduction of 3.5% over the original budget that ultimately led to **historic high fiscal deficit of 8.9 percent**

¹ <https://www.worldbank.org/en/news/loans-credits/2019/06/13/pakistan-raises-revenue-project>

² <https://insaf.pk/news/first-100-days-plan-pti-after-forming-federal-govt>

of GDP! The PTI had ample time of nine months for reforms and revenue mobilisation—both tax and non-tax—and we gave an actionable plan for the same, **Productive tax reforms**¹, *Business Recorder*, October 27, 2018, and earlier roadmap for restructuring of FBR, **PTI and tax reforms**², *Business Recorder*, August 17, 2018. However, the PTI's economic and tax managers did not bother to study and/or implement the same. For long-term tax reforms, covering all areas, a paper, *Towards Flat, Low-rate, Broad and Predictable Taxes*³ (PRIME Institute, Islamabad, 2016), was also presented but not considered by the PTI for public debate and adoption after seeking feedback and input from all stakeholders. This paper gives step-wise action plan for restructuring of entire tax system and raising revenues of Rs. 8 trillion at federal level alone.

Even in the Finance Supplementary (Second Amendment) Bill of 2019, on January 23, 2019, once again no steps were announced for making FBR efficient and business-friendly and simplify taxes, making them fair, low-rate and broad-based to harness the real potential as well as accelerate growth and drastically reduce wasteful expenditure. What made the situation more painful was the fact that in its first budget for fiscal year 2019-20 presented on June 11, 2019, greater burden was imposed on the common man through enhanced indirect taxes, while appeasing the mighty, extending benefits to the rich and toeing the line of the lenders/donors.

Dr. Abdul Hafeez Shaikh, Advisor to Prime Minister on Finance, Revenue and Economic Affairs, heading the economic team of Premier Imran, in post-budget press conference on June 12, 2019, openly admitted that the heaviest taxes in the history of Pakistan were imposed **“to qualify for new programme of IMF”**. While citing that the tax target for this year was set at Rs. 5550 billion, he went on to say: **“If we have to offend some people for this (increasing tax rate), then we are ready to do it”** [the tax target, however, on December 23, 2019 was reduced to Rs. 5238 billion]. This confirmed that he had and till today no concern whatsoever about the disastrous impact of oppressive, high-rate and narrow-based taxes with numerous exemptions and concessions for the privileged classes—militro-judicial-civil complex and political elites, especially rich absentee landowners—on our ailing economy. **While he announced many unjust indirect taxes to make life of the less-privileged and downtrodden further miserable, a generous money whitening scheme was given to the rich and mighty tax evaders and plunderers of national wealth.**

1 <https://fp.brecorder.com/2018/10/20181026418815/>

2 <https://fp.brecorder.com/2018/08/20180817400045/>

3 <https://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

Before coming to power, top leadership of PTI was calling tax amnesties as “immoral”, “undesirable”, “unlawful” and a “slap on the face of honest taxpayers”. After coming into power, they took many U-turns and one was offering asset whitening scheme, drafted proudly by the then Chairman FBR, Shabbar Zaidi, resulting into tax losses of billions of rupees. **PTI’s first asset/income/expenditure whitening scheme notified through a Presidential Ordinance on May 14, 2019 gave generous incentives to those who had not been paying their taxes honestly and cheating the State. About 56 people, whose data was shared by the OECD, availed the PTI’s tax asset whitening scheme and they declared Rs. 31.8 billion worth of assets by paying only Rs. 1.7 billion—for further details read Amnesties & tax losses¹ at *Surkhiyan*, is a bilingual news website and web TV.**

The Prime Minister, Imran Khan, while addressing top officials of FBR on November 13, 2019, sought their input/recommendations in respect of a three-year-long tax reform agenda, approved by him through a letter dated October 3, 2019. The plan included among others: (i) a nationwide survey for tax assessment (ii) evaluating wealth parked in real estate (iii) implementing a new value added tax system (iv) setting up the Pakistan Revenue Authority by June next year and (v) restructuring FBR in the interim period. It was shocking that he approved the same without consulting the stakeholders and seeking opinions from experts. In his address, the Premier admitted² that **“masses get little in return for taxes, and that there exists huge trust deficit between the citizens and taxpayers”**.

The important question for remaining six months of the current fiscal year and beyond is: **Will the above and other actions desired by World Bank under its US\$ 400 million ‘Pakistan Raises Revenue Project’ or as conditions imposed by the International Monetary Fund [IMF] and accepted as such by PTI achieve the fiscal consolidation that is one of the daunting challenges faced by Pakistan, especially debt servicing and bridge the trust deficit?**

In fiscal year 2018-19, total payment, as per budget documents, on account of debt servicing, was Rs. 1987 billion against the budgeted figure of Rs. 1620 billion. Allocation for the current fiscal year is 2891 billion, 78 % higher than last year! If FBR collects even the revised target of Rs. 5238 billion (many say it will be highly improbable and total collection after holding back all payable refunds and seeking advances as per past practice will be even less than Rs. 5000 billion). Even if FBR collects Rs. 5 trillion, after transfer to provinces under 7th National Finance Commission (NFC) Award, **net tax collection** available to the federal

1 <https://surkhiyan.pk/amnesties-tax-losses/>

2 <https://www.dawn.com/news/1516487>

government will be short by around Rs. 500 billion for debt servicing of Rs. 2891 billion allocated in the budget. It may also exceed due to short-term funds [hot money of \$1.2 billion] raised on heavy interest rate through T-Bills etc recently from foreign investors! **This shows the gravity of the fiscal crisis faced by Pakistan and rightly highlighted by Prime Minister time and again in his speeches and meetings with experts. Successive governments have failed to end imprudent, destructive and damaging tax policies and reduce wasteful expenses. No serious effort has been made by any government, military and civilian alike, since July 5, 1977 to broaden the tax base through lowering of rates and effective enforcement—PTI has also proved so far that it is no exception.**

According to a Press report, after meeting of Prime Minister with top officials of FBR on November 13, 2019, the Chairman FBR, Syed Muhammad Shabbar Zaidi, said that the timelines with reference to 'reorganisation' as given in October 3, 2019 letter "shall be put on hold". *"Meanwhile we at FBR shall strive to collect optimum revenue"*, he added. It showed not only delaying the much-needed and much-delayed structural reforms but also serious doubts about achieving the target set originally in the budget that proved later on—presently reduced to Rs. 5238 billion. **Now according to IMF, Pakistan's budget deficit will slip from the projected 7.3% of GDP or Rs. 3.2 trillion to Rs. 3.4 trillion or 7.6% of GDP for the current fiscal year.**

The Prime Minister in his address emphasised upon the FBR officials to collect minimum Rs. 8 trillion "**if we have to survive as a viable State**". It was not a new statement on the part of Prime Minister, but as usual he and his economic team did not divulge any roadmap to achieve this goal. In the meantime, the people of Pakistan in general and businessmen in particular are disillusioned with the performance of PTI.

In recent months, prices of items of daily use (food, medicines, petrol, utilities) have skyrocketed and business activities have substantially slowed down leading to drastic cut in economic growth and unemployment. Inflation in November 2019 skyrocketed at 12.7%—highest during the last nine years. Situation till December 30, 2019 at the time of writing this piece was equally disturbing on this account. The PTI government took foreign loans of US\$ 10.4 billion in its first year in power resultantly Rs. 571.6 billion were consumed by debt servicing alone from July to September 2019—foreign debt servicing was Rs. 77.7 billion, showing an increase of 70%. Circular debt is expected to swell to Rs. 1700 billion by end of this current fiscal year!

The cost of doing business has increased manifold making industries uncompetitive to produce exportable goods. The Small and Medium Enterprises (SMEs) that provide bulk of employment

are in deep trouble especially after high interest rate by State Bank of Pakistan (SBP) and harmful and burdensome taxation. Manufacturing and agricultural sectors are facing the brunt of wrong tax and other policies (heavy taxation of inputs and costly energy among many other issues), reluctance to rely on indigenous expertise available with people like Asif Sharif, CEO of Pedevlar to introduce modern and productive processes, while rural poverty is on the rise.

As explained above our real dilemma that is not tax collection alone, as highlighted out of proportion by the lenders/donors but non-utilisation of appropriate skills, knowledge and expertise as well as very high level of current expenditure. The issue has yet not been adequately addressed by the Prime Minister and his team—Minister, State Ministers, Advisers etc. Obviously, the monstrous size of government, army of ministers, state ministers, advisers etc would not like to brief Prime Minister on it as reducing wasteful expenditure will mean reduction in unprecedented luxuries available for the elite—militro-judicial-civil complex and politicians.

The following facts as contained in Budget Documents for 2019-20 are simply horrifying and need immediate attention of PTI Government:

“During the last five years, total revenue as percent of GDP on average reached to 14.9 percent, whereas it stood at 15.1 percent in Financial Year (FY) 2018. The total expenditures as percent of GDP on average reached to 20.5 percent, while during the FY2018, it was the highest at 21.6 percent. Resultantly, fiscal deficit on average stood at 5.5 percent, while during the last year it was recorded at 6.5 percent.

In FY2016, fiscal deficit was brought down to 4.6 percent of GDP but the low trajectory could not be maintained and increased to 5.8 percent and 6.5 percent during FY2017 and FY2018, respectively.

The performance of fiscal indicators shows that total revenue growth experienced a slowdown (5.9 percent in FY2018 against 11.0 percent growth in FY2017), while, total expenditure growth was contained at 10.1 percent in FY2018 as compared to 17.3 percent in FY2017.

The net revenue receipts for 2018-19 were estimated at Rs 3,070.4 billion, which decreased to Rs 2,569.0 billion or by 16.3% in revised estimates 2018-19. The provincial share in federal revenue receipts was estimated at Rs 2,590.1 billion

during 2018-19, which decreased to Rs 2,462.7 billion or by 4.9% in revised estimates.

The overall expenditures during 2018-19 were estimated at Rs 5,932.5 billion, out of which the share of current expenditure was Rs 4,780.4 billion. Current expenditure in revised estimates 2018-19 showed an increase of Rs 809 billion from budget estimates. After the share of Provinces in gross revenue is transferred, the net revenue receipts of Federal Government were at Rs 3,070,439 million in the budget 2018-19, which later revised downwards to Rs 2,568,977 million in the revised estimates 2018-19 showing a decrease of 16.3%.

The budget estimates 2018-19 of the overall expenditure were Rs 5,932,463 million, which increased to Rs 6,419,111 million in revised estimates 2018-19 or by 8.2%. Current expenditure: Rs. 7. 288 trillion (FY 2019-20) showing an increase of 52.5% and 30.4% in budget and revised estimates respectively of the fiscal year 2018-19.

Within development expenditure, total Public Sector Development Program (PSDP) expenditures posted a negative growth of 7.7 percent in FY2018 and stood at Rs 1,456.2 billion as compared with Rs 1,577.7 billion (growth of 33.1 percent) recorded in FY2017. Federal PSDP (net excluding development grants to provinces) spending witnessed negative growth of 20.6 percent (Rs 576.1 billion) in FY2018 against growth of 22.3 percent (Rs 725.6 billion) in FY2017. Provincial PSDP registered a growth of 3.3 percent in FY2018 compared with 43.8 percent in FY2017. Non-tax revenue decreed to Rs. 427.3 billion in FY 19 from Rs 760.9 billion in FY 18.

Total Revenues of all provinces in FY 19 were Rs. 2995.9 billion [in FY 18 it was Rs. 2,938.5 billion] out of which share from federal taxes was Rs. 2397.8 billion [in FY 18 it was Rs. 2,217.4 billion]. Total revenues of all provinces were Rs. 488.1 billion [in FY 18 it was Rs. 548.1 billion], out of which taxes were of Rs. 401.8 billion [in FY 18 it was Rs. 401.4 billion]. Total expenditures of all provinces were Rs. 2,857 billion [in FY 18 it was Rs. 2,960.9 billion] of which current expenditure were Rs. 2350.8 billion [in FY 18 it was Rs. 2,080.7 billion]”.

The root cause of our economic problems as highlighted above is not only inadequacy of revenue mobilization—especially non-tax—but primarily inefficient and corrupt government apparatus and incompetent political leadership that is not ready to impart training to farmers, unskilled labour force, privatize or make loss-bearing PSEs profitable, end wasteful expenditure and circular debt, eliminate numerous withholding tax

provision—especially heavy taxes and duties at import stage—advance tax, minimum tax, alternate corporate tax etc and then on the top of that not releasing genuine refund to destroy liquidity of the business houses, especially exporters.

The biggest challenge on tax mobilisation front faced by FBR is bridging monstrous tax gap through automation and introduction of tax intelligence system and not levying more taxes or enhancing the rates of the existing ones. The World Bank in its report, *Pakistan Revenue Mobilisation Project*, has rightly noted:

Pakistan's tax revenue potential would reach 26 percent of GDP, if tax compliance were to be raised to 75 percent, which is a realistic level of compliance for lower middle income countries (LMICs). This means that the country's tax authorities are currently capturing only half of this revenue potential, i.e. the gap between actual and potential receipts is 50 percent. The size of the tax gap varies by tax instrument and by sector. The tax gap in the services sector is larger than in the manufacturing sector (67 percent vs. 46 percent respectively) and it is larger for the GST/GSTS than for income tax (65 percent vs. 57 percent respectively).

It is clear from FBR Year Book 2018-19 that over 70% tax collection came from exorbitant taxes at import stage, withholding tax regime under income tax law and advance tax. This pattern continues under the government of PTI—it has taken no corrective measures till today. The main reliance of FBR since 1991 has been on indirect taxes, even under the Income Tax Ordinance, 2001—after Finance Act, 2019 it contains over 70 withholding tax provisions, many of which constitute minimum tax liability! Is it direct taxation? Even Chairman Shabbar Zaidi will certainly say NO!

FBR Year Book 2018-19 concedes that withholding taxes constitute 67% of the total collection of income tax (it was 65% last year). Out of total collection of Rs. 1445.5 billion [it was Rs. 1536.6 billion in 2017-18], Rs. 39.2 billion [2.7%] received with returns and Rs. 344.2 billion [23.8%] as advance tax. FBR's own efforts (collection of demand created) yielded only Rs. 84 billion (5.8%, it was 7% last year) and from arrears Rs. 18.6 billion (1.3%, it was 1.2% last year). It confirms negligible share [7.3%] on the part of FBR. The same trend continues in the first six months of the current fiscal year. Even after imposing all kinds of oppressive taxes, FBR is expected to face a substantial shortfall in respect of the target fixed for the first half of the current fiscal year [as per figures available for July-November, for December 2019 figures

will be available in the first week of January 2020]. The overall shortfall vis-à-vis original target at the close of current fiscal year may rise to over Rs. 500 billion. Provisional figures show that achievement of target until now is 79%

The World Bank in an appraisal paper related to Pakistan Raises Revenue (PRR) has termed “vested interests lobbying for tax exemptions, internal tensions and wariness of change among the Federal Board of Revenue (FBR) staff, and potential disputes affecting provinces’ readiness to collaborate with the FBR as high-risk factors” for tax reforms. **The World Bank has estimated “Pakistan’s tax gap at 10% of the GDP or Rs. 3.8 trillion. Our current tax-to-GDP ratio is 12.6% that according to the World Bank should be 23%. Among the 13 federal countries, Pakistan is second to last in the performance of provincial governments on tax collection. The World Bank analysis is that Pakistan has a complex tax system of over 70 unique taxes and at least 37 government agencies administering these taxes”.**

The issue of fragmentation of taxes and multiple collection agencies was discussed in detail in ‘**Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms**’ [*Business Recorder*, August 31, 2018] and viable solutions were offered. **Strangely, the World Bank has not acknowledged in any of its papers/reports related to Pakistan Raise Revenue Project, the contribution of local writers and presented it as its own recommendations. For example, it may be noted that we gave the idea of National Tax Agency in 2014 in an article *Revamping tax system*. This was later elaborated by us many a times in various articles and in a paper, *Towards Flat, Low-rate, Broad and Predictable Taxes*², Islamabad: PRIME Institute, April 2016]. It was also included by the Tax Reforms Commission in its final report submitted to the government in February 2016 [which was marked confidential and till today is not made public].**

It was suggested that the FBR or any other tax collection agency needs to be run by a competent board as a short-term reform measure before all of these finally merged into a single national tax authority [NTA]. The NTA should not only collect taxes at all tiers of government but should also disburse benefits like social security, food stamps, universal pension and income support etc. The linkage of database of various bodies with NTA (complete digitisation) can be a great step towards e-government model for the country that is presently non-existent. The models of Swedish

1 <https://fp.brecorder.com/2018/08/20180831403398/>

2 <https://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

revenue authority [Skatteverket] and Canadian Revenue Authority (CRA) suggested as worth studying/adopting after debate and suggesting modifications suiting our peculiar requirements [see details in **Tax reforms strategy**, *The News*, December 3, 2017 and **Comprehensive Tax reforms**, *The News*, September 9, 2018].

The issues faced on fiscal front and how to deal with them, especially in budget for 2019-20 were discussed in detail in a series of articles, carried out under the title, '**Avant-garde budget proposals**', published in four parts in *Business Recorder* on May 10, 17, 24 & 31, 2019. These and many other articles such as **Essential reforms**, *Business Recorder*, March 29, 2019, **Challenges for budget-makers**, *Business Recorder*, March 22, 2019, **Optimising tax collection**, *Business Recorder*, March 15, 2019, **Fixing the ailing tax system**, *Business Recorder*, March 1, 2019, **Country needs massive reforms**, *Business Recorder*, January 25, 2019, **Time up for fiscal integration**, *Business Recorder*, December 21 & 23, 2018, **Tax policy for investment**, *Business Recorder*, December 14, 2018, **Productive tax reforms**, *Business Recorder*, October 27, 2018, **Overcoming fragmented tax system**, *Business Recorder*, October 19, 2018, **PTI & revival of economy**, *Business Recorder*, October 12, 2018, **Bridging the tax gap**, *Business Recorder*, October 5 & 7, 2018, **Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms**, *Business Recorder*, August 31, 2018, **Overcoming debt burden**, *Business Recorder*, August 27, 2018, **PTI and tax reforms**, *Business Recorder*, August 17, 2018 and **Wither tax reforms**, *Business Recorder*, August 2, 2019, were not considered by PTI Government and never discussed or quoted by IMF or World Bank.

Shockingly, the World Bank, IMF and FBR ignored the proposals presented in various articles mentioned above suggesting how to generate revenue of Rs. 8 trillion at federal level alone [**Flawed tax reforms agenda**, *Business Recorder*, November 15 & 21, 2019 and '**Raising Rs. 8 trillion**', *Daily Times*, November 12, 2017] enabling Pakistan to overcome monstrous fiscal deficit, get rid of fresh loans, achieve rapid economic growth and provide social services to all citizens. The IMF in its first review of December 19, 2019 [Country Report No. 19/380] has admitted that "**more than 40 percent of total tax revenue in Pakistan is collected at the import stage**". The fact of oppressive and narrow-based taxation was highlighted repeatedly by us in various articles and viable solutions were offered to make it fair and broad-based, but FBR and IMF paid no heed. The World Bank in 400-million **Pakistan Raises Revenue Project** has also made no reference of these, though many proposals have been endorsed with acknowledgement.

In the above articles, among other things, it has been repeatedly emphasised that Pakistan is caught in a dilemma: **Centre is unwilling to grant the provinces their legitimate taxation rights and on its**

own collects too little to meet the national overall demand. Since the size of cake (Divisible Pool—distribution of revenues under National Finance Commission Award) is small, the provinces lack sufficient resources for the welfare of their people as they also not ready to impose progressive taxes [wealth tax, inheritance tax, gift tax, capital gain tax etc] on the rich and mighty that are under their domain now after the 18th Amendment—in this scenario, the real sufferers are the masses as elaborated in Flawed tax reforms agenda, *Business Recorder*, November 15 & 21, 2019.

The taxation rights under the prevalent Constitution of Islamic Republic of Pakistan [“the Constitution”] between the federation and federating units need reconsideration allowing provinces to raise adequate resources that will also help in overcoming overall fiscal deficit faced by the federal government. For example, Balochistan should get “net proceeds” of Excise Duty, which is presently not the case, on natural gas and Khyber Pakhtunkhwa on electricity, as envisaged in Article 161(1)(a) & (b) of the Constitution. Their present share in sales tax from NFC Award—commonly known as Divisible Pool—is as low as 9% and 14% respectively. They have rich natural resources and wealth of oil, gas and electricity but due to low population get a small share for goods they produce. The same is the case for Sindh having reserves of gas and coal. They should get right to levy sales tax on goods as well as was the case at the time of independence.

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. The planning, in the aftermath of 18th Amendment should be federalised rather than centralised. The 18th Amendment redefined National Economic Council (NEC) on the pattern of Council of Economic Interests (CCI). The NEC forms part of Chapter 3 of the Constitution entitled ‘Special Provisions’. The 18th Amendment also through Article 172(3) confers 50 percent ownership of hydrocarbon petroleum resources to the provinces. This subject was earlier held by the federal government. It needs to be implemented. Presently, many economists and politicians are arguing that the 18th Amendment and 7th National Finance Commission (NFC) Award are harming fiscal stability of Pakistan. Their argument needs consideration. The issue of NFC Award vis-à-vis provisions of 18th Amendment must be examined holistically.

The provinces should have the exclusive right to levy sales tax not just on services but also on goods within their respective physical boundaries as was the case in British India. It also needs to be highlighted that the performance of provinces in collecting agricultural income tax is

extremely appalling. After the 18th Amendment, right to levy wealth tax, capital gain tax on immovable property, gift tax, inheritance tax etc is with provinces but they are not ready to levy such taxes on the rich and mighty. This is a common issue both at federal and provincial level arising from absence of political will to collect income tax from the rich classes—the meagre collection of agricultural income tax—less than Rs. 2 billion by all provinces and the Centre in fiscal year 2018-19—is lamentable.

It is also imperative that further amendment should be made after debate and consensus to assign right to levy tax on all kinds of income, including agricultural income, to the federal government. This will help FBR to collect income tax as per actual potential and the provinces by levying sales tax on goods in addition to services will generate sufficient funds for their needs. It will also reduce fiscal deficit at the federal level. This is the only way to achieve fiscal stabilisation in Pakistan. However, this can only be achieved if we also reform and merge all tax collection agencies at federal and provincial levels for which we need comprehensive structural reforms.

The FBR and all provincial tax collection agencies, after necessary reforms, should ultimately merge into single National Tax Authority [NTA], manned by members of All Pakistan Unified Tax Service (APUTS) after debate and agreement between the federation and federating units. The NTA will collect taxes at all levels that would be distributed as per Constitution to respective entities. It will also disburse benefits like pension, social security, food stamps and income support etc. The linkage of database of various bodies with NTA (complete digitization) will be a great step towards e-government model that is presently non-existent, but efforts are now initiated for achieving this goal. The mode and working of NTA can be discussed and finalised under CCI and its control can be placed under (NEC).

The agenda for the remaining six months of the current fiscal year and beyond should include among others:

- All individuals having taxable income or below taxable limit should be facilitated to file simple tax returns [no wealth statement]. Those earning below taxable limit should be paid income support [negative tax]. Return form should be in English/Urdu/all regional languages. Reporting of real income by all will help create data bank at national level of all households. Their earning levels will determine who need to pay and who should be entitled to social benefits under Benazir Income Support Programme, *Ehsaas* etc and how to improve social/economic mobility ending poverty trap.

- All entities—individuals, association of persons/firms/companies/any other artificial juridical persons—should be offered to pay income tax/sales tax for any tax/assessment year/tax period for any past lapse under National Tax Clemency Scheme. They should be encouraged and facilitated to pay past liabilities and thereafter would not face any penal action—prosecution, penalties, additional tax, default surcharge etc.
- The State must end the culture of appeasement—no more amnesties and immunities giving incentives to the dishonest and penalising the honest who have been paying taxes diligently at normal rates. Those who filed but underpaid be offered to make up deficiency paying due tax with no penal action/audit. It would bring in much-needed revenues—even exceeding the revised target fixed for FBR at Rs 5.2 trillion.
- For reducing fiscal deficit to the level of 4% of GDP this year, it is imperative to (i) curtail unproductive and wasteful expenses by 30%, (ii) increase non-tax revenues by leasing out valuable state lands and assets e.g. GORs and palatial government houses etc through public auction and for specific activities to generate employment and boost economic activity and (iii) taxes at all levels—federal, provincial and local—should be made simple, low rate, broad-based, payable with ease.
- In the next three years' time, the businessmen instead of being overburdened with advance/heavy taxes/duties/other charges should be facilitated by improving all indexes of 'Ease of Doing Business' that must also include reducing cost of doing business. They should be given tax credits/incentives for compulsorily investing in human resource so we have trained and qualified workforce in all areas—providing employment to all and paying them as ordained in Article 3 of the Constitution. We must encourage and offer all possible facilities and incentives to all kinds of entrepreneurs, especially Small & Medium Enterprises (SMEs) to concentrate on growth and productivity.
- All the governments—federal, provincial and local—should join hands and prepare national level data of all citizens determining their economic and social status. There should be universal pension, social security and food stamps for the needy at the same time empowering them to come out of poverty entrap.

- In three years, after achieving consensus through consultation with all stakeholders we should have National Tax Agency manned by members of All Pakistan Unified Tax Services having the professional expertise in all related fields. This Agency would be in a position to communicate to all citizens what their income/expenditure levels are—it will determine tax obligations as well as who needs income and social support from the State.
- After national debate and taking input from all stakeholders national and provincial legislators should go for simple, predictable and low rate taxes—there should be income tax on all incomes including agricultural income to be under the exclusive domain of federal government and single harmonised sales tax on goods and services to be given exclusively to the provinces on the basis of goods produced and supplied and services rendered or performed within their territories—it will create fiscal consolidation and make federal and provincial governments self-reliant.
- We must abolish multiple taxes and collect local taxes e.g. property, vehicle taxes etc to meet the needs of local residents by allocating funds to local governments to provide services of health, education, civic amenities of all kinds, and recreation etc.
- All citizens and other entities should be given a chance to declare all untaxed assets for any past year, at home or abroad, by paying due tax liability in full or in installments to overcome cash liquidity problems—of course paying additional tax for grace period(s). After the deadline, stringent action under the law should be taken including confiscation of property, fine and/or imprisonment.

Let the Prime Minister be informed that the iniquitous prescription of World Bank and IMF of more taxes, austerity and high interest rate will not solve our problems—this has miserably failed in the past. The only solution is to reduce wasteful expenditure, right-size the monstrous size of the government, monetize all the perquisites of bureaucracy and make taxes simple and low-rate. State lands, lying unproductive, should be leased out for industrial, business and commercial ventures. It will generate substantial funds and facilitate rapid economic growth. For progressing, we need no more anti-growth and anti-business taxes but to dismantle all elitist structures. Empowerment of masses at grass root level, which is possible by implementing Article 140A in letter and spirit—this alone can

ensure economic prosperity for masses. No other strategy will work, not even the recent US\$ 400 million loan from World Bank for Pakistan Raises Revenue Project.

Determination of a tax base capable of measuring an individual's ability-to-pay is a major problem of our tax system. This rule is incorporated in the form of progressive rate schedule for personal income tax, estate duty, and property tax worldwide. In Pakistan we have moved from progressive to regressive taxes where the mighty civil and military bureaucrats (now an integral part of our landed aristocracy by earning State lands as awards and rewards or at concessional rates), rich industrialists and greedy businessmen are paying meagre personal taxes. On the contrary, the poor are compelled to pay exorbitant sales tax on goods and services (levied under federal and provincial laws). This is absolutely criminal and blatant violation of Article 3 of the Constitution which says: **"The State shall ensure the elimination of all forms of exploitation and the gradual fulfilment of the fundamental principle, from each according to his ability, to each according to his work"**. For flawed fiscal measures, the PTI Government is becoming unpopular as people are feeling the real heat of high inflation and rising unemployment. However, the Government still has a chance that it missed in 2019 to end oppressive taxation and reduce drastically wasteful expenditure. The PTI Government's New Year resolve should be: **"Reversal of all anti-people policies, making 2021 Year of Prosperity for all"**—the agenda for this as narrated above is available, but the only thing lacking is the will to implement it.

The World Bank in an appraisal paper related to Pakistan Raises Revenue (PRR) Project has termed “vested interests lobbying for tax exemptions, internal tensions and wariness of change among the Federal Board of Revenue (FBR) staff, and potential disputes affecting provinces’ readiness to collaborate with the FBR as high-risk factors” for tax reforms.

We have done extensive work on the issue of tax exemptions, amnesties, immunities, tax waivers and asset whitening schemes and their impact on tax collections and economy as well as how these benefit the rich and mighty and made the poor and middle class to bear the real incidence of the taxes. We also highlighted the gross constitutional and legal violations committed by successive governments, military and civilian alike in extending extraordinary exemption on behalf of various lobbies, representing the rich and mighty¹.

It looks imperative to quote some parts from an article, Political economy of tax exclusions²

“The tax codes of Pakistan at the federal level—Sales Tax Act, 1990, Income Tax Ordinance, 2001, Customs Act, 1969 and Federal Excise Act, 2005—contain numerous exemptions and concessions, majority of these were added, modified or withdrawn through executive orders, called statutory regulatory orders (SROs), without the consent of Parliament in utter violation of Article 77 of the Constitution of Pakistan. In 2015, the International Monetary Fund (IMF) seriously questioned the abuse of SROs for the benefit of the privileged classes. The power to issue an SRO, as an eyewash, was made subject to approval of Cabinet in “extraordinary circumstances” through Finance Act, 2015. In reality, tax concessions/exemptions available to the elites—militro-

1 The following links show our work:

<https://www.brecorder.com/by/byline/huzaima-bukhari-and-dr-ikramul-haq/>
<https://fp.brecorder.com/by/byline/huzaima-bukhari-and-dr-ikramul-haq/>
<https://www.thenews.com.pk/tns/writer/huzaima-bukhari>
<https://www.thenews.com.pk/tns/writer/dr-ikramul-haq>
<https://dailytimes.com.pk/writer/huzaima-bukhari/>
<https://dailytimes.com.pk/writer/dr-ikramul-haq/>
<https://surkhiyan.pk/author/huzaima-bukhari-dr-ikramul-haq/>
<http://dunya.com.pk/index.php/columnist/doctor-ikram-ul-haq/114>

2 Daily Times, October 28, 2018, link <https://dailytimes.com.pk/315374/political-economy-of-tax-exclusions/> [accessed on July 16, 2020 at 1.10 pm]

judicial-civil complex, businessmen-turned politicians and absentee landlords—continue unabated.

The exemptions/concessions available under Sales Tax Act, 1990 facilitate illegal enrichment and making the rich the richer. These are abused by the unscrupulous businessmen with the connivance of taxmen and their advisers to get benefit of even taxable supplies by misdeclarations at import and supply stages. Even where correctly collected and paid to government, sales tax takes large portion of meagre incomes of the poor and very small slice of the rich—widening the existing deep divide between them.

The exemptions under the Income Tax Ordinance, 2001, especially for the powerful segments, cause huge loss to national exchequer—tax-free perks and benefits of public offices and high-ranking civil-military officials and public officeholders are funded by taxpayers' money. The Finance Supplementary (Amendment) Act, 2018, recently passed by Parliament, withdrew tax free perks of Governors and Ministers but did not touch the same available to mighty generals, judges and civil bureaucrats. State must tax all perks and utilize collection for providing facilities of free education, health, housing and transport to the public at large. Billions forgone as tax exemptions and concessions could have significantly reduced Pakistan's debt and fiscal deficit—the twin maladies it is suffering since long.

Since 1991, income taxation in Pakistan is largely converted into indirect taxation to benefit the rich—this was done by Nawaz Sharif and thereafter all regimes including that of General Pervez Musharraf retained it in the Income Tax Ordinance, 2001. The presumptive tax, in reality, is indirect tax. For example, a contractor pays fixed rate of income tax on gross value of contract—the burden falls of the contractee who withholds the income tax and deposits with Federal Board of Revenue (FBR). On the same amount, sales tax is paid to province where activity takes place. Thus, the contractee ends up paying 20-25% tax on gross value!

The powerful civil-military bureaucracy and political elite received Rs. 600 billion in the fiscal year 2017-18 as perks and perquisites alone. Not only this, these powerful segments did not pay a single penny as tax on benefits received free or at concessional rates, in utter violation of section 13(11) of the Income Tax Ordinance, 2001.

Besides tax-free benefits to the ruling elites, many tax amnesties/concessions/waivers have been extended to the rich businessmen. The government of Pakistan Muslim League (Nawaz), on assumption of power for the third time in June 2013, instead of taking steps against tax evaders and wealth plunderers, gave them four amnesties in five years and many other concessions/waivers. Ishaq Dar, now a fugitive, proudly announced in September 2013 that “all demands of traders relating to tax matters have been accepted”. These demands were related to condoning of tax evasions. Then Prime Minister (later disqualified and now facing cases in Accountability Court) personally announced tax amnesties for the non-filers—those who deliberately did not file tax returns. An unprecedented amnesty was given requiring them just to pay Rs. 20,000 for a tax year and “no questions will be asked and no audit is to be conducted”. This generous amnesty (expired on April 30, 2014) received extremely cold response—only 3395 persons availed paying a paltry sum of Rs. 87.7 million! Thereafter, the Nawaz-Dar duo gave two more tax amnesties to criminals for whitening their untaxed assets by just paying 3% of value of assets! Then came fifth one from Shahid Khaqan Abbasi that also failed as meagre amounts received on undisclosed assets stashed abroad as well as concealed inside the country.

The position under the customs is equally appalling where approximately 2,000 tariff lines (representing 50 per cent of the SROs) are liable for import duties of less than 5.1 per cent, with almost 900 of them zero-rated! This is how tax laws have become a mockery of rule of law in Pakistan. The Chairman of FBR way back in 2014 admitted that “the government is facing a massive revenue shortfall as two third imports are duty free. It is a matter of grave concern for the FBR that the dutiable imports have dwindled in a major way during the current fiscal year.” During a hearing before the Senate Standing Committee on Finance on May 13, 2014, the same Chairman revealed that “cost of tax exemptions granted over the years to the affluent was Rs. 480 billion per annum”. He was asked to explain “why FBR keeps on issuing SROs due to which customs duty, excise, sales tax and even income tax at source is not being collected and who are the beneficiaries?”. He replied: “all of these exemptions cannot be withdrawn, as some are socially sensitive while others are protected under the Constitution”. He defended exemptions of Rs. 320 billion that included income tax waiver given to independent power projects (IPPs) which he

claimed was “protected through agreements and could not be withdraw”.

The Chairman FBR, who later got rewarded by the rich to become Governor State Bank of Pakistan, was untruthful on all the points. First of all, no exemption could be granted through any SRO as held by the Supreme Court in Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi v Federation of Pakistan and Others (2013) 108 TAX 1 (S.C. Pak). As regards exemption granted to IPPs, it can also be withdrawn as held by the Lahore High Court in AES Pak Gen (Pvt) Company Lahore v Income Tax Tribunal Lahore (2006) 93 TAX 159 (H.C Lah.) and endorsed by the Supreme Court in Uch Power (Pvt) Ltd and others v Income Tax Appellate Tribunal and others 2010 SCMR 1236.

The tax exemptions/concessions/waivers in Pakistan are for the rich and mighty and not for the less-privileged to be “socially sensitive” as claimed by Chairman FBR in 2014 and practice continues till today. Till 1977, before Ziaul Haq’s coup, Pakistan had progressive rates of income taxes, capital transfer taxes, and wealth tax for redistributive justice. Since then there has been a continuous shift from equitable taxes to inequitable ones by granting extraordinary concessions and exemptions to the mighty segments of society.

It appears that due to inadvertent overlook or due to well-thought of decision to ignore work of local writers, the World Bank experts (sic) did not read and/or quoted our work or if read intentionally or unintentionally omitted to refer to it! This not confined to World Bank (WB) as studies of International Monetary Fund (IMF), Asian Development Bank (ADB), Department for International Development (DFID) and many others take ideas from local writers but do not acknowledge their work—it raises question of propriety and intellectual honesty.

It may be mentioned that the total cost of Pakistan Raises Revenue (PRR)¹ Project is estimated at US \$1.6 billion, of which counterpart contribution is \$1.2 billion and IDA financing is \$400 million. In the past as well, WB, DFID, and others gave a lot of money to Pakistan for reforms, yet things have changed only for the worse on fiscal/tax front. Pakistan Raises Revenue (PRR) Project is designed to “*sustainably increase domestic revenue by broadening the tax base and making it easier for citizens and businesses to pay their taxes. This will make it possible for Pakistan to finance the investments in infrastructure, education and health needed for the country to accelerate and sustain growth*”.

¹ <https://projects.worldbank.org/en/projects-operations/project-detail/P165982?lang=en>

The lion's share of huge funding will go in the pockets of so-called foreign experts who have no idea of our mundane realities and rest will be wasted by untrained workforce we have in all tax agencies at federal and provincial levels.

There is yet no research-based study available with World Bank for improving tax administrations at all levels and growth-oriented tax reform agenda. The World Bank in '*Pakistan Revenue Mobilisation Project*¹' has not shown any indication of taxing the rich though noted as under:

Pakistan's tax revenue potential would reach 26 percent of GDP, if tax compliance were to be raised to 75 percent, which is a realistic level of compliance for LMICs. This means that the country's tax authorities are currently capturing only half of this revenue potential, i.e. the gap between actual and potential receipts is 50 percent. The size of the tax gap varies by tax instrument and by sector. The tax gap in the services sector is larger than in the manufacturing sector (67 percent vs. 46 percent respectively) and it is larger for the GST/GSTs than for income tax (65 percent vs. 57 percent respectively).

Our studies have been intentionally ignored and preference is given to foreign experts (sic) who borrowed many of our ideas, e.g. single national tax agency and harmonised sales tax on goods and service etc, without acknowledging that is height of intellectual dishonesty! The following are some of our studies/articles—a few articles coauthored with Dr. Muhammad Babar Chohan, Additional Commissioner, FBR, holding PhD in Economic Planning from Massey University, New Zealand:

Towards Flat, Low-rate, Broad and Predictable Taxes [PRIME Institute, Islamabad, 2016²], Essential reforms³, *Business Recorder*, March 29, 2019, Challenges for budget-makers⁴, *Business Recorder*, March 22, 2019, Optimising tax collection⁵, *Business Recorder*, March 15, 2019, Fixing the ailing tax system⁶, *Business Recorder*, March 1, 2019, Country needs massive reforms⁷, *Business Recorder*, January 25, 2019, Time up for fiscal integration⁸, *Business Recorder*, December 21 & 23,

1 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

2 <https://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

3 <https://fp.brecorder.com/2019/03/20190329459335/>

4 <https://fp.brecorder.com/2019/03/20190322457634/>

5 <https://fp.brecorder.com/2019/03/20190315455458/>

6 <https://fp.brecorder.com/2019/03/20190301450844/>

7 <https://fp.brecorder.com/2019/01/20190125442163/>

8 <https://fp.brecorder.com/2018/12/20181221433011/> and <https://fp.brecorder.com/2018/12/20181223433845/>

2018, Tax policy for investment¹, *Business Recorder*, December 14, 2018, Productive tax reforms², *Business Recorder*, October 27, 2018, Overcoming fragmented tax system³, *Business Recorder*, October 19, 2018, PTI & revival of economy⁴, *Business Recorder*, October 12, 2018, Bridging the tax gap⁵, *Business Recorder*, October 5 & 7, 2018, Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms⁶, *Business Recorder*, August 31, 2018, Overcoming debt burden⁷, *Business Recorder*, August 27, 2018 and 'PTI Govt' and tax reforms⁸, *Business Recorder*, August 17, 2018 and **Actionable plan for tax reforms**⁹, *News on Sunday* [Political Economy], December 30, 2018.

The PTI Government instead of considering and opening for critical public debates our studies and suggestions and many others presented by local experts, improving capacity to detect tax evaders through a Tax Intelligence System, decided to impose **more tax** obligations on withholding agents. Everyone knows that fault lies with the people who are implementing laws as collection of nearly coming through withholding taxes of tax collected at import stage or deposited as advance tax or paid voluntarily with returns. The own effort of tax collectors by detecting tax evaders and avoiders, raising demand through audit or normal assessment of risk cases and collection is less than 10%. If we want to improve tax compliance, pragmatic reforms are the need in all areas and at all levels. Successful models of various countries should be studied, debated and adapted after making necessary changes to suit our peculiar conditions.

The World Bank in its appraisal report¹⁰ of Pakistan Raises Revenue (PRR) has made the following notable observations/suggestions/conclusions as per a Press report¹¹:

- “The overall risk-rating of the project is high.
- Macroeconomic risk is substantial and FBR may resort to unorthodox collection practices e.g. demands for advance tax payments, in case of deterioration in the macro-fiscal situation.

1 <https://fp.brecorder.com/2018/12/20181214430993/>

2 <https://fp.brecorder.com/2018/10/20181026418815/>

3 <https://fp.brecorder.com/2018/10/20181019416917/>

4 <https://fp.brecorder.com/2018/10/20181012414530/>

5 <https://fp.brecorder.com/2018/10/20181005412825/>

6 <https://fp.brecorder.com/2018/08/20180831403398/>

7 <https://fp.brecorder.com/2018/08/20180827402317/>

8 <https://fp.brecorder.com/2018/08/20180817400045/>

9 <https://www.thenews.com.pk/tns/detail/566966-actionable-plan-tax-reforms>

10 <https://projects.worldbank.org/en/projects-operations/project-detail/P165982?lang=en>

11 <https://www.brecorder.com/2019/11/29/548754/prr-project-wb-lists-high-risk-factors/>

- Potential increases in tax expenditure would erode the tax base and could cancel out the impact of improvements in tax administration.
- Stakeholder risks are rated as high; vested interests lobbying for tax exemptions, internal tensions and wariness of change among FBR staff, potential disputes affecting provinces' readiness to collaborate with the FBR, judicial interventions hindering implementation of compliance control measures or investigations of FBR staff who agree with a taxpayer's appeal.
- The institutional capacity for implementation & sustainability is rated as substantial.
- A sustained reduction of tax expenditures, combined with legal amendments to close loopholes for tax evasion, will be the main tax policy contribution to tax revenues.
- In revenue administration, by far the largest impact on compliance will result from the real-time exchange and analysis (using BI tools) of taxpayer/trader data among the FBR and provincial tax authorities, other federal entities, foreign jurisdictions, and withholding agents.
- The electronic monitoring of production in key sectors will also make a major contribution to effective control of compliance.
- On the tax policy side, a reduction in the scope of the withholding regime will improve the business environment by reducing costs for withholding agents and taxpayers/traders alike. Likewise, agreement between the federal and provincial governments on the definitions of taxable items for GST and the principles of levying the GSTS would also reduce business costs related to filing and paying taxes. Revenue administration measures, however, will have the largest impact on facilitation.
- The most significant measures relate to simplified filing and expansion of e-services. In addition, the transition to risk-based audit will result in fewer, well-targeted taxpayer audits. Likewise, improved risk management systems in customs, in conjunction with contact less scanning equipment at major customs stations, will result in fewer inspections of cargo and faster customs clearance.
- The simplification of laws and processes related to appeals and automation of refunds will also benefit many taxpayers and traders.

- The tax system is complex because of overlapping jurisdictions with different laws, exemptions, and frequent policy changes.
- The Constitution assigns income taxes (except for income derived from agriculture), the GST on goods, customs duties, federal excises, and the CGT to the federal level. These taxes are collected by the FBR. The Constitution assigns the following taxes to the provinces: GST on Services (GSTS), tax on professions, agricultural income tax, motor vehicle tax, urban immovable property tax (UIPT), and other taxes related to real estate (e.g. stamp duty, capital value tax). This tax assignment fragments Pakistan into five markets in the services sector, it said.
- The withholding regime is also problematic because of the administrative burden it places on businesses that are obliged to withhold taxes, and because it distorts economic actors' incentives.
- The requirement on retailers, wholesalers, and service providers to withhold GST and income taxes is a large part of the compliance burden on these taxpayers.
- The withholding regime for income tax also contradicts other policy objectives, notably expanding the formal economy and strengthening the financial system.
- The introduction of withholding tax on banking transactions in FY15/16 led to a decline in deposits, bringing the commercial banks' currency-to-deposit ratio from 29 percent in FY15/16 to 40 percent in January 2019".

The Prime Minister of Pakistan on October 3, 2019, in a meeting, approved some important foreign-funded tax reforms. The Federal Government, in order to expedite the process for restructuring the entire tax machinery and introduce centralised collection of general sales tax (GST) on services and goods, constituted a seven-member Steering Committee¹ under the supervision of then Chairman of FBR, Syed Muhammad Shabbar Zaidi. In addition to it, four sub-committees² were constituted. The committees have been asked to examine the future status of the tax authority under the Federal Government as attached department or semi-autonomous body or completely autonomous. Other issues which the committees will look into relate to recruitment, retention, capacity, remuneration, financial autonomy, organisational structure and work process.

1 [http://hrms.fbr.gov.pk/Uploads/2019/Nov/16\(15\)S.MIR-I-201911152019_45223_PM.pdf](http://hrms.fbr.gov.pk/Uploads/2019/Nov/16(15)S.MIR-I-201911152019_45223_PM.pdf)

2 Ibid

At the time of constituting the committees and sub-committees, in an article, **Foreign-funded tax reforms**¹, *Business Recorder*, November 22, 2019, we raised an important question is: “Will the above actions, if implemented successfully, bring fiscal consolidation that is one of the daunting challenges faced by Pakistan? In fiscal year 2018-19, total payment, as budget documents², on account of debt servicing was Rs. 1987 billion against the budgeted figure of Rs. 1620 billion. Allocation for the current fiscal year is 2891 billion, 78 % higher than last year! If FBR collects even Rs. 5000 billion against the target of Rs. 5503 billion, after transfer of shares to provinces under 7th National Finance Commission (NFC) Award of Rs. 3200 billion, net tax collection available to the federal government will be Rs. 1800 billion, which is short by Rs. 1091 billion of debt servicing of Rs. 2891 billion!! This shows the gravity of the fiscal crisis faced by Pakistan as aptly highlighted by Prime Minister during his meeting with Grade 22 and 21 officers of the FBR and asked them to collect at least Rs. 8000 billion”.

What FBR actually collected in fiscal year 2019-20, and how figures of unpaid refunds concealed and other “innovations” resorted to show “exceeding of budget targets are elaborated in Chapter 15 and 16.

Though the Prime Minister admitted in his speech that FBR lacks people’s confidence as well as there is huge lack of trust between the State and citizens regarding prudent spending of taxes collected, he failed to mention the massive revenue loss caused by his own and earlier regimes through money whitening schemes. The man he selected for reforming FBR was the most zealous proponent of the asset-whitening scheme that was opposed by many in the federal cabinet. Now the Prime Minister wants a new tax agency to be established by the same person who wants to hold back the idea after angry protest by FBR’s top notches. Imran Khan conceded to their pressure and asked them to suggest reforms! For such occasions, great Urdu poet Mir Taqi Mir very correctly said: *Mir kya sada hain, beemar huay jis ke subub; Usi attar kay londay say dawa laity hain* (What a simple soul is Mir that he seeks medication from the healer’s boy, who is the cause of his ailment).

The World Bank estimates Pakistan’s tax gap at 10% of the GDP or Rs. 3.8 trillion. Our current tax-to-GDP ratio is 12.6% that according to the World Bank should be 23%. Among the 13 federal countries, Pakistan is second to last in the performance of provincial governments on tax collection. While the services sector accounts for 56% of GDP, it contributes only 0.5% of the GDP in taxes and about 11% in sales tax collection.

1 <https://www.brecorder.com/news/546630>

2 http://www.finance.gov.pk/budget/Budget_in_Brief_2019_20.pdf

The World Bank analysis is that Pakistan has a complex tax system of over 70 unique taxes and at least 37 government agencies administering these taxes. Through \$400 million lending, the World Bank is keen to help Pakistan develop a long term tax policy. But there are concerns that the money may be spent on building new offices and procuring furniture as was done in the last programme. The World Bank is also pushing for decisively moving towards a functional organisational structure to overcome current fragmentation and inefficiencies in the FBR. It is of the view that the functional system permits standardisation of similar processes across all taxes and facilitates simplification of procedures.

It may be recalled that the World Bank in 2004 extended to Pakistan \$125.9 million, including IDA credit of \$102.9 million and a UK DFID grant of \$23 million, for Tax Administration Reform Project (TARP¹). The objective of TARP was to improve “the integrity and fairness of tax administration by improving organizational efficiency and effectiveness of the revenue administration”. It was a national shame that for improving the integrity and fairness of tax administration we agreed to such heavy external borrowing/grant.

Tragically, tax-to-GDP ratio in 2012, the last year of extended World Bank funded TARP, dipped to 8.2% from 10.6% in 2005 when the programme started! The World Bank in its report, “**Implementation, Completion and Result Report**”² on TARP observed that “the current narrow-base of general sales tax (GST) in Pakistan remained almost entirely unchanged throughout 2005-2012, despite efforts to overhaul the indirect taxation structure by introducing a reformed GST featuring few exemptions and wide coverage of goods and services”.

The report while highlighting the poor performance of FBR noted that “different from other sources of tax revenue in Pakistan, administration of GST entails a full-fledged operation of major FBR functionalities, including: registration, monthly tax return processing, collection, refunds, audit and enforcement. GST operation also integrates joint effort from both internal revenue administration and customs since GST import tax is collected at the borders and zero-rating is targeted for export operations, besides other activities”.

For evaluating FBR’s overall performance during the 5-year-long TARP, the World Bank used GST administration as an indicator. The result compiled is highly disappointing—GST productivity turned out to be only 23 percent, compared to an average ratio of 34 percent worldwide. According to the World Bank, “the estimation covering the project life reflected an overall decreasing trend during 2005-06 to 2010-11 suggesting feeble tax administration efforts throughout the reform

1 <https://projects.worldbank.org/en/projects-operations/project-detail/P077306?lang=en>

2 <http://documents1.worldbank.org/curated/en/375311468326426795/pdf/NonAsciiFileName0.pdf>

period”. Shockingly, during the reform implementation period, there was “a declining performance in both tax policy and administration”. Even during the economic boom (2005-08) GST productivity index “showed a rather declining trend despite modest buoyancy gains in FBR revenue collection, signaling relatively poor tax administration performance amidst relatively favorable overall economic conditions”, says World Bank.

The World Bank concluded that “during the economic crisis period and subsequent years (2008-11), GST productivity index declined at a higher rate compared to FBR tax-GDP despite a swift turnaround in project implementation and concomitant positive trends in some outputs by the last two years of project life”. The report while pinpointing out weak compliance levels, lackluster results in reform implementation, especially those related to short term actions aimed at curbing evasion through more effective enforcement actions by the final year of project implementation, noted “performance from 2008 onwards, far from the project’s objectives envisioned at the outset”. This is the sordid story of tax reforms in Pakistan even when enormous funds—over 100 million US\$—and best professional advice was available.

FBR ruthlessly wasted borrowed funds of millions of dollars—Pakistan with tax-to-GDP ratio of 8.5% was at 155th among 179 nations at the end of TARP in 2011. According to reports, tax-to-GDP ratio further deteriorated to 8.2% during the financial year 2011-12. Not only did FBR fail to implement tax reforms, there were unprecedented increase in tax frauds that were not taken into account by the World Bank in its report (**Acts of deceit and frauds**, *Business Recorder*, July 31, 2011). World Bank in its report did not mention mafia-like operations of FBR that include amongst others, missing containers, refund scams, smuggling of goods, currency and narcotics, under-invoicing, and abuse of the legal tool of issuing Statutory Regulatory Orders (SROs) to favour the rich and mighty.

Pakistan is facing multiple challenges on the economic front: reckless borrowing by successive governments for meeting its day-to-day expenses, lack of resources for rapid infra-structure improvements, trade deficits, fiscal deficit, inflation, balance of payments, and what not. In these challenging times, we want more loans, even from World Bank to reform our tax system! Faced with grave challenges to combat terrorism, money laundering operations funding the militants and criminals, and the problem of ever-growing black money, which according to independent experts is about three times of the documented economy, our political leadership and tax officials opted for yet another foreign-funded tax reforms.

In the name of tax reforms since 2004, FBR has been imposing more and more obligations on the citizens of Pakistan. The nation has been burdened with a number of cumbersome tax terms and over 70 withholding taxes without any compensation. Now even the PTI Government, contrary to its claims of finding indigenous solutions, wants World Bank-funded reforms (sic) which is highly lamentable. What will happen—the same old modus operandi of hiring hand-picked foreign and local consultants to further destroy tax policy and administration?

The problem of Pakistan is that its tax system is not equitable. The burden of taxes is already less on the rich and more on the poor. In the face of this reality, the Government of PTI, like its predecessors, is resorting to more regressive taxation. Our potential is much higher than targets achieved by FBR.

In all democratic countries special house committees are formed by elected parliaments for conducting tax reform exercises. Here in Pakistan we are doing it through bureaucratic structures, which are outdated, inefficient, incompetent and corrupt. This is like asking the troublemakers to do trouble-shooting.

Pakistan's tragedy is that things are always being done by people who are not eligible for that job. Military governments make constitutional changes and tax reforms are undertaken by tax bureaucrats, who have a proven track record of inefficiency, incompetence and corrupt practices.

Our present tax revenue potential, if monstrous black economy is dealt with iron hand, is not less than US \$ 60 billion (Indonesia collected US\$ 38 billion in 2018) provided that the existing tax base is made wider and equitable, black economy is discouraged, tax machinery is completely overhauled and exemptions and concessions available to some privileged sections of society are withdrawn. We wrote in **Tax reforms with borrowed refunds**¹, *Business Recorder*, February 8, 2019 but **no heed is paid by Prime Minister and his team, rather he has opted for complete subjugation:**

To achieve these goals we do not need any loan from the World Bank or other donors. If we take money from them then we are bound to follow their conditions, as beggars cannot be choosers. Many local experts can do the reform work either voluntarily or at much less cost than what we intend to waste on foreign consultants at the commands of World Bank and others.

It is an undisputed fact that FBR has perpetually and miserably failed to tap the real tax potential despite imposing all kinds of oppressive taxes,

¹ <https://fp.brecorder.com/2019/02/20190208445510/>

including many introduced by the present government through the Finance Act, 2019 [Taxes, prosperity and welfare¹, *Business Recorder*, August 9, 2019, Rationalising tax system², *Business Recorder*, July 19, 2019 and The Money Bill³, *Business Recorder*, July 5, 2019].

It is strange that in the three-year plan approved by Prime Minister nothing is available about simplification of taxes. Whenever there is a demand or debate about simplification of tax codes, ease of compliance, facilitation of taxpayers and improvement in tax administration, the worst resistance comes from top notches of FBR, who think they are the ultimate wizards and nobody else has a right to talk about tax base-broadening reforms aimed at accelerating economic growth, promoting investment, boosting up savings to ensure fiscal consolidation. FBR now headed by a renowned chartered accountant must go for these and tell the self-acclaimed wizards to read ‘OECD Tax Policy Studies No. 19’, crux of which is quoted above.

As explained in ‘Overcoming fragmented tax system⁴, *Business Recorder*, October 19, 2018], Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration—establishment of a tax authority that is capable of generating sufficient resources for the federal and provincial governments, It should be the top priority of the government. Through democratic process vide Article 144/147 of the Constitution of Islamic Republic of Pakistan all the provincial parliaments can jointly establish an autonomous tax agency, comprising specialists in the required areas. Taxpayers should be facilitated rather than forced to comply at multiple levels and that too at very heavy costs.

For effective running of FBR and other tax agencies at various levels, major information technology and human resource improvements in tax collection methods as well as effective audit techniques should be developed along with a rational tax policy. Tax reforms or three-year-plan approved by Prime Minister are meaningless without an efficient tax administration and investment-conducive tax policy—see details in ‘**PTI and tax reforms**’, *Business Recorder*, August 17, 2018.

The main emphasis of the PTI Government is still not on low-rate taxes on the broadest possible tax base, taxing the rich and mighty through alternate minimum tax and property tax according to the size of the house/office. Along with these measures, it is vital to bridge the monstrous tax gap which according to official claims is not less than 70%, the collection of

1 <https://fp.brecorder.com/2019/08/20190809505411/>

2 <https://fp.brecorder.com/2019/07/20190719498583/>

3 <https://fp.brecorder.com/2019/07/20190705494602/>

4 <https://fp.brecorder.com/2018/10/20181019416917/>

which is essential as it can wipe out the entire fiscal deficit. This is, however, not possible unless federal government, after consultations with provinces, introduces harmonised sales tax on goods and services and establishes a single agency to monitor all inflows and outflows and document all the transactions relating to acquiring of assets. We have been advocating for it since long but nobody has seriously considered it, not even the PTI Government until recently.

The main challenge before the PTI government is to optimize tax collection without hampering business growth and investment climate. It requires massive structural reforms, abolition of 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—details in ‘Need for National Tax Authority’¹, *Business Recorder*, October 20, 2017.

Tax agencies, before their merger into a single tax agency (a process that may take a few years), 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. This perspective is still missing, not even made a part of the long-term planning approved by the Prime Minister.

¹ <https://fp.brecorder.com/2017/10/20171020227958/>

The adoption of Finance Bill 2020 on June 29, 2020 and exceeding the target by the Federal Board of Revenue (FBR) for fiscal year (FY) 2019-20, after blocking refunds of billions, was claimed as an achievement by the coalition Government of Pakistan Tehreek-i-Insaf (PTI). During the debate on budget and Finance Bill 2020, the PTI Government faced stern resistance from the Opposition. No doubt, during the last quarter of fiscal year 2109-20, the FBR worked under extraordinarily unfavourable circumstances due to onslaught of Covid-19 endemic and complete lockdown for a whole month and, thereafter, partial lockdowns till the end of June 30, 2020.

The FBR in a Press release¹ issued on June 30, 2020 claimed as under:

“FBR has collected revenue of Rs. 3989 billion in FY 2019-20 which is Rs. 82 billion more than the revised revenue target of Rs. 3907 billion set for the outgoing Fiscal Year. The net revenue collected in FY 2018-19 was Rs. 3826 billion.

The gross revenue collected in the FY 2018-19 was Rs. 3895 billion which has surpassed 4 trillion in FY 2019-20 for the first time in the history making the total gross revenue as Rs. 4123 billion.

Despite outbreak of Corona Virus, there was growth of 5 percent in Income Tax, 9 percent in Sales Tax, 7 percent in Excise Duty and negative growth of 8.4 percent in Customs Duty. In FY 2019-20, FBR has issued refunds of Rs. 235 billion which were Rs. 69 billion in FY 2018-19 showing an increase of 340 percent.

The decrease in Customs Duty was due to deliberate reduction of imports to overcome Current Account Deficit. Due to reduction in imports, an impact of Rs. 700 billion shortages in revenue collection occurred, which resulted in setting a new revised target of Rs. 4803 billion from Rs. 5505 billion in December, 2019. There was a robust growth of 27 percent in domestic taxes till February, 2020 and it was highly expected that revised revenue target of Rs. 4803 would be achieved. However, due to continuous lockdown in the wake of Corona Virus outbreak, the revenue target was further revised to Rs. 3907 billion which was achieved after persistent and dedicated

¹ <https://www.fbr.gov.pk/pr/fbr-achieves-its-revenue-target-in-fy-2019-20/152373>

efforts of FBR officers and staff despite danger to their lives due to Corona Virus.

FBR has further clarified that the current revenue collection figures are provisional data as the revenue collection is expected to further increase after inclusion of collection from book adjustments, Form 32A, Federal Treasury Receipts and offline branches of National Banks.

It is pertinent to mention that more than 30 employees of FBR have died due to Corona Virus which also includes a grade-22 Customs officer Muhammad Zahid Khokhar. FBR employees have been performing their duties with great devotion and zeal particularly in such dangerous situation when their own lives were at stake due to Corona outbreak”.

Considering that, major refund backlog was prior to coming into the power of PTI, indeed, the exceeding the target was an achievement worth recognition on the part of FBR. According to data finalised by FBR till the time of writing this, it exceeded collection target of Rs. 3907 billion by collecting Rs. 4126 billion gross and Rs. 4000 billion net—first ever in its history—when businesses were closed, imports largely suspended and duties were slashed to ease out business houses. FBR paid Rs.135 billion refunds of sales tax, income tax, customs and federal excise against last year’s figure of Rs. 122 billion.

In FY 2019-20, FBR paid Rs. 95 billion sales tax refunds against Rs. 21 billion last year showing increase of Rs. 74 billion . This is paid from its own collection. Additionally, an amount of Rs. 70 billion paid in respect of long-outstanding refunds through technical supplementary grant (TSG) by the government. These refunds were blocked/consumed by the government of Pakistan Muslim League (Nawaz)—PMLN. Thus, it is unfair to say that FBR’s collection is overstated by paying through TSG. Factually, the blocking of refunds of Rs. 523 billion during its tenure from 2013-18 confirm inflated figures by PMLN and must be related to each year the amount due but not paid!

With industry at a halt, payment to business community from TSG was for primarily for payment to avoid lay-offs. The most admirable step was strictly adhering to collection of due tax only and taking no advances as reported in **FBR missed original collection target by record Rs. 1.58 billion**¹ [*The Express Tribune*, July 1, 2020]: “*The new Member Operations FBR, Mohammad Ashfaq, had also given instructions to his team not to force the taxpayers to pay taxes in advance. While breaking from the past practice, the FBR also paid tax refunds even on the last day of the fiscal year*”.

¹ <https://tribune.com.pk/story/2252750/fbr-misses-tax-collection-target-by-record-rs158-trillion>

The collection figures (**see Table**) reflect net tax collection of Rs. 3990.760 billion registering a growth of 3.7% over last year when growth was – (0.4%). According to FBR, “It is extraordinary feat when the country remained under strict lockdown for over a month during April/May 2020”. However, the refunds paid under income tax were only Rs. 27.6 billion against last year of Rs. 83.8 billion.

It is true that the coalition Government of PTI failed to give tax relief to the salaried class, especially with no raise in the pay and pension of government employees, substantial reduction in income tax and sales tax rates for businesses, removing and/or deferment of withholding and advance taxes so that they can survive and revive in difficult times. In fact, FBR on its part tried to create fiscal space for providing incentives to persons with fixed-income by proposing luxury tax on the rich owners of farmhouses and palatial bungalows in Islamabad Capital Territory (ICT) but it was, unfortunately and lamentably, withdrawn by the political master after the rich legislators and the influential, rich and mighty class opposed it. FBR authorities deserve appreciation for proposing a progressive tax, but powerful vested interest both in the Senate and National Assembly and lobbies financing them or those who matter in the land due to their money power or position in the State have proved that they would not allow taxing the rich for the benefit of the poor! It exposes the tall claims of PTI that it came to power to ensure socio-economic justice, uplifting the weaker segments, and establishment of an egalitarian society!

Unfortunately, the cost of compliance cost has also been increased in Finance Act 2020 by reverting to quarterly statements instead of half-yearly. Shockingly, the power of real-time data access or otherwise is given to FBR under Income Tax Ordinance, 2001, Sales Tax Act, 1990 and Federal Excise Act, 2005 in the absence of Personal Data Protection Law in the country and no safeguards against hacking and leakages as well as abuse for self-aggrandizement, despite the fact these issues was raised in an article, **Finance Bill and data privacy**¹ [*The News*, June 21, 2020] before the passage of Finance Act, 2020. The PTI Government could have taken a number of initiatives and resort to innovations for resource mobilisation—tax and non-tax—as well as for reducing cost of doing business. On the contrary, before the adoption of Finance Act 2020, it substantially increased prices of petroleum products on June 26, 2020 with disastrous consequences (**Unconstitutional levy**² [*The News*, June 30, 2020] and **The POL bomb**³ [*Business Recorder*, April 5, 2019]).

1 <https://www.thenews.com.pk/tns/detail/675025-finance-bill-and-data-privacy>

2 <https://www.thenews.com.pk/print/679668-unconstitutional-levy>

3 <https://fp.brecorder.com/2019/04/20190405461197/>

Table: FBR collection for fiscal year 2019-20 & 2018-19

[Source: FBR Year Books]

[Figures in million]

Tax Head	FY 2019-20			FY 2018-19			Growth	
	Gross	Refund	Net	Gross	Refund	Net	Absolute	%age
Income tax	1,591,668	68,604	1,523,064	1,529,405	83,897	1,445,508	78,096	5.4
Sales tax	1,689,405	92,601	1,596,804	1,480,376	21,163	1,459,213	137,591	9.4
FED	250,470	-	250,470	238,186	-	238,186	12,284	5.2
Customs	638,673	12,295	626,378	702,145	16,570	685,575	(59,197)	(8.6)
Total	4,170,213	173,500	3,996,716	3,950,112	121,630	3,828,482	168,774	4.4

The PTI Government showed no inclination to reduce exemptions, concessions, waivers and immunities causing tax expenditure of Rs. 1.5 trillion in the fiscal year 2019-2020 as per own admission in Annex-II¹ appended to Economic Survey 2019-20² [detail discussion is available in Analysing ‘tax expenditure’³ [*Business Recorder*, June 26, 2020]. In fact, more exemptions and benefits have been given to the rich and influential, whereas proudly claiming, “no new tax” levied. The PTI Government showed total apathy towards the weaker sections of society and small **and medium enterprises** (SMEs) facing the unsustainable economic toll of Covid-19 outbreak/lockdown. It could have reduced the incidence of exorbitant sales tax, withholding taxes and high cost of utilities and other oppressive levies like 12.5% advance income tax from all cellular subscribers [166 million⁴—80 million⁵ 3G/4G subscribers, 3 million⁶ basic telephony subscribers and 82 million⁷ broadband users as on May 31, 2020, according to data available on website of Pakistan Telecommunication Authority. (82 million).

We have a complex tax system of over 70 unique taxes and at least 37 government agencies administering these taxes, yet not collecting enough and pushing the country into deeper debt trap. The figure reached Rs. 34.5 trillion⁸ by the end of May 2020 on an annualised basis, with an average of Rs.14.2 billion per day as per State Bank of Pakistan (SBP).

The passage of amendments in Petroleum Products Petroleum Levy Ordinance, 1961 and Public Finance Management Act, 2019 through Money Bill was in gross violation of the Constitution of the Constitution as held by the Supreme Court in *Workers Welfare Funds m/o Human*

1 http://www.finance.gov.pk/survey/chapter_20/Annex_II_Tax_expenditure.pdf

2 http://www.finance.gov.pk/survey_1920.html

3 <https://www.brecorder.com/news/40001081>

4 <https://www.pta.gov.pk/en/telecom-indicators> accessed on July 16, 2020 at 3:15 pm

5 ibd

6 ibid

7 ibid

8 <https://tribune.com.pk/story/2254718/governments-debt-soars-to-rs345-trillion>

Resources Development, Islamabad through Secretary and others v East Pakistan Chrome Tannery (Pvt.) Ltd through its GM (Finance), Lahore etc. and others [(2016) 114 TAX 385 (S.C. Pak.)], *Mir Muhammad Idris v FOP* PLD 2011 SC 213 and *Sindh High Court Bar v FOP* PLD 2009 SC 789. These should have gone to both the Houses [Senate and National Assembly].

The existing system imposes high taxes but yields low revenues. Only 2000 companies pay 75% of total taxes. The standard sales tax rate is 17% but effective rate, according to 2016 report of Tax Reforms Commission, was not more than three to four percent. The situation in 2020 may have improved, but it is still not more than eight percent. Refunds of billions of rupees of sales tax and income tax were unlawfully withheld to show higher figures in the past—**Of unpaid refunds and figure fudging¹, Business Recorder**, November 9 & 14, 2018. FBR never reveals the actual amount of refunds due—just shows the figure of refunds actually paid. **FBR has yet not posted on its website the total quantum of refunds payable as on June 30, 2020 after claim of exceeding the target. It should do so without any further delay and must pay all the pending refunds as soon as possible.**

Unfair taxation is the root cause of our multiple socio-economic ills, resulting into inequitable distribution of resources. FBR as it exists today is incapable of tapping real tax potential, as in addition to capacity issues, those in power and other vested interests do not allow it to work freely. We need a **National Tax Agency (NTA)**—FBR high-ups prefer the name, ‘**Pakistan Revenue Board**’ (PRB). This body, whatever name may be given, shall not only be responsible for collection of taxes for federal, provincial and local governments but also to administer various social and economic benefits and incentive programmes, otherwise tax compliance will remain a distant dream. People must get free education, quality healthcare, decent housing/transport plus social security schemes, such as, disability allowance, old age benefits, income support, child support, pension, just to mention a few, in lieu of paying fair taxes.

One of the salient features of NTA would be its innovative structure, run by an independent Board, accountable to Parliament through the Minister of Revenue. The minister would have the authority to ensure that the NTA operates within the overall government framework and treats its clients with fairness, integrity, and consistency. Further details of its structure and duties are discussed in **Case for “NTA”², Business Recorder**, November 27, 2015.

1 <https://fp.brecorder.com/2018/11/20181109422344/> and
<https://fp.brecorder.com/2018/11/20181114423495/>

2 <https://epaper.brecorder.com/2015/11/27/28-page/545178-news.html>

Out of about 2.5 million income tax returns filed for tax year 2019 until May 31, 2020, one million showed nil income or income below taxable limit. A country with a population of 220 million, at least 96 million unique mobile users [total subscribers are 166 million, but many will have multiple SIMs or dormant accounts] and 82 million internet users are paying advance, adjustable income tax of 12.5%. How many of these have taxable income? No data is available with FBR. According to data¹ of 2018 compiled by Pakistan Electric Power Company (PEPCO) as on June 30, 2018, there were 3,028,054 commercial and 339,853 industrial electricity users paying advance income tax under section 235 of the Income Tax Ordinance, 2001. K-Electric had 463,670 commercial and 20,647 industrial users on June 30, 2018. According to **FBR Year Book 2018-19**², total income tax returns received for tax year 2018 were 2,666,256. Out of total sales tax registered persons of **220,242**³, only **141,106**⁴ filed statements in fiscal year 2017-18.

FBR has recently closed audit of 310,000 cases, selected merely because of late filing of returns. The reason for closure, assigned by FBR, is “lack of capacity” [**FBR: audit closure, capacity & legality**⁵, *Business Recorder*, May 8, 2020]. Either this lack of capacity is due to shortage of officers or absence of proper training/skills or pressure from political masters is again not disclosed by FBR or the coalition Government of Pakistan Tehreek-i-Insaf (PTI).

The field officers complain about shortage of work force and necessary facilities. They further complain that approval of head of FBR is required even for a visit/raid to any business premises or to seek details of a bank account. In other words, they allege that purposefully on the pressure of business community, the PTI Government, like its predecessors, has rendered the FBR toothless as they can neither impound record, nor get third party information. Their claim needs to be confirmed or refuted by the Government. On the other hand, businessmen accuse tax authorities of abuse of powers, highhandedness and harassment for self-aggrandisement. In this agonizing scenario, can the PTI Government collect taxes fairly and fearlessly when the system is so complex and needs simplification? The PTI Government must give due weightage to recent studies of Pakistan Institute of Development Economics (PIDE),

1 <http://www.ntdc.com.pk/ntdc/public/uploads/services/planning/power%20system%20statistics/pss%2043rd%20Edition.pdf>

2 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

3 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

4 <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

5 <https://www.brecorder.com/2020/05/08/595333/fbr-audit-closure-capacity-legality/>

Doing Taxes Better: Simplify, Open & Grow Economy¹ and Growth inclusive tax policy: A reform proposal², quoting Towards Flat, Low-rate, Broad and Predictable Taxes³ (PRIME Institute, Islamabad, 2016).

The following proposals were sent to the Ministry of Finance and FBR as a result of consultation⁴ on May 18, 2020 with Adviser to the Prime Minister on Finance and Revenue, aimed at providing ease of doing business, reduce business cost and helping revival of badly-hit economy as well as revenue generation of Rs. 5 trillion in fiscal year 2020-21. Since most of these suggestions and recommendations have not been implemented, the same may be introduced through Finance Supplementary (Amendment) Bill as was done twice in 2018 after assuming power by the PTI Government:

1. “Presently, barring a few, income tax is levied on net income with minimum tax to the extent of amounts collected through over 60 withholding provisions. It is patently unconstitutional as held by Supreme Court in *Elahi Cotton Mills & others v Federation of Pakistan & others* [PLD 1997 Supreme Court 582]. The apex court held that the National Assembly through Money Bill can impose taxes on income under Entry 47, Part I, Fourth Schedule to the Constitution or impose the same under Entry 52 on the basis of capacity to earn, but **“it cannot adopt both the methods in respect of one particular tax”**. The Finance Act 2019 blatantly violated this constitutional command. **This may be corrected by opting either to net income taxation or presumptive but not both as suggested.**
2. For the next two-three years due to recovery phase of businesses hit by Covid-19 endemic, the actual quantification of income of non-corporate businesses and professions should be given up and taxation may be moved to gross basis at fixed rate. The taxpayers in their books should be allowed to take credit of imputable income.
3. For ease of doing business and waiving off lengthy disclosures in exceptional circumstances, if presumptive tax is imposed on turnover/receipts under Entry 52 as was done in 1991-92, the collection will be around Rs. 800 billion from all businesses and professions other than companies and employees that will

1 <https://www.pide.org.pk/pdf/Policy-Viewpoint-17.pdf>

2 <https://www.pide.org.pk/Research/Tax-Policy-2020.pdf>

3 <https://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>

4 <http://www.radio.gov.pk/18-05-2020/govt-ready-to-listen-to-all-stakeholders-to-prepare-next-budget-hafeez>

keep on paying taxes under the existing tax rates and system [working and enforcement steps are attached].

4. The total collection, if we add corporate sector's contribution after levying excess profit tax to counter monopolies and cartels, under the head income tax for fiscal year 2020-21 alone can be Rs. 2000 billion against the net collection of Rs. 1445 billion in 2018-19 [we are not taking 2019-20 collection into account due to massive shortfall in the wake of Covid-19 outbreak and lockdown]. The additional revenue of around Rs. 555 billion under one head alone will be a great achievement without hampering economic revival and, in fact, giving businesses and professions a stimulant to grow in the next three years. FBR will get much more tax than what it is presently collecting after giving share of 57.5% to provinces under the National Finance Commission (NFC) Award.
5. The federal government should amend the definition of "agricultural income" to bring into its ambit receipts from sale of orchards, lease of lands, nurseries and in this way, the rich absentee landowners and those engaged in businesses of nurseries will come under the Income Tax Ordinance, 2001. Additional revenue of Rs. 200 billion can be obtained from this source, if taxation is based under Entry 52 as discussed above.
6. Multi-national Companies (MNCs) through abusive transfer pricing mechanism deprive Pakistan of taxes of over Rs. 200 billion every year and this can easily be recouped with advance transfer pricing agreements, presently no provision exists to this effect.
7. The total collection by imposing unified sales tax on goods and services (as done by India in 2017) can reach Rs. 3500 billion as against collection of around Rs. 1659 by the Federal Government through sales tax on goods [Rs. 1459 billion in 2018-19] and provinces by sales tax on services [cumulatively Rs. 190 billion]. The additional revenue collection of Rs. 1400 billion will not only give fiscal space to the federal government to narrow down fiscal deficit but will also enhance distribution amount to the provinces. Distribution will be strictly as per Constitution. The collection under new law will be by FBR as provincial assemblies need to pass only resolutions under Article 144 of the Constitution empowering the National Assembly to enact integrated sales tax on goods and services. There is no need to enter into controversial amendment in the Constitution disturbing 18th Amendment. The slogan of '**One Nation, One Tax**', adopted by India in 2017, and Harmonised

Sales Tax (HST) by Canadian federal and provincial governments is the way forward as taxpayers operating on trans-provincial level are facing many difficulties.

8. In case the provinces do not agree for above, then for trans-provincial entities, FBR can include in Finance Bill 2020, **sales tax on services**, following the command of Supreme Court in the case of *Messers Sui Southern Gas Ltd & Others v Federation of Pakistan & Other* 2018 SCMR 802. It extensively elucidates that the post-Eighteenth Amendment position vis-à-vis legislative competence of federation and federating units as under:

“We are in agreement with the observation made by the learned High Court that though in a Federal system, provincial autonomy means capacity of a province to govern itself without interference from the Federal Government or the Federal legislature, but as the Provincial legislature does not possess extra-territorial legislative authority i.e. it cannot legislate regarding the establishments operating beyond the territorial boundaries of that province”.

The above pronouncement of the Supreme Court is not restricted to any particular law and cover tax laws as well. It is binding under Article 189 of the Constitution and provinces if do not agree for integrated sales tax of goods and service will suffer.

9. In Customs, massive evasion takes place due to under-invoicing, misclassification and mis-declarations. The collection in 2018-19 by FBR was 686 billion. If revenue leakages are plugged as suggested in *Dismantle containers' mafia, Business Recorder*, September 14, 2018, it can be Rs. 1200 billion. An extra generation of Rs. 500 billion under this head alone is possible.
10. The loss in FED due to illicit local manufacturing and smuggled cigarette sector alone is Rs. 60-80 billion a year. It can be recouped by trace and track (T&T) system that should also be extended to all industries across the board, e.g. textile, sugar, cement, beverages etc.
11. In order to tap the real tax potential of retail sector and to bring informal economy into tax net, a simple and fair tax system is proposed. If we take even negative effect of Covid-19 pandemic, the retail sales in fiscal year 2020-21 will not be less than \$105 billion, otherwise would have cross \$ 140 as per study of Punjab Board of Investment and Trade. By applying sales tax of 4% and income tax of 2% on gross turnover, the

total collection will be around Rs. 1.2 trillion from this sector alone for which the following amendments are proposed:

Section 3(9) & (9A) of the Sales Tax Act, 1990 should be omitted and following new subsection (9) should be inserted:

“(9) Notwithstanding anything contrary contained in the provisions of this Act, tax on retailers be charged, levied, collected and paid as provided under rules issued under section 99B of the Income Tax Ordinance, 2001 at the rate of 4% of the gross turnover or at such a lower or higher rate as the Federal Government may specify by notification in official gazette.

Provided that provisions of subsection (7) of section 3 shall not be applicable in case of retailers covered under this sub-section”.

In the Income Tax Ordinance, 2001, section 99B should be substituted as under:

“Notwithstanding anything contained in any other law for the time being in force a tax shall be charged, levied, collected and paid at the rate of 2% of the gross turnover inclusive of Sales Tax as provided under subsection (9) of section 3 of the Sales Tax Act, 1990 on 15th of every month next following the month to which such turnover relates. The Federal Government may, by notification in the official Gazette, prescribe special procedure for scope and payment of tax, filing of return and assessment in respect of such retailers, as may be specified therein:

Provided that the provisions of section 147, withholding of tax under Part “V” of Chapter X (except tax on salaries under section 149) and Chapter XII and provisions of Schedule 10 shall not be applicable to retailers covered under this section”.

“In exercise of powers under subsection (9) of section 3 of the Sales Tax Act, 1990 and section 99B of the Income Tax Ordinance, 2001, the Federal Government has prescribe the following procedure for qualifying retailers thereunder:

- a. The retailers shall receive/file monthly return and make payment on monthly basis along with return calculated as per formula provided below on 15th of every month next following the end of month to which such turnover relates.

Turnover	PKR 10,000,000
Sales Tax on above @ 4% (A)	<u>PKR 400,000</u>
Total amount subject to income tax	<u>PKR 10,400,000</u>
Income tax @ 2% on above (B)	<u>PKR 208,000</u>
Total tax liability to be paid with return (A+B)	<u>PKR 608,000</u>

- b. All retailers must get themselves connected with FBR through Point of Sale (POS) irrespective of their turnover. No audit shall be conducted for retailers who opt for POS.
- c. Retailers shall be allowed to incorporate profit in their books working back the **income tax paid** applicable to total income (imputable income).
- d. 1% cash back/rebate on yearly basis will be allowed to such retailers who have adhered to all the provisions prescribed. However, if it is proved on the basis of information that cash back/rebate was claimed on erroneous basis then notwithstanding anything contained in any law for the time being in force, such retailer shall be charged with a penalty of 5% of annual turnover and imprisonment that may be up to 5 years”.

As evident from above, effective income tax rate will be 1% of turnover for those retailers who opt and comply with the proposed law/procedure. Those who do not opt will become uncompetitive, as they will remain subjected to withholding taxes, 17% sales tax, advance tax, if applicable, audit and higher rate of income tax. The details of their assets, incomes etc will be in possession of FBR after having real time data access and obtaining reports from private licensed credit information bureaus, established under Bureau Act, 2015, working under the regulatory control of State Bank of Pakistan.

It was suggested that the FBR should become member of private licensed credit information bureaus [“the bureaus”] who have already collated and stored data from NADRA, Excise, Land, Banking, FIA (travel), schools, insurance companies, utilities’ providers and telecommunication operators (telcos). But, the FBR wants to reinvent the wheel. It has secured power to real-time data access in Finance Act 2020 without having capacity to analyse database that only a smart data scientist can do. The FBR has poor record of data protection, as there have been

frequent leakages and abuses. It will create further harassing of the citizens and existing taxpayers. One wonders, what was the need to obtain this power when work has already been done by bureaus enjoying legal mandate to collect data from those sources that FBR wants to tap in the absence of infrastructure and human capabilities? There is, in fact, a need to have a Centralized Depository wherein data from all sources can be utilised by various agencies including FBR after passing Personal Data Protection Law¹, still at draft stage with the Ministry of Information Technology and Telecommunication.

The pathetic situation of FBR can be gauged from the fact that it has about 240,000 registered persons under Sales Tax Act, 1990 but tax comes from about 44,000². Shockingly, out of 360,500 industrial connections as on June 30, 2018, only 18,000³ were registered under sales tax regime. Out of 3,491,724 commercial electricity users as on June 30, 2018, less than 350,000 filed income tax returns though tax of Rs. 33.832 billion was paid with bills as per **FBR Year Book 2017-18**⁴ and figure for fiscal year 2018-19 was Rs. 35.5 billion as per **FBR Year Book 2018-19**⁵.

As suggested above, by adopting rational measures, the federal and provincial governments could have substantial funds to counter the economic toll of the Covid-19 outbreak, as they must spend more money for infrastructure improvement to create more employment and ensure higher growth, engaging the private sector to take part in public projects. This alone can kick-start the economy. Simultaneously, the governments need to reduce wasteful expenditure, right-size the monstrous size of their inefficient machinery and make loss-bearing public sector enterprise (PSEs) profitable through public-private partnership or get rid of them, monetize all the perquisites of bureaucracy and make taxes simple and low-rate. State lands, lying unproductive in the heart of cities, owned by the federation and provinces, should be leased out for industrial, business and commercial ventures. This will generate substantial funds, revenue and facilitate rapid economic growth and substantial employment opportunities.

As expected, the PTI Government like its predecessors opted for routine measures and ignored all suggestions/recommendations for improving compliance, creating ease of doing business that has assumed renewed

1 [https://moitt.gov.pk/SiteImage/Misc/files/Personal%20Data%20Protection%20Bill%202020%20Updated\(1\).pdf](https://moitt.gov.pk/SiteImage/Misc/files/Personal%20Data%20Protection%20Bill%202020%20Updated(1).pdf)

2 <http://documents1.worldbank.org/curated/en/637701556009042302/pdf/Project-Information-Document-Pakistan-Revenue-Mobilization-Project-P165982.pdf>

3 <http://documents1.worldbank.org/curated/en/637701556009042302/pdf/Project-Information-Document-Pakistan-Revenue-Mobilization-Project-P165982.pdf>

4 [http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18\(03-09-18\).pdf](http://download1.fbr.gov.pk/Docs/201894993619160FBRRevenueDivisionYearbook2017-18(03-09-18).pdf)

5 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

importance in the wake of Covid-19 endemic. This has been happening since 2008 under every government that the elected representatives (sic) show apathy towards important constitutional obligations under Article 73 and 82 of the Constitution of the Islamic Republic of Pakistan. Every year, their attitude confirms that they are only interested in safeguarding their privileges, untaxed/undeclared assets, besides obtaining more and more perquisites and benefits.

The privileged classes—militro-judicial-civil complex and those in power—get what they want—tax benefit on perks and benefits of Rs. 30 billion¹ in tax year 2019 alone! The level of shallow debate, hurling of accusations as well as mudslinging shown by the Treasury and Opposition benches during budget session amounted to open defiance of the mandate of the masses of this country, that voted them into power with the hope that they would do something for their socio-economic uplifting or at least provide them basic essential services—education, health, housing, transport, cleaning drinking water, social protection and civic amenities.

As was in the past, worthy members of the National Assembly (MNAs) did not assess nor even bothered to ponder about the impact of regressive taxation on the ailing economy and its devastating burden on the poor—out of total revenue 78% comes from indirect taxes that is highest in the world.

Prior to 2008, the standard excuse was that “we are not allowed to perform our constitutional duties under the umbrella of a military dictator”. Now, in the absence of this pretext, it is obvious that fault lies somewhere else. Time and again, it has been emphasised that democracy is not electioneering *per se*. Establishment of a responsible government caring for the needs of its people is a prerequisite for true democratic dispensation. This is only possible if the Parliament performs its constitutional role, implements flawless process of accountability and ensures good governance. Constitutionally speaking, the Cabinet is answerable to the Parliament, but the truth is that MNAs run after ministers for personal favours and gains.

Due to non-participation of public representatives in budget-making, financial managers and tax collectors have persistently failed to overcome fiscal deficit and remove fiscal imbalances as their tax policies are based narrowly on collecting taxes at source, without bringing the mighty sections of society within the tax net or collecting what is actually due from them.

The common citizen is subjected to exorbitant sales tax and federal excise duty [FED] plus advance income tax. They say Pakistanis do not pay

¹ <https://www.dawn.com/news/1565227>

taxes while 166 million mobile subscribers as on May 31, 2020 according to data available on website of Pakistan Telecommunication Authority and broadband users (82 million) are paying 12.5% advance income tax in addition to 19.5% sales tax on services to provinces and 16% FED if living in Islamabad Capital Territory, irrespective of their level of income. The tax incidence is over 35% to 55% on many imported goods after applicable customs duty, sales tax, FED, mandatory value addition and income tax. Even salt sold under brand names is subjected to sales tax but the mighty sections of society such as big industrialists, landed classes, generals and bureaucrats are amassing more and more wealth without enjoying exemptions and/or amnesties.

We can generate enough money for meeting all our current expenses, development needs and public welfare and the federal/provincial governments can retire debts in a few years' if exemptions and waivers are withdrawn and fair taxes are collected firmly through an agency insulated from all kinds of influences and run by competent and professional staff. It is possible to become a self-reliant nation. However, this dream for Pakistan can never be realized unless all the elitist structures are dismantled and people are empowered to run their financial and administrative matters through efficient and elected bodies as envisaged in Article 140A of the Constitution with fiscal power to have own funds and allocation from shares received by provinces from NFC Award to provide the facilities of health, education and all civic amenities to the local residents at grass root level.

“The genius of our ruling class is that it has kept a majority of the people from ever questioning the inequity of a system where most people drudge along, paying heavy taxes for which they get nothing in return”—Gore Vidal

The reality behind claim of the Federal Board of Revenue (FBR) regarding annual growth of 16 to 20 percent in revenue collection from 2013 to 2018 during the regime of Pakistan Muslim League (Nawaz)—PMLN—has been finally exposed. We have constantly been mentioning in these columns every year during the rule of PMLN time the facts behind the so-called “extraordinary” performance and “bonuses” given to some FBR’s officials; unveiling blocking of refunds of billions of rupees and advances from big corporate taxpayers, yet no independent inquiry was conducted even by the present coalition Government of Pakistan Tehreek-i-Insaf (PTI) though it was specifically demanded in 2018 and 2019 in many columns published in this newspaper. Once *de facto* Prime Minister-cum-Finance Minister, now fugitive, Muhammad Ishaq Dar, Adviser to Prime Minister Haroon Akhtar, and Chairmen of FBR, who served them, were all guilty of hiding the facts and taking credit of what was actually based on deceit and cheating. They brazenly hoodwinked members of the Parliament, international lenders/donors and the public at large besides destroying businesses, especially export houses, by denying them bon fide refunds creating serious issues of liquidity crunch.

In a two-part¹ series, **Finance Act 2020—lacking initiatives and innovations**, *Business Recorder*, July 3 and 10, 2020, this point was specifically raised that FBR “never reveals the actual amount of refunds due—just shows the figure of refunds actually paid. It was written that **“FBR has yet not posted on its website the total quantum of refunds payable as on June 30, 2020 after claim of exceeding the target. It should do so without any further delay and must pay all the pending refunds by July 31, 2020”**. While FBR did not bother to reveal publically the true amount of refunds, payable even after the publication of above articles and demands from various associations and the taxpayers, the Standing Committee of National Assembly on Finance, Revenue and Economic Affairs [hereinafter “the Standing Committee”] took notice and summoned FBR’s officials to disclose the actual quantum of refunds paid. Facts revealed by FBR during hearings before the Standing Committee on July 9 and 10, 2020 exposed both the PMLN and PTI governments for not paying outstanding refunds.

¹ <https://www.brecorder.com/news/40002631> and <https://www.brecorder.com/news/40004149>

It was admitted¹ by FBR's officials that refunds of Rs. 532 billion were due from June 2014 to June 2019. They again failed to mention refunds due for the fiscal year 2019-20 after paying Rs.135 billion under sales tax, income tax, customs and federal excise against last year's figure of Rs. 122 billion. This year for the first time, an amount of Rs. 100 billion was paid in respect of long-outstanding refunds through technical supplementary grant (TSG) by the government. Bulk of outstanding refunds, as is clear from data given to the Standing Committee, was blocked by the government of PMLN to show higher collection and extraordinary growth by FBR. **It is now the duty of the Standing Committee to fix responsibility and order recovery of bonuses given to FBR's officers by PMLN Government for showing inflated figures and recast the actual collection of each year to which these blocked refunds relate!**

The following is the brief summary, according to Press report², of some facts revealed by FBR officials before the Standing Committee:

- “FBR did not report the claims outstanding from before June 2014 and also for the period of July 2019 to June 2020.
- The admission confirms the existence of yet another circular debt, like Rs. 2.1 trillion in the power sector, and also affirms that FBR's tax collection was grossly over-reported.
- From June 2014 to June 2019, Rs. 413.5 billion of income tax refund claims had been outstanding.
- Outstanding sales tax refund claims amounted to Rs112 billion.
- Customs rebate claims amounted to Rs. 6 billion.
- In fiscal year 2018-19, the total tax collection was Rs. 3.826 trillion and if amount of unpaid refunds of Rs. 532 billion is excluded, the net collection would be only Rs. 3.294 trillion (just 8.6% of GDP).
- FBR did not share tax refund claims data for fiscal year 2019-20. If it is included, the due refunds of taxpayers would be far higher than Rs. 600 billion. It is also a failure of the International Monetary Fund (IMF) that could not pick gross over-reporting of revenues.
- The trend showed that like Pakistan Muslim League-Nawaz (PML-N), Pakistan Tehreek-e-Insaf (PTI) government too blocked tax refunds to inflate its revenues.

¹ <https://tribune.com.pk/story/2254122/tax-refunds-amount-to-rs532b-fbr>

² <https://tribune.com.pk/story/2254122/tax-refunds-amount-to-rs532b-fbr>

- During PTI's first year, FBR received Rs. 101.5 billion in income tax refund claims but did not pay Rs. 87.5 billion, which was 86.2% of the claimed amount, according to the presentation before the Standing Committee.
- To a question on actual tax collection from withdrawal of concessionary tax regime of the exporters, FBR said that the government had estimated receiving Rs. 70 billion due to withdrawal of SRO 1125 and its net general sales tax (GST) collection after withdrawal of SRO 1125 was Rs. 83.4 billion. FBR admitted that the exporters filed refund claims of Rs. 105.2 billion refund, out of which Rs. 72.2 billion were paid and the remaining Rs. 33 billion included in collection of Rs 3.99 trillion for fiscal year 2019-20.
- A member of the Standing Committee could not get an answer to his question about FBR's claim of existence of \$12 billion local textile market. "Had such market existed, the FBR could have collected Rs. 250 billion after withdrawal of SRO 1125", he added.
- To a question whether there were no outstanding income tax refunds prior to 2014, FBR said that there could be refunds even prior to the 2014 period but their data was with the field formations, "but he said that the amount may not be too high".
- One member of the Standing Committee also criticised the government's decision to give Rs.100 billion refunds through a supplementary grant to FBR, which he said "was ethically and professionally wrong, as the refunds could only be paid out of gross tax collection".

The Standing Committee, however, did not fix any time frame for clearing all the pending refunds and countered the claim of FBR that they intended to adjust what they called "overpaid" to provinces for blocking refunds and over-reporting the collection. Why should provinces suffer for the wrongdoing of federal government? They did not ask FBR to block refunds and overstate collection. This is a serious matter and those who over-reported collection and received bonuses should be punished. But at the same time, the Standing Committee must ascertain who gave them instructions for these malpractices!

It is a fact that top bosses of FBR were not doing it without instructions and/or knowledge of political masters. It cannot be believed that finance ministers or advisers on revenue were too naïve not to ascertain the fact of blocking refunds when complaints had been coming from aggrieved persons and various associations. In fact, it was mentioned in **Sales Tax**

refunds: the fiasco unfolding¹ [*Business Recorder*, December 18, 2019] that field officers were blocking refunds, creating illegal demands and denying adjustments of determined refunds against demands and “if Dr. Abdul Hafeez Shaikh, Advisor to the Prime Minister on Finance and Revenue.....does not stop these malpractices, it will be highly lamentable”.

The painful episode of blocking refunds, especially of exporters, started after Muhammad Ishaq Dar took oath of Finance Minister on June 7, 2013—till his fleeing the country on October 27, 2018 on the special aircraft of then Prime Minister Khaqan Abbasi, it was no doubt a ‘dar(k)’ era. He used all kinds of negative methods and oppressive taxes to show 20% annual growth in tax collection to please IMF—they in turn gave him “good reviews” and many waivers!

The IMF in none of its reviews and Press Release No. 19/2642 mentioned the weakness of FBR in clearing all outstanding refunds so that correct picture of net revenue collection could have been ascertained. It is strange that such an important area of fiscal mismanagement escaped the attention of the IMF experts, country head and Executive Board. If the numbers are fudged by overstating revenue collection—taking advances not due and blocking refunds of billions—how can reforms and corrective measures suggested by IMF be effective to remedy the situation?

The sordid story of blocked refunds was narrated in great detail in a report [**‘Dar accused of delaying tax refunds**³, *The Express Tribune*, June 19, 2016], prepared by the chairman of a committee constituted by Federal Tax Ombudsman (FTO) on the complaint of Pakistan Apparel Forum. The report held Ishaq Dar directly responsible for withholding *bona fide* refunds of exporters and others to show “extraordinary performance of achieving over 20% growth in tax revenues. On publication of this report on FTO’s website, Ishaq Dar became furious. He ordered its immediate removal and instructed FBR to dissociate itself from the report although it endorsed the draft when it was circulated! The details of this entire bizarre episode are available in **Blocked tax refunds: FTO comes under pressure, removes report from website**⁴, *The Express Tribune*, July 5, 2016.

Strangely, but expectedly, till today nobody has been punished for withholding genuine refunds. This time as well, the Standing Committee has not referred the matter to Prime Minister or his Adviser, Dr. Abdul

1 <https://www.brecorder.com/2019/12/18/554217/sales-tax-refunds-the-fiasco-unfolding/>

2 <https://www.imf.org/en/News/Articles/2019/07/03/pr19264-pakistan-imf-executive-board-approves-39-month-eff-arrangement>

3 <https://tribune.com.pk/story/1125550/dar-accused-delaying-tax-refunds>

4 <https://tribune.com.pk/story/1136471/blocked-tax-refunds-fto-comes-pressure-removes-report-website>

Hafeez Shaikh for necessary action or to the Auditor General of Pakistan for audit of FBR's affairs on this issue.

Never ever has FBR disclosed in its collection statements how much undisputed and established refunds remained unpaid on the closing date of the fiscal year, which must be subtracted from the gross revenue receipts to portray the correct net revenue collection. It only mentions the actual refunds issued, whereas accrued and ascertainable liability of refunds should also be taken into account to reflect the true picture of net revenue realised during a financial year. One hopes the new Chairman FBR, appointed for three months for the time being, will take note of it and reveal not only the correct position of refunds due in FY 2019-20 and prior to 2014—this is a fundamental right of citizens to know under Article 19A of the Constitution—but also clear all of these and order probe in respect of allegations levelled—see **Sales Tax refunds: the fiasco unfolding**¹ [*Business Recorder*, December 18, 2019]!

The matter of over-reporting of collection and blocking of refunds this time should not go unnoticed and unpunished as time and again the Prime Minister says, “I believe in transparency and accountability even if my own people are involved”. The Prime Minister should take stern action against the culprits and must order payments of all bona fide refunds to people and businesses. He should also identify and prosecute, after due process of law, all those who failed to take punitive action against those in FBR who indulged in unlawful acts of blocking genuine refunds and allegedly issuing refunds to unscrupulous businessmen, claimed fraudulently, or through nepotism/favour.

¹ <https://www.brecorder.com/2019/12/18/554217/sales-tax-refunds-the-fiasco-unfolding/>

According to a Press release¹ of Federal Board of Revenue (FBR), it received “two million four hundred and forty six thousand two hundred and ninety four (2,446,294) Tax Returns for Tax Year 2019 which increased by 45% compared to one million six hundred eighty seven thousand (1,687,000) Tax Returns filed in Tax Year 2018”. FBR further claimed that tax collected in the month of February 2020 had “increased by seventeen percent compared to corresponding period last year. The number of individuals filing Tax Returns in Tax Year 2019 is 2,342,701, whereas 62,403 Associations of Persons and 40,988 Companies filed their Tax Returns”.

In order to conceal its failure, FBR compared data of return filers with February 28, 2019 to show 45% growth in number of return filers whereas it should have been with total number of filers for tax year 2018. The figure given for Tax Year 2018 of 1,687,000 in Press release² vis-à-vis those contained in *FBR Year Book 2018-19*³ [page 11, Table 7] confirm that total number of filers has decreased significantly.

Table 7: INCOME TAX RETURNS

Category	TY 2016	TY 2017	TY 2018	Growth (TY 18 / TY 17)	
				%	Absolute
Individual	1,472,657	1,797,903	2,559,953	42.4	762,050
AOP	52,821	56,779	63,057	11.1	6,278
Company	35,504	38,417	43,246	12.6	4,829
Total	1,560,982	1,893,099	2,666,256	40.8	773,157

According to a Press report [*FBR collects Rs2.72tr in taxes, misses target*⁴, *The Express Tribune*, February 29, 2020], “*The last extended date for filing income tax returns ended on Friday and till the closing time, the FBR had received 2.45 million tax returns for tax year 2019, according to FBR officials. However, for tax year 2018 over 2.8 million taxpayers had submitted the returns*”

In another report [Pakistan's tax base shrinks, only 40% NTN holders file returns⁵, *The Express Tribune*, March 3, 2020]:

1 <https://www.fbr.gov.pk/pr/no-further-extension-in-date-of-filing-income/152284>

2 Ibid

3 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

4 <https://tribune.com.pk/story/2166326/2-fbr-collects-rs2-72tr-taxes-misses-target>

5 <https://tribune.com.pk/story/2168210/2-pakistans-tax-base-shrinks-40-ntn-holders-file-returns>

The government's broadening of tax base campaign has fallen flat as only 2.5 million people have filed annual income tax returns against 6.2 million National Tax Number (NTN) holders that shows the weakening writ of the tax machinery.

The return filers were also 278,581 or 11% less than the last tax year despite Prime Minister Imran Khan's government giving a tax amnesty scheme and conceding ground to traders in the hope of bringing them in the tax net.

Over one-tenth contraction in the tax base needs serious soul-searching on the part of the government, headed by Imran Khan, who is known for his financial integrity.

At page 10 of **FBR Year Book 2018-19**¹, it is stated as under:

"The trend for filing of income tax returns has not been satisfactory in Pakistan. Keeping in view very low compliance, FBR had initiated a Broadening of Tax Base (BTB) drive few years ago, which has not started paying dividends in shape of growth in the number of filers. The income tax returns which were just 1.5 million in TY 2016 have crossed the two million mark first time in the history of FBR. During TY 2017 the number of income tax filers reached to 1.9 million and in TY 2018 2.2 million (Table 7). During TY 2018 the number of return filers increased by 17.1% or 316,526 in absolute terms. This performance in terms of number of returns is satisfactory but payment with returns has a meager growth of 3.0%, which is the matter of concern. The desk audit of filed returns can be helpful increasing the amount paid with returns".

The World Bank in its Project Information Document² (PID), updated on April 22, 2019, reported as under:

"Income tax receipts come from a small number of taxpayers due to generous thresholds for individuals and widespread tax evasion. The budget law adopted in 2018 reduced the maximum income tax rates from 35 to 25 percent and for firms and from 25 to 15 percent for individuals. It also raised the threshold for Personal Income Tax to PKR 400,000 (around US\$2,860 – approximately double the per capita GDP), with a nominal tax up to PKR 2,000 applied to incomes up to PKR 1.2 million (around US\$8,580 – more than 5.5 times the per capita GDP). ¹Only incomes above PKR 10 million (around

¹ <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

² <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

US\$71,500) are subject to the maximum rate of 15 percent. In addition, legal loopholes combined with weaknesses in compliance enforcement enable large-scale tax evasion, which also erodes the tax base. While people and firms unregistered as taxpayers pay GST and income tax withheld on their transactions (e.g., by banks, telecom, and utility companies), the number of taxpayers who file tax returns (for GST and/or income tax) remains very small at 1.52 million, while those who declared incomes above the taxable threshold amounted to only 1.12 million FY2017/18 (Table 1)”.

Footnote mentioned in above paragraph reads: *These exemptions apply to individuals who draw more than half of their total taxable income from salaries.*

The Table 1 mentioned in **World Bank’s Project Information Document (PID), updated on April 22, 2019** shows that out of 1,522,627 Income Tax Return filers only 1,116,066 paid any tax and out of Sales Tax registered persons of 220,042 only 43,355 paid any tax during fiscal year 2017-18.

Table 1: Taxpayers registered with FBR in FY2017/18

	Registered	Filed tax returns	Filed and paid tax
Income tax	4,786,743	1,522,627	1,116,066
GST	220,042	141,106	43,355

Source: World Bank’s Project Information Document¹

The report [*Pakistan’s tax base shrinks, only 40% NTN holders file returns*², The Express Tribune, March 3, 2020] further reveals shocking facts:

- “As compared to 415,624 returns filed by the traders in tax year 2018, this year only 399,534 traders filed returns. About 16,100 traders escaped the FBR’s net this year.
- The 2.5 million filers—to be precise—were just 40% of the people and entities registered with the FBR for income tax purposes, showing very poor enforcement. As many as 6.2 million people are registered with the FBR and hold an NTN.
- The filing of income tax return is the legal obligation of every person, earning annual taxable income of more than Rs. 600,000 in case of a salaried person, Rs. 400,000 in all other cases, has at least one 1,000cc car or owns a home.

¹ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

² <https://tribune.com.pk/story/2168210/2-pakistans-tax-base-shrinks-40-ntn-holders-file-returns>

- The FBR has published the new Active Taxpayers List (ATL) for tax year 2019 and 2.53 million people have submitted income tax returns, said FBR Inland Revenue Policy Member, Dr Hamid Ateeq Sarwar, who is also the official spokesman. In tax year 2018, over 2.8 million people had filed returns, said Mr. Hamid Ateeq Sarwar.
- Instead of showing any increase in income tax returns, the tax base actually shrank by 279,000 or 11% in tax year 2019. To a question about traders escaping the tax net instead of coming in, Hamid Ateeq Sarwar said increasing the number of traders from 400,000 to three million would be a gradual process. He said committees had been constituted that would resolve issues about the filing of returns by the traders.
- In October last year, the traders got major concessions from the government on the intervention of PTI's former secretary general Jahangir Khan Tareen. The government increased the exemption limit for sales tax registration of traders and allowed that only those paying up to Rs.1.2 million annually in electricity bills and owning a 1,000-square-foot shop would be required to get registered.
- Earlier, any shopkeeper whose annual electricity bill was above Rs. 600,000 was treated as a class-I trader and subjected to 17% sales tax.
- The government had also reduced the minimum income tax rate from 1.5% to only 0.5% for the traders who had annual turnover of up to Rs. 100 million. All this had been done on the claim that 3.5 million to four million traders would get registered with the FBR.
- It is not for the first time that the traders have deceived a sitting government. Earlier, they had made similar promises with Pakistan Muslim League-Nawaz (PML-N) government and got away with major tax concessions.
- In tax year 2018, there were 401,807 individual traders who filed tax returns—a figure that has now slipped to 387,867 instead of increasing.
- Similarly, there were 13,817 associations of persons owned by the traders that filed income tax returns in the last tax year. This figure too has slipped to 11,667 this year, a reduction of 15%.
- Under the Income Tax Rules of 2002, the FBR publishes the new Active Taxpayers List on March 1 every year and anybody that does not file return for the year is excluded from the list

and is subject to double withholding tax. Mr. Hamid Ateeq Sarwar said the FBR would go after those 279,000 people who did not submit returns for this year.

- The political compromise struck by the PTI government twice—first by giving amnesty and then by providing a safe passage to traders—also weakened the FBR’s writ.
- In June 2013, the PML-N government had introduced the policy of charging higher tax rates from those who did not file income tax returns. Even that could not compel people to file returns”.

The above facts show that the Government of Pakistan Tehreek-i-Insaf (PTI) after gaining success in tax year 2018 for raising number of tax filers to 2,666,256 has failed to maintain the same, what to speak of increasing it. However, it must be highlighted that the policymakers (sic) sitting in the Ministry of Finance and top tax administrators of FBR always make a completely fallacious assertion that “only one percent of the population of the country pays income tax”. It is shocking that not only top bureaucrats but even most of the writers and TV anchors do not differentiate between a “taxpayer” and “return filer”. This point has been mentioned many times in ‘**Fixing the ailing tax system**’¹, *Business Recorder*, March 1, 2019, ‘**Of taxpayers & non-filers**’², *Business Recorder*, October 27, 2016, ‘**Fallacies about tax base**’³, *Business Recorder*, August 21, 2015 and ‘**Improving tax compliance**’⁴, *Business Recorder*, July 24, 2015 that there are about 95 million unique mobile users who pay advance, adjustable income tax in Pakistan but return filers were only 2,666,256 for tax year 2018 and now for tax year 2019, only 2,446,294 till February 28, 2020. Majority that pays advance and adjustable income tax is not earning taxable incomes—most are either dependents or have incomes below taxable limits. FBR has never conducted any study to determine fair tax base of the country.

Let us try to determine a rational income tax base. According to 2017 official census⁵, our population [provisionally] was 207.7 million (by February 29, 2020, it was estimated at 208.14 million⁶). Dependent population of children under the age of 15 years as on June 30, 2019 was 35.4% while 4.2% people were above 65 years. Out of total population, 40 million were below poverty line earning less than two dollars a day. Our labour force was around 70 million—majority of it based in rural areas

1 <https://fp.brecorder.com/2019/03/20190301450844/>

2 <https://fp.brecorder.com/2016/10/2016102897268/>

3 <https://fp.brecorder.com/2015/07/201507241210118/>

4 <https://fp.brecorder.com/2015/08/201508211219444/>

5 <http://www.pbs.gov.pk/content/provisional-summary-results-6th-population-and-housing-census-2017-0>

6 <https://countrymeters.info/en/Pakistan>

[42.3%] that earned below taxable income or agricultural income falling outside the ambit of Income Tax Ordinance, 2001.

Analysing all the above figures (juxtaposed), individuals liable to income tax could not be more than 4 million required to file tax returns for tax year 2019. After extending the last date for filing returns to February 28, 2020, FBR was hopeful to receive 3 million returns but ended up with 2,446,294.

FBR collected 12.5% advance, adjustable income tax of 17.187 billion¹ from 95 million unique mobile users alone during the fiscal year 2018-19 and in 2017-18 this figure was Rs. 47.38 billion². For tax year 2018, out of these only 2,666,256³ (2.8%) filed tax returns after availing many months of relaxation—the due date of September 30, 2018 was extended up to April 30, 2019! After a generous amnesty, FBR was hopeful that the figure of income tax return filers would go up to 3 million—this target is yet not met as less than 2.5 million returns were received by February 28, 2020. Thus there still exists a huge gap of 1.5 million if we take 4 million individuals as potential tax filers for tax year 2019.

After about relief of 10 months, at least 95 million **unique** mobile users [as per website of Pakistan Telecommunication Authority (PTA⁴), total cellular subscribers as on March 31, 2019 were 159 million, but many have multiple and/or dormant SIMs] after vacation of stay by Supreme Court on April 24, 2019 in Human Rights Case (HRC No. 18877/2018) have started paying 19.5% sales tax on services to provinces, 17% federal excise duty to areas where FBR has jurisdiction along with 12.5% income tax and 10% service/maintenance charge with effect from April 27, 2019. According to submission of PTA, during the period of stay [June 11, 2018⁵ to April 23, 2019⁶] by Supreme Court, **Rs. 90 billion tax** was not collected by mobile companies.

After vacation of stay, millions of Pakistanis, having no taxable income or income below taxable limit, are again subjected to extortion in the name of advance income tax. This is the real dilemma of Pakistan—**those having enormous incomes and assets are being offered frequent and generous amnesties and the vast majority of population, even those living below poverty line, are forced to pay exorbitant taxes that include 12.5% advance income tax on mobile use.** Adding insult

1 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

2 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

3 <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

4 <https://www.pta.gov.pk/en>

5 <https://en.dailypakistan.com.pk/11-Jun-2018/supreme-court-suspends-tax-deduction-on-mobile-phone-cards>

6 <https://www.thenews.com.pk/latest/462435-supreme-court-restores-tax-collection-on-mobile-cards>

to injury, they do not get in return even basic amenities of life, what to speak of free education and health facilities.

People have become either frightened or indifferent. They intentionally avoid registering themselves with FBR knowing very well that once they do so, the staff will make their lives miserable through unlawful orders, illegal demands and inhuman attitude. They lack faith in tax officials as well as the justice system. They are weary of long and expensive bouts of litigation that culminate into high costs and further misery for taxpayers as a result of high-handedness of revenue authorities as well as the appellate system.

The prevailing tax system is unjust, outmoded and unproductive with high taxes, yielding low revenues made worse by complex, time-consuming and costly operational procedure. It is not taxing the people according to their ability to pay but relying mainly on indirect taxes that are regressive, as these take a much larger percentage of earnings from low-income families than from high-income earners.

FBR has been claiming success in broadening the tax base, but reality is that it has even failed to regain what was achieved for tax year 2018. FBR stalwarts need soul-searching to find out what has gone wrong. Wrong policies, especially excessive reliance on withholding taxes, are showing devastating effects. High indirect taxation and outrageous burden of withholding taxes are proving detrimental for economic growth. Now there is open defiance on large scale as evident from decreasing number of filers and huge tax evasion in withholding tax regime causing illegal enrichment.

The real issue of taxation in Pakistan is appeasing the rich and mighty and lavish spending on comforts of elites—militro-judicial-civil complex and politicians in power. The main cause of ever-expanding budgetary gap is not that masses are not paying taxes but the rich and mighty avoiding their obligations towards national exchequer, and then huge wastage of public funds on meaningless projects rather than improving human capital and infrastructure for growth and prosperity. Such wrong policies are responsible for continuous increase in the miseries of the people, concentration of wealth in a few hands while common citizens are deprived of even basis entitlements. Nearly 30% of Pakistan's population now lives below \$1.25 per day¹, which is categorised as extreme poverty.

It is a fact that FBR is not interested in nabbing big tax evaders. Tax Directories of Tax Year 2013 to 2018 show that less than 50% registered corporate bodies file tax returns, yet FBR is not taking any action. For tax year 2019, only 40,988 companies filed returns as per own admission of FBR. The total number of companies registered with SECP till 15

¹ <https://blogs.worldbank.org/tags/data-news>

December 2018 was 108,433¹ but FBR cannot even force all of them to file returns which is obligatory requirement of section 114 of the Income Tax Ordinance, 2001!

The majority of parliamentarians, though enjoying luxurious living, just show remuneration from the State as their only source of income. FBR has evidence of their assets and huge expenses but never goes for audit of their tax affairs. The income/expenditure and asset declarations of judges and military-civil high-ups, who enjoy unprecedented benefits, tax concessions and exemptions, not available to ordinary mortals even though it is their fundamental right under Article 19A of the Constitution.

FBR has miserably failed to tap the real tax potential and increase the number of tax filers, bridging the obnoxious tax gap, registering all business houses and properties, checking leakages and rampant corruption within their ranks.

At present, millions of mobile users having below taxable incomes are paying income tax at source, yet FBR is engaged in a vicious propaganda that people of Pakistan are tax cheats! This is highly deplorable especially when small traders using commercial electricity connections are paying advance income tax under section 235 and all the millions of mobile users under section 236 of the Income Tax Ordinance, 2001. It is an undeniable fact that FBR has lamentably failed to get due tax from the rich—its main emphasis is on withholding taxes that is borne even by millions having income below taxable limits. This is the worst one can expect from a government whose head keeps on making tall claims to rebuild Pakistan on the principles of Riyasat-i-Madina.

It is not FBR's sole fault that the State has failed to tax all those who have amassed mammoth wealth as the PMLN and PTI both gave them generous amnesties causing loss of billions of rupees. Had they been taxed at normal tax rates, collection could have reached Rs. 6 trillion. We can even collect Rs. 8 trillion provided collection is fully automated, tax machinery is overhauled, leakages are plugged and all exemptions/concessions to the privileged classes are withdrawn. Banks, WAPDA, PTCL and mobile companies that collect advance taxes on behalf of FBR are fully computerised. By using their database, FBR can easily determine fair tax base and tax due from the ultra-rich, which they are avoiding/evading. Provisional assessments and recoveries can be made in respect of persons who are not filing tax returns but earning substantially.

The PTI government, like its predecessors, instead of taxing the rich, reducing wasteful expenditure, incentivizing economic growth, is

¹ <https://www.thenews.com.pk/print/585253-secp-registers-30pc-more-firms-in-nov>

conveniently picking on the poorest of the poor to please the International Monetary Fund and other lenders/donors—the recent example is imposition of the exorbitant petroleum levy on POL products, which is anti-business, anti-growth and anti-people as well as against the Constitution as explained in **Unconstitutional levy**¹ [*The News*, June 30, 2020] and **The POL bomb**² [*Business Recorder*, April 5, 2019] and earlier in **Finance Act, 2018: flagrant constitutional violations**³, [*Business Recorder*, May 25, 2018].

1 <https://www.thenews.com.pk/print/679668-unconstitutional-levy>

2 <https://fp.brecorder.com/2019/04/20190405461197/>

3 <https://fp.brecorder.com/2018/05/20180525374260/>

PART III

SOLUTIONS

All efforts in the name of tax reforms undertaken in Pakistan till today have miserably failed. These were nothing but mere patchwork here and there. Restructuring and redesigning of tax system has not been given serious thought by any government. The government of Pakistan Tehreek-i-Insaf (PTI), according to a Press release¹ issued by 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 would “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 release² (having many typographical errors) like “**best minds**”, “**massive and comprehensive reforms**” and “**optimal collection**” sound impressive but only time will tell how productive tax reforms will be this time by extraordinary minds (genius) of the country!

As explained in our article³, 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 both 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 Interests [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) would 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

1 <https://www.fbr.gov.pk/contents/fbr-embarks-upon-massive-and-comprehensive-reforms-program/131246>

2 *Ibid*

3 **Overcoming fragmented tax system**, *Business Recorder*, October 19, 2018]

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 agency¹. We also need to administer programmes like Benazir Income Support Programme etc 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 “to devise strategies for increase in revenue collection”. Strangely, the Committee did not endorse the following targets for FBR, suggested by us to the PTI government on September 12, 2018, for the coming eight months (November 2018 to June 2019) as it would 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.

¹ **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.

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 values 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 rational, 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. Along with 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 section 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 tax policies for growth and meeting the needs of the country.

For efficient running of existing tax agencies and/or future NTA, major information technology and human resource improvements in tax collection methods as well as better 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 administration¹.

¹ 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 above¹. Tax appellate system should also be revamped and National Tax Tribunal should be established². 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.

¹ 'Need for National Tax Authority', *Business Recorder*, October 20, 2017

² Details in **Draft law on National Tax Tribunal**, *Business Recorder*, November 3-4, 2017

In recent years, collection of taxes has assumed enormous significance in Pakistan. There is a national consensus that our survival as a self-reliant nation now lies with rapid and substantial increase in tax revenues. The general public and businessmen always view the "zeal" and "enthusiasm" of the Federal Board of Revenue (FBR) in collecting taxes with suspicion and distrust. There are a number of reasons for this reaction. Firstly, the highhandedness, maladministration, inefficiency, abusive behaviour and corrupt tax practices of FBR's officials have created a general atmosphere of distrust between the taxpayers and the State. Secondly, the successive governments have failed to utilise the taxpayers' money in a transparent manner. The ruthless waste and plundering of public money by the rulers has forced the people to openly defy tax laws.

The present situation of antagonism between the State and taxpayers needs to be reconciled through a process of national consensus. A National Tax Commission, comprising judges, professionals, and representatives of the taxpayers and tax machinery, is the need of the hour. The goal of tax reform cannot be achieved through handpicked experts (mostly on donors' dictates) who are completely oblivious to the mundane realities of Pakistan. The decision to reform tax system and laws through FBR-backed tax reform committees, in which assignments have been given to ex-bureaucrats (who are in fact responsible for the present state of affairs), is an ugly joke with the nation. The bad faith, antagonism and mistrust prevailing between the government and taxpayers can only be removed through a national reconciliation process. A National Tax Commission, being a truly representative and competent forum, can provide a basis for a just and fair tax system in Pakistan in the near future.

The process of national reconciliation on tax matters will certainly require some time. Meanwhile, the Government in order to restore confidence of the taxpayers should immediately promulgate Taxpayers' Bill of Rights. The provisions of the Bill must:—

- (a) safeguard and strengthen the rights of taxpayers;
- (b) ensure equality of treatment;
- (c) guarantee privacy and confidentiality of their declaration;
- (d) provide right to assistance by State in tax matters;
- (e) guarantee unfettered right of appeal through an independent tax appellate system;

- (f) provide facilities for independent judicial review of disputes with tax authorities.

In recent years both the United States and the United Kingdom specifically enacted and implemented such laws to further strengthen their already highly developed tax cultures. The US Technical and Miscellaneous Revenue Act of 1998¹ contained a Taxpayer Bill of Rights. The UK Inland Revenue issued in 1996 a Taxpayer's Charter² informing taxpayers of their rights in audit and the tax collection processes. In Pakistan, the State has never bothered to educate taxpayers about their obligations. They have been left at the mercy of callous tax officials. The taxpayers have no specific Bill of Rights or Charter of Rights. Tax reform efforts will remain a cliché unless the State takes some fundamental steps to restore the confidence of the public in general and the taxpayers in particular and also convince them by concrete actions that their taxes are spent for the progress and welfare of the society.

Taxpayers are the most humiliated beings in Pakistan, although it is a fact that very few of them pay their taxes honestly. But when they have no protection of life and property why should they pay taxes? The common argument is that a government, which is incapable of protecting the life and property of its citizens, has no right to impose or collect taxes. Those who are not paying or paying negligibly with the connivance of corrupt tax officials command social status, societal respect and win elections. After every other year, the rulers announce a tax amnesty scheme to prove that the honest taxpayers are just "idiots". The forces of loot are hand in hand with the corrupt and both are flourishing in Pakistan. On the other hand, in the name of "reformation" (sic), the life of the ordinary people is becoming difficult with each passing day. For the rulers, the only purpose of "reformation" is to extort more taxes from the people. These taxes are ultimately spent on giving unnecessary perquisites to the rulers of the day.

The existing tax system itself is one of the worst expressions of colonial heritage. It is highly unjust. It protects the establishment and exploitative elements that have complete monopoly over economic resources. There is no political will to tax the privileged classes. The common man is paying exorbitant sales tax of 17% on commodities he uses as a consumer, but the mighty generals, high-level bureaucrats, unscrupulous businessmen and corrupt politicians are paying no income tax/asset tax on their colossal income/wealth. Do our rulers know about the basic canons of taxation?

1 <https://www.gpo.gov/fdsys/granule/STATUTE-102/STATUTE-102-Pg3342/content-detail.html>

2 <https://www.accountingweb.co.uk/community/industry-insights/the-taxpayers-charter-your-rights-and-hmrcs-obligations>

Adam Smith in his 1776 *Wealth of Nations* propounded the following four principles of taxation (commonly known as canons of taxation):

- **EQUITY:** The tax payable should accord with **ability to pay** or **taxable capacity**.

[In Pakistan the poor are taxed although they have little or no ability to pay and the rich enjoy exemptions notwithstanding taxable capacity. The Musharraf regime abolished wealth tax to safeguard wealth of certain vested interest i.e. people enjoying assets as a result of loot, tax evasion, political bribes and gallantry awards.]

- **CERTAINTY:** The taxpayer should know **exactly** what is being taxed, how much he has to pay and when he has to pay it, meaning that the law should be clear and unambiguous and the **tax authorities' interpretation** of it should be **readily available**.

[In Pakistan, there is no certainty about taxes. The administrative authorities continue to play havoc with tax laws through an avalanche of amendments every year through Finance Acts/Ordinances and the infamous SRO system while taxpayers have been subjected to the amazing wilderness of confused laws, vulnerable to varied interpretations and authorities' explanations adding to the existing confusion].

- **CONVENIENCE:** The tax should be payable in a **manner** and at a **time convenient** to the taxpayer.

[FBR makes it a point to make the taxpayers' lives miserable. The procedures for collection of taxes in Pakistan are most cumbersome and inconvenient].

- **ECONOMY: Enforcement** and collection **costs** should be **reasonably** proportionate to the receipts.

[Quite the opposite situation prevails in Pakistan. The FBR has reduced its cost of collection by shifting its substantial responsibility to the withholding tax agents/businessmen and that too without giving them any compensation. Adding insult to injury they are penalised for insignificant lapses. In all civilized societies, tax authorities allow percentage deduction to withholding agents/businessmen to compensate for the cost of collection of taxes as agents, but in Pakistan, FBR is taking forced labour from them in utter violation of Article 11(1) & (2) of the Constitution of Pakistan.]

There are flagrant and perpetual violations of established principles of taxation by the State, yet the people of Pakistan, who are the most heavily taxed in Asia, are being harassed every day by tax authorities. It

is high time that the Government should show a conciliatory gesture by promulgating the Taxpayers' Bill of Rights. Economic prosperity and eradication of rising poverty depend in generating substantial taxes. All citizens of Pakistan who are liable to pay taxes should perform their national duty honestly and without any hesitation. The State must ensure them full protection of their rights, transparency in utilization of taxpayers' money and implementation of a just, equitable and fair tax system.

On the basis of case studies [See Annexure B] of United Kingdom and United States, we propose a comprehensive Taxpayer's Bill of Rights in Pakistan containing the following:

1. The strict implementation of constitutional guarantee of treatment and protection in accordance with law.
2. The strict implementation of constitutional guarantee that no tax will be levied except as provided under Article 77 of the Constitution of Pakistan and delegation of taxing powers to Federal Government and the Federal Board of Revenue being violative of Article 162 will not be provided and wherever available are to be withdrawn at once.
3. The implementation of constitutional right of protection of life and property as State's prerogative to levy and collect taxes is conditional to performance of this duty.
4. The guarantee through a law passed by the parliament that taxes collected would be utilized in a transparent manner and would not be subject to un pitying waste and plundering by the rulers.
5. The right to have protection from higher/unjust/unreasonable taxes without voters' approval.
6. The guarantee from the government through a law passed by the parliament of restricting state expenditure of revenue above and beyond inflation and population growth.
7. The guarantee of earmarking of revenue through a parliamentary process for employment generation and socio-economic development of the society as a whole.
8. The right to fair and consistent application of the tax laws of the state by the Department of Revenue.
9. The right to pay only the amount of tax due under the law and to have the law applied as consistently and equitably as possible.
10. The right of protection from abuse and excessive use of discretionary powers available to Tax Officials under tax

codes. Such discretionary powers should be structured through open plans, open policy statements, open rules, open findings, open reasons, open precedents and fair formal procedure.”

11. The right to be trusted and treated as honest law abiding persons unless proved otherwise.
12. The right to be protected against perverse, arbitrary or unreasonable, unjust, biased, oppressive and discriminatory decisions, recommendations processes, acts of omission and commission of the Tax Officials.
13. The right to be protected against practices of tax collector involving the exercise of powers, or the failure or refusal to do so, for corrupt or improper motives, such as bribery, jobbery, favouritism, nepotism and administrative excesses.
14. The right to be saved from neglect, inattention, delay, incompetence, inefficiency and ineptitude, in the administration or discharge of duties and responsibilities by tax collectors.
15. The right to be saved from harassment through repeated notices, unnecessary attendances or prolonged hearings while deciding cases involving:—
 - a) assessment of personal taxes;
 - b) determination of liability of any tax or duty;
 - c) classification or valuation of goods;
 - d) settlement of claims of refund, rebate or duty drawback; or
 - e) determination of fiscal and tax concessions or exemptions;
16. The right to seek assistance from the Tax Collector who should act as facilitator and not as Tax grabber. His office should be a walk in clinic especially for the old taxpayer, low income taxpayer or senior citizens who cannot afford services of the consultant.
17. The right to obtain information and prompt, accurate responses to questions and request for tax assistance.
18. The right to request assistance from an expert of the department, who shall be responsible for facilitating the resolution of taxpayer complaints and problems not resolved through the normal administrative channels within the department, including any taxpayer complaints regarding unsatisfactory treatment by department employees. The expert must issue a stay order if a taxpayer has suffered or is

about to suffer irreparable loss as a result of an action by the department.

19. The right to have proper service of notices of any kind and application of all possible modes of service before passing exparte order/ assessment.
20. The right to have prompt refund of additional duty, return of Bank Guarantee or security in the cases of provisional assessments of duty where final assessment is not completed within the period specify under the law.
21. The right to be represented or advised by counsel or other qualified representative at any time in administrative interactions with the department.
22. The right to procedural safeguards with respect to recording of interviews during tax determination or collection processes conducted by the department.
23. The right to be treated in a judicious manner by department personnel.
24. The right to have audits, inspections of records, and interviews conducted at a reasonable time and place except in criminal and internal investigations.
25. The right to freedom from penalty attributable to any taxes administered by the Department of Revenue; and to abatement of interest attributable to any taxes administered by the Department of Revenue, when taxpayer reasonably relies upon binding written advice furnished to the taxpayer by the department through authorized representatives in response to the taxpayer's specific written request which provided adequate and accurate information.
26. The right to obtain simple, non-technical statements which explains the reason for audit selection and the procedures, remedies, and rights available during audit, appeals, and collection proceedings, including, but not limited to, the rights pursuant to this Taxpayer's bill of rights and the right to be provided with a narrative description which explains the basis of audit changes, proposed assessments, assessment, and denials of refunds; identifies any amount of tax, interest, or penalty due; and states the consequences of the taxpayer's failure to comply with notice.
27. The right to be informed of impending collection actions which require sale or seizure of property or freezing of assets, except jeopardy assessments, and the right to at least 30 days' notice in which to pay the liability or seek further review.

28. The right to have all other collection actions attempted before a jeopardy assessment unless delay will endanger collection and, after a jeopardy assessment, the right to have an immediate review of the jeopardy assessment.
29. The right to seek review, through formal or informal proceedings, of any adverse decisions relating to determinations in the audit or collections processes and the right to seek a reasonable administrative stay of enforcement actions while the taxpayer pursues other administrative remedies available under tax law.
30. The right of access to his tax information/record kept confidential unless otherwise specified by law.
31. The right to procedures for retirement of tax obligations by installment payment agreements which recognize both the taxpayer's financial condition and the best interests of the state, provided that the taxpayer gives accurate, current information and meets all other tax obligations on schedule.
32. The right to procedures for requesting cancellation, release, or modification of liens filed by the department and for requesting that any lien which is filed in error be so noted on the lien cancellation filed by the department, in public notice, and in notice to any credit agency at the taxpayer's request.
33. The right to procedures which assure that the individual employees of the department are not paid, evaluated, or promoted on the basis of the amount of assessments or collections from taxpayers.
34. The right to an action at law within the limitations to recover pecuniary damages against the state or the Department of Revenue for injury caused by the wrongful or negligent act or omission of a department officer or employee.
35. The right to settle claims through Alternative Dispute Resolution (ADR).
36. The right to have the department begin and complete its audits in a timely and expeditious manner after notification of intent to audit. The selection of case for audit should conform to the provisions of section 24A of General Clauses Act of 1897.
37. The right to have the department actively investigate and, where appropriate, implement automated or electronic business methods that enable the department to more efficiently and effectively administer the revenue sources of the state taxpayers.

38. The right of waiver of interest that accrues as the result of errors or delays caused by a department employee.
39. The right of free educational activities/services to be arranged by the State helping the taxpayer for satisfactory/successful compliance of the revenue laws.
40. The right to pay a reasonable fine or percentage of tax, whichever is less, to reinstate an exemption from any tax which a taxpayer would have been entitled or received but which was lost because the taxpayer failed to properly register as a tax dealer or obtain the necessary certificates entitling the taxpayer to the exemption.
41. The right to be treated courteously and professionally by Department employees and to be answered as promptly as available resources permit.
42. The right to receive a simple, non-technical explanation rights and the Department's obligations in all proceedings and activities involving taxpayers.
43. The right to have personal and financial information kept confidential and to know why the Department is asking for information, how that information will be used, and what might happen if it is not provided. The Department may share information with certain federal, state, and local government agencies under strict legal guidelines.
44. The right to obtain basic information concerning the basis for and amount of any tax, interest, and penalties owed or refunded when sent a tax due, deficiency, or refund notice.
45. The right to obtain information about tax exemptions for which a taxpayer legally qualifies. The Department will make every effort to inform those eligible for such exemptions.
46. The right to have penalties abated for under payment of tax due to erroneous Department advice in written response to a specific written inquiry, provided that the taxpayer gives the Department complete and accurate information.
47. The right to enter into installment agreements in case of hardship at the Department's discretion in order to facilitate collection of payments due. The Department may require financial statements prior to and during the administration of such agreements and may cancel such agreements in the event of default or change in the taxpayer's financial condition.

48. The right to online and telephone assistance through a website and toll-free telephone net work, responsive to answer any query by a taxpayer.
 49. The right to have honest, competent, efficient, well behaved and trust worthy tax officials.
 50. The unfettered right of appeal or review through an independent judicial tax appellate system and guarantee of disposal of appeal and revision within six months from the date of filing such appeal or revision as the case may be.
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When the government of General Pervez Musharraf decided to promulgate a new income tax law in 2000, we, amongst many others, opposed it strongly. The main objection was that his regime had no mandate to enact any such law. The rule, “**No taxation without representation**”, was stressed by his critics. This cardinal constitutional rule is embodied in Article 77 of the Constitution of Islamic Republic of Pakistan but being usurper, the military dictator was least pushed about it. Strangely and disturbingly even the elected representatives since the exit of Musharraf have been showing apathy towards enacting tax laws that conform to fundamental rights and public policy guidelines contained in the Constitution.

During the Musharraf era, it was argued that the dictator lacked the mandate to enact Income Tax Ordinance, 2001 repealing Income Tax Ordinance, 1979, which was also promulgated by a military dictator, General Zia-ul-Haq. It was demanded that he should leave this work for the future elected government. Unfortunately, the law was promulgated and thereafter all popularly-elected parliaments have never bothered to review it.

We do not enact tax laws through consultative process, which is a prerequisite of democratic polity. Tragically, the repealed Income Tax Ordinance, 1979 was also promulgated by a military dictator, and the existing Income tax Ordinance, 2001, is reminiscent of undemocratic rule of General Musharraf.

The Supreme Court of Pakistan aptly observed in *CIT v Eli Lily (Pvt) Ltd*¹: “**Since the creation of Pakistan we have not been able to frame any Income Tax Act duly debated in the Assembly. Both the Ordinances were promulgated during the Martial Law Regime otherwise the Constitution has prescribed a four month life of an Ordinance in case the Ordinance is not be placed before the Assembly and it shall be enacted as an Act then the Ordinance will automatically cease to exist. This aspect also reveals that the Constitution has cast duty upon the legislative body to frame the laws within the parameters prescribed under the scheme of the Constitution**”.

The Income Tax Ordinance, 2001 is highly complex law that is badly drafted. During the last 16 years and despite the fact that over 2500

1 (2009) 100 Tax 81 (S.C. Pak)

amendments were made, it has generated enormous litigation. The Apex Court noted in (2009) 100 Tax 81 (S.C. Pak):

“The fact that the Ordinance in question was issued and various amendments were incorporated before and even after the enforcement of the Ordinance 2001 raises the controversy that the Ordinance in question was promulgated without meticulous debate on the subject due to which taxpayers and concerned departments were compelled to agitate the issues in different courts”.

We have been pointing out since its inception, various errors of drafting and concepts (see *Law & Practice of Income Tax*, Volume I, pp 1-14) but the Federal Board of Revenue (FBR) did not bother to consider these and ultimately lost revenue of billions of rupees when Supreme Court vindicated our viewpoint in (2009) 100 Tax 81 (S.C. Pak) as under:

“It appears that the Ordinance was drafted in *post haste* and the draftsman omitted to incorporate this important provision. This observation is supported from the fact that the Ordinance was subjected to speedy, successive and large scale amendments, particularly at its very inception”. It may be seen that section 238 provided that the Ordinance shall come into force on a date to be appointed by the Federal Government by notification in the official gazette. Accordingly, vide notification (SRO No. 381(I)/2002) dated 16.6.2002, the Ordinance came into force with effect from the first day of July 2002, but with more or less 1000 amendments inserted by the Finance Ordinance, 2002, as calculated by the learned counsel for the respondents....Had the un-amended provision of subsection (1) of section 239 continued on the statute book, no difficulty would have arisen regarding the treatment of assessment orders passed in respect of the assessment year ending on 30th June 2003. In such eventuality, the assessments up to the said period would have been governed under the repealed Ordinance, while the assessments of the post enforcement period of the Ordinance of 2001 would be governed under the latter Ordinance”.

In para 53 of (2009) 100 Tax 81 (S.C. Pak), the Supreme Court has categorically held that **“there is a need to review the language, content and scope of the power to amend and further amend an assessment, the power to revise an assessment and the power to**

rectify mistakes envisaged in these sections so as to make it in line with the legislative intent of consolidating the law relating to income tax so as to make it easily comprehensible to the convenience of the taxpayers”. This judgement was passed on June 22, 2009 and till today neither FBR nor the Parliament has implemented the command of the Supreme Court, which is binding under Article 189 of the Constitution. The FBR has lost and is still losing cases involving substantial revenue because of conflicting and confused provisions of the Income Tax Ordinance, 2001, but tax bureaucrats are least pushed to request the Parliament to amend the law as suggested by the Apex Court or enact a new one that is more suitable to our conditions.

Time has come that the Parliamentary Standing Committee on Finance initiate the process of drafting and adoption of a new income tax law rather than further amending the Income Tax Ordinance, 2001 as it is simply impractical. Services of experts should be elicited for this task. We can never ensure tax culture unless the rich and mighty are taxed according to their ability (all the presumptive and minimum tax regimes, concessions and exemptions given in the existing law should be abolished), taxpayers should be given rights through legislation (Taxpayers’ Bill of Rights) that taxes collected would be spent for public welfare and not for the luxuries of the ruling elite and that their cases shall be adjudicated expeditiously through an independent tax appellate system. Efforts are needed to have an income tax law:

- (a) ensuring taxation on the basis of ability to pay as enshrined in Article 3 of the Constitution;
- (b) providing uniformity of tax treatment as far as possible for various categories of taxpayers;
- (c) reducing dependence on withholding taxes;
- (d) encouraging voluntary compliance through deterrent provisions;
- (e) minimizing tax exemptions;
- (f) reviewing the existing tax appellate system; replacing it with National Tax Court completely independent of FBR and Ministry of Law; and
- (g) removing distortions and anomalies to make the law coherent and consistent;

New Approach

It is an inescapable conclusion that income tax law, as it exists, is a most undesirable piece of legislation. Direct tax system intends to achieve the twin aims of maximizing revenue as well as utilizing revenue for achieving socio-economic objectives. In actual practice, our tax system has

failed to achieve either of these objectives. In fact, the complex regime of incentives and disincentives built into the direct tax law cannot but lead, *per se*, to difficulties in enforcement and to the opening of opportunities for tax-dodgers/evaders. At the operational levels, this has resulted in undue bureaucratization, corruption and harassment of the citizens. Undoubtedly, time has come to resolve these contradictions and to completely convert direct tax regime into simple tax law. The new approach should aim at generation of resources besides achieving some limited but important economic objectives like promotion of savings, encouragement of new investments and conservation of energy.

Equity in taxation

For any meaningful change, solutions have to be found for those issues that have been sidetracked for years. One problem that affects personal taxation significantly relates to presumptive taxes, minimum taxes, tax brackets, exemption limits, tax rates and fairness of the system of indexing for inflation. On the eve of each year's budget exercise, these issues are raised but avoided rather than solved, by an appeasement policy of giving tax amnesty, increasing exemption limits, raising deductions, re-arranging tax brackets and making some minor changes in tax rates. The case for adjusting the structure of personal income tax to inflation, to retain the same levels for taxation and collections in real terms, should receive the first priority in any future tax reform to enhance the credibility of the system.

Broadening tax net

We, in Pakistan, have been running after small fry to broaden the tax net. For example, a widows or pensioners are subjected to 10% flat tax on income earned from *Bahbood Certificates* and pension accounts. They also pay advance adjustable income tax on mobile use even if income is below taxable limit. Such erratic taxation is highly lamentable. Salaried persons having no other source of income have to pay advance tax not only on salary but also when paying fee of their children and mobile bills. They have to file tax returns and then claim refund of excess payments made to FBR. This exercise generates tremendous infructuous, unproductive and wasteful workload without any significant gain to the revenue. It strengthens the feeling that the government, unable to tackle the hardened tax evaders (for example sharks in real estate speculative business and at stock exchanges), is unduly harsh on salary and wage earners. A feeling goes around that they are made to bear the major burden of taxes. The consequence is that ordinary people who generally think of themselves as honourable and honest end up in participating or advising others to practice evasion of taxes!

Administrative reforms

The administration of a tax system is highly complex. No doubt, a proper bureaucratic input is vital for making the system successful but it is equally necessary to take all the stakeholders on board and laws are made and implemented through consultation and consensus rather than by means of irrational policies and illogical measures. Unfortunately, this aspect of the problem, which deserves utmost priority, has been neglected for no ostensible reasons. All the tax reform committees and commissions have failed to consider this matter important enough to merit full-scale attention. Even if they recognised it as a problem they decided to leave it for the relevant quarters. The undeniable reality is that no agenda for rationalization or simplification of tax system can significantly improve tax compliance, unless there is a substantial improvement in public perception regarding the efficiency, technical competence, integrity and ability of the tax authorities to relentlessly pursue and punish tax evaders without any political and other interference. There is always talk of giving “market” wages to officers, but nobody has even thought of improving the overall working conditions of tax departments and refining professional skills of tax collectors. If one goes to a tax office as a taxpayer only then one would feel the taste of inhuman and insulting treatment an ordinary citizen receives daily. Does it really need enormous money to extend respect and courtesy to taxpayers which they deserve? Does this issue relate to market wages or foreign funding or advice?

Tax reform not a time-bound but a continuing exercise

The exercise relating to tax reforms cannot be a time-bound affair and does not mean merely making changes in law. Reforms can be successful only if simultaneous analysis is made of the whole system, that is, tax structure, tax administration, state of economy, taxpayers’ attitude, revenue needs of the country and so many other allied aspects. Measures that are necessary to make a tax system successful relate to:–

1. devising and running an efficient and truly independent justice system;
2. provision of expert legal advice for drafting of laws;
3. designing of tax forms and procedures;
4. improvements in the management of tax department;
5. a broad-based personnel policy;
6. training of tax administrators, especially for under-cover operations;
7. educating taxpayers and making them realise that it is their moral duty to pay tax;
8. development of work ethics;

9. provision of healthy working conditions; and
10. efficient redressal machinery for settlement of the problems faced by taxpayers.

Relatively successful reforms in Indonesia, Jamaica, Malawi, etc., were carried out in three to four years' time and these involved substantial preparation and transition arrangements including extensive consultations with all parties affected by tax reform. In Pakistan, the five-year (2006-2011) foreign-funded Tax Administration Reform Programme (TARP) extended for one more year (2012) failed to achieve anything, rather it multiplied the problems of tax machinery as well as taxpayers. Tax reform programmes and strategy involve continuity in key decision-makings and major educational campaigns concurrent with the introduction of tax reform proposals to familiarise taxpayers with new requirements. In Pakistan, we merely made it a bureaucratic exercise which is bound to fail.

The Royal Commission on Taxation in Canada (the Carter Commission) and the Musgrave Commission in Columbia are said to have done the finest work up to that time in applied public finance because of their comprehensive analysis, rational approach and recommendations which could not have been possible, if a short time frame had been prescribed.

In order to initiate a public debate, we are presenting a draft of '**Income Tax Act, 2019**'. It can serve as a starting point of debate in the Parliament. All concerned—members of House Standing Committees, tax administrators, trade and professional bodies, taxpayers, tax professionals and public at large—can examine this draft and suggest improvements as well as highlight its shortcomings and deficiencies. A meaningful public debate on this draft can pave the way for better income tax legislation in the country. However, it all depends on the attitude of the elected members, who hardly take any interest in enacting such laws that can make a difference in the lives of ordinary people. They are keener to safeguard their vested interests (amendments in law were made to ensure that Nawaz Sharif could retain the position of head of party even after disqualification by Supreme Court).

We hope that some elected member may get inspired and opt to present it as a private member's bill in the house before the next budget is announced. It can generate meaningful debate in the Parliament as progressive income taxation is at the heart of establishing a true social democracy. FBR will certainly not like this draft as tax bureaucrats want complex laws and cumbersome procedures that give them unbridled powers and discretion—their strength and capacity to extort money (not tax but bribes) depends on complex and complicated laws. They resist any such change. It is now the duty of elected members to take initiative and enact fiscal laws through consultative process.

Salient features of a new Income Tax Act

I. Integration of all components

There are four authorities responsible for enactment and implementation of taxes on income, Parliament, Federal Government, Federal Board of Revenue and the Inland Revenue Authorities. The role of each one of them should be clearly defined.

II. No delegated powers

There should be no delegation of power to any administrative authority in fiscal law, except to make rules. The notorious SRO system should be disbanded completely as it is against Article 162 of the Constitution of Pakistan.

III. Tax rates should not be subject to annual Finance Bill

Income tax Rates should be at least for five years so that people can make long term planning of their affairs. The base of income and the range of tax rates should be made adequately wider so that there is no need to change it every year. The progressivity of tax rates is essential to meet the constitutional requirement of ensuring economic justice and social disparities. Tax rates should also be rationalized in order to make them equitable for all classes of persons.

IV. Tax on undisclosed income

The tax on undisclosed income must not be charged by clubbing it with the declared income. It should be taxed separately at a fixed rate. However, it is proposed to have a National Deposit Account in which any amount can be deposited without giving explanation for its source. No money may be withdrawn from it for 3 years and it would not carry any interest either. Thereafter, on maturity date the whole amount minus tax payable would be returned.

V. Income from capital gains and long-term sources

Income from capital gains and other long-term sources should be separately taxed. It should be delinked from inclusion in total taxable income.

VI. Distribution of income within a family

In respect of deductions, a minimum 20% of the income, if transferred to members of taxpayer's family, must be exempted. It can be made taxable in the hands of the members of the family. This will provide for faster and equitable distribution of wealth amongst the members of the family and greater family stability in the society. All recipients would be bound to file returns, show receipt through banking channel and utilization for own benefit. If it is found that the payer in any way took an advantage of this provision he would be penalised by double the amount of tax he intended to avoid.

VII. Penalty and prosecution

Penalty and prosecution provisions must continue and the income-tax authorities should be given wider powers to enforce these provisions of law. No degree of liberalization or reduction in the rates of tax can take away the lure of not paying taxes. Tax is like any other expenditure and every one would like to save as much as possible.

VIII. Payment of tax

The entire amount of tax should be made payable by the taxpayer either by deduction at source or by advance payment of tax before the end of the year. The base for deduction of tax at source may be made very wide but option must be given to the taxpayer to declare that his income is below taxable level to receive income without any deduction of tax. Penalty and prosecution provisions can be strengthened against giving a false declaration.

IX. National Tax Tribunal

There may be a National Tax Tribunal subordinate only to the Supreme Court. It should be the final authority as regards the interpretation of all federal tax laws. It should only refer important questions of law to the Supreme Court. This would relieve the High Courts of very heavy burden of tax cases.

X. Rules of interpretation

The Act should contain the rules for interpretation of the statutes. Much of tax litigation has arisen because of different rules of interpretation being applied by different authorities and by the same authorities at different times. The rules of interpretation of tax laws should be applied uniformly and decisively.

Pakistan is in dire need of revisiting its fiscal policy holistically. Presently, the major taxation powers are concentrated in the hands of the federal government. Even the Constitution of Islamic Republic of Pakistan [“the Constitution”] denies provinces the right to levy sales tax on goods within their respective territories—a right available to the federating units at the time of independence¹. This issue was never raised by any province during the deliberations for 18th Constitutional Amendment or Seventh National Finance Commission Award². The provinces have also shown apathy to devolve political, administrative and fiscal powers to local governments despite clear command contained in Article 140A of the Constitution.

At the moment, all broad-based and buoyant sources of revenue are with the federal government and contribution of provinces in total tax revenue is only six percent—in overall national revenue base (tax and non-tax revenue) it is around eight percent. This has made them completely dependent on the Federal Government for transfer of funds from the divisible pool—Article 160 of the Constitution. What makes the situation more disturbing is the fact that the right of provinces to levy sales tax on services is encroached by federal government through levy of presumptive taxes on services under the Income Tax Ordinance, 2001, sales tax on gas, electricity and telephone services and excise duty on a number of services³. By not levying Federal Excise Duty on natural gas and electricity as envisaged in Article 161(1)(a) & (b) of the Constitution, the Federal Government has deceived the provinces, they should have been given ‘net proceeds’ from these sources rather than share from Divisible Pool.

1 “The subject of sales tax was on the Provincial Legislative List at Serial No.48 in the Government of India Act, 1935 and was described as “Taxes on sales of goods and on advertising”. In the Constitution, 1956, “tax on sales and purchases” was mentioned at Serial No.26 of the Federal Legislative List, and therefore, for the first time it became a Federal subject. The position was maintained in 1962 Constitution, which mentioned “tax on sales and purchases” on the Federal Legislative List as clause (j) at Serial No.43 in the Third-Schedule. In 1973 Constitution as originally adopted ‘tax on sales and purchases’ was kept on Federal Legislative List at Serial No.49 of Part I of the Federal Legislative List given in the Fourth Schedule. The item was, however, completely substituted by Constitution 5th Amendment Act, 1976 with effect from September 13, 1976 to read “Taxes on sales and purchases of goods imported, exported, produced, manufactured or consumed”. The second half of the amended entry appears to have been taken from the amendment made in Sales Tax Act, 1951 by Finance Ordinance, 1960. Through that amendment the words “consumption of goods” in the preamble were substituted by “importation, exportation, production, manufacture or consumption”—*WAPDA v. Collector of Central Excise and Sales Tax* (2002 PTD 2077).

2 **NFC: vital issues ignored**, *Daily Times*, November 28, 2009

3 **Centre-provincial harmony: Equitable distribution of fiscal rights needed**, *Business Recorder*, March 13, 2006

Ideally, as in many other federations, the provinces should have the exclusive right to levy indirect taxes on goods and services within their respective physical boundaries. Right to levy any tax on goods should be restored to the provinces as was the case at the time of independence. Despite levying taxes that should have been with provinces, the federal government has miserably failed to reduce the burgeoning fiscal deficit that reached an alarming mark of Rs. 1.8 trillion at the end of fiscal year 2013-14¹ and Rs. 2.3 trillion in 2017-18². Had provinces been allowed to generate their own resources, the present chaotic situation could have been averted.

The Federal Government has been claiming that provinces lack infrastructure to efficiently collect sales tax. This has proved wrong as compared to FBR, Sindh and Punjab collected much more sales tax on services after establishing their own tax apparatuses in 2011 and 2012 respectively. In 2013, Khyber Pakhtunkhwa also followed in their footsteps and results for fiscal year 2013-14 were impressive. Balochistan also enacted the laws for collection of sales tax on services in 2015. The Balochistan Revenue Authority³ established in 2015 is also collecting sales tax on services satisfactorily.

Sales tax administration at federal and provincial levels as exists today is neither helping to harness the actual potential nor creating ease of doing business for taxpayers. In fact, problems of the taxpayers have increased multifold⁴ since the establishment of provincial revenue authorities. There are still many unresolved issues between provinces and the centre and inter provinces as well. In this scenario, harmonised sales tax (HST⁵) can be an answer⁶ as is the case in India and elsewhere. Some problems faced by the taxpayers and need for reforms are highlighted below.

1. **Present scenario: challenges and solutions**

1.1 Authority to levy sales tax on “goods” and “services”

The authority to levy ‘taxes’ on the sale and purchase of ‘goods’, imported, exported, produced, manufactured or consumed, is with the Federal Government whereas sales tax on services is within the exclusive domain of provinces—Article 142 read with Entry 49 of Part I of Legislative List, Fourth Schedule to the Constitution. Entry 49, as amended by the 18th Constitutional Amendment, reads as under:

1 **Federal Budget FY 15: Tale of fiscal stabilisation**, Muhammad Sabir, *Business Recorder*, September 17, 2014

2 http://www.finance.gov.pk/fiscal/July_June_2017_18.pdf

3 <https://bra.gob.pk/>

4 **Flat-rate taxation: Alternate solution**, *Business Recorder*, November 20 & 22, 2015

5 HST is a consumption tax in Canada. It is used in provinces where both the federal goods and services tax (GST) and the regional provincial sales tax (PST) have been combined into a single value added sales tax.

6 **Case for harmonised sales tax**, *The News*, May 28, 2014

“Taxes on the sales and purchases of goods imported exported, produced, manufactured or consumed, except sales tax on services”.

The expression ‘goods’ is defined in Article 260 of the Constitution to include “all materials, commodities and articles”. Article 260 of the Constitution inclusively defines the term “taxation”. It says:

“taxation” includes the imposition of any tax or duty, whether general, local or special, and “tax” shall be construed accordingly.”

The term ‘service’ is not defined in the Constitution. Section 2(12) of the Sales Tax Act, 1990 defines the expression “goods” to include “every kind of movable property other than actionable claims, money, stocks, shares and securities”¹.

Section 2(68) of the Sindh Sales Tax on Services Act, 2011 [hereinafter “the Sindh Act”] says that “provision of service” or “providing of service” includes the rendering, supply, initiation, origination, reception, consumption, termination or execution of service, whether in whole or part, including e-services where the context so requires”.

Section 2(79) of the Sindh Act defines the expression “service” or “services” exhaustively as under:

“Service” or “services” means anything which is not goods or providing of which is not a supply of goods and shall include but not limited to the services listed in the First Schedule of this Act.

Explanation: A service shall remain and continue to be treated as service regardless whether or not the providing thereof involves any use, supply or consumption of any goods either as an essential or as an incidental aspect of such providing of service.

Charging section 3(1) of the Sindh Act, reads as under:

“A taxable service is a service listed in the Second Schedule to this Act, which is provided:

¹ In *Karachi Bulk Storage and Terminal (Private) Ltd. v. Collector of Central Excise and Others* 2011 PTR 152 (H.C. Kar.), reference is made to *Defence Authority Club Karachi and five others vs. Federation of Pakistan and Others* 2007 PTD 398 holding that “to become **goods** it must be something which can ordinarily come to the market to be bought and sold and is known to the market”. It means engineering, procurement and construction or commissioning (EPCC) contracts on turnkey or other basis do not fall in the ambit of Sales Tax Act, 1990 though consumption or supplies of goods may be involved for their executions. The same position will prevail where more than one party is engaged for such a composite contract and separate agreements for supplies of goods and/or work are signed for the delivery of final project in the working condition. The taxation of EPCC contracts is a contentious issue. It is presently raised by Punjab Revenue Authority (PRA) with some companies.

- (a) by a registered person from his registered office or place of business in Sindh;
- (b) in the course of an economic activity, including in the commencement or termination of the activity.

Explanation: This sub-section deals with services provided by registered persons, regardless of whether those services are provided to resident persons or non-resident persons.”

Section 2(38) of the Punjab Sales Tax on Services Act, 2012 [“the Punjab Act”] defines the expression “service” or “services” in the same terms as the Sindh Act as under:

“service” or “services” means anything which is not goods or providing of which is not a supply of goods and shall include but not limited to the services listed in First Schedule;

Explanation: A service shall remain and continue to be treated as service regardless whether or not rendering thereof involves any use, supply, disposition or consumption of any goods either as an essential or as an incidental aspect of such rendering”.

“Taxable services” according to charging section 3(1) & (2) of the Punjab Act are:

“Subject to such exclusion as mentioned in Second Schedule, a taxable service is a service listed in Second Schedule, which is provided by a person from his office or place of business in the Punjab in the course of an economic activity, including the commencement or termination of the activity.

Explanation: This subsection deals with services provided by a person regardless whether such services are provided to a resident person or a non-resident person.

(2) If a service listed in Second Schedule is provided to a resident person by a non-resident person in the course of an economic activity, including the commencement or termination of the activity, it shall be treated as a taxable service”.

Section 2(48) of Khyber Pakhtunkhwa Finance Act, 2013 [“KP Act”] defines “service” or “services” in the same terms as that of Punjab and the Sindh Acts as under:

“service” or “services” means anything which is not goods or providing of which is not supply of goods and shall include, but not limited to, the services listed in First Schedule;

Explanation: A service shall remain and continue to be treated as service regardless whether or not rendering thereof involves

any use, supply or consumption of any goods either as an essential or as an incidental aspect of such rendering.”

Bases of charge as per section 19 & 20 of the KP Act are:

19. Taxable Service.– (1) A taxable service is a service listed in the Second Schedule to this Act, which is provided:

- (a) by a registered person from his registered office or place of business in the Khyber Pakhtunkhwa;
- (b) in the course of an economic activity, including its commencement or termination of the activity.

Explanation: This sub-section deals with services provided by registered persons, regardless of whether those services are provided to resident persons or non-resident persons.

(2) A service that is not provided by a registered person shall be treated as a taxable service, if the service is listed in the Second Schedule to this Act and–

- (a) is provided to a resident person;
- (b) by a non-resident person in the course of an economic activity, including its commencement or termination of the activity.

Explanation: This sub-section deals with services provided by non-resident persons to resident persons.

(3) For the purposes of sub-section (2), where a person has a registered office or place of business in the Khyber Pakhtunkhwa and another office outside Khyber Pakhtunkhwa, the registered office or place of business in Khyber Pakhtunkhwa and that outside Khyber Pakhtunkhwa shall be treated as separate legal persons.

(4) The Authority by notification, prescribe regulation for determining the conditions under which a particular service or class of services will be considered to have been provided by a person from his registered office or place of business in the Khyber Pakhtunkhwa.

20. Application of principles of origin and reverse charge in certain situations.– (1) Where a person is providing taxable services in a Province other than Khyber Pakhtunkhwa but the recipient of such services is resident of Khyber Pakhtunkhwa or is otherwise availing such services in Khyber Pakhtunkhwa and has charged tax accordingly, the person providing such services shall pay the amount of tax so charged to the Government.

(2) Where the recipient of a taxable service is a person registered under this Act, he shall deduct the whole amount of tax in respect of the service received and pay the same to the Government.

(3) Where a person is providing taxable services in more than one Province or territory in Pakistan including Khyber Pakhtunkhwa, such person shall be liable to pay tax to the Government to the extent the tax is charged from a person resident in Khyber Pakhtunkhwa or from a person who is otherwise availing such services in Khyber Pakhtunkhwa.

(4) Where rendering of a taxable service originates from Khyber Pakhtunkhwa but terminates outside Pakistan, such person shall be required to pay the tax on such service to the Government.

(5) Where a taxable service originates from outside Pakistan but is received or terminates in Khyber Pakhtunkhwa, the recipient of such service shall be liable to pay the tax to the Government.

(6) The persons who are required to pay the tax to the Government in terms of sub-sections (1), (2), (3), (4) and (5) shall be liable to registration for the purposes of this Act.

(7) All questions or disputes relating to the application of the principle of origin given in this section shall be resolved in terms of the already recorded understanding between the Federal Government and the Provincial Governments on the implementation of reformed General Sales Tax:

Provided that pendency of any such question or dispute shall not absolve the concerned person from his obligation to deposit the tax.

(8) The provisions of this section shall apply notwithstanding any other provision of this Act or the rules and the Government may specify special procedure to regulate the provisions of this section.

Section 2(39) of the Balochistan Sales Tax on Services Act, 2015 [“the Balochistan Act”] defines the expression “service” or “services” in following manner:

“Service” or “services” means anything, which is not goods or providing of which is not a supply of goods and shall include but not limited to the services listed in first Schedule;

Explanation

A service shall remain and continue to be treated as service regardless whether or not rendering thereof involves any use, supply or consumption of any goods either as an essential or as an incidental aspect of such rendering.”

Section 3 and 4 of the Balochistan Act provide the following as basis of chargeability:

3. Taxable Service.— (1) Subject to such exclusion as mentioned in Second Schedule, a taxable service is a service listed in Second Schedule, which is provided by a person from his office or place of business in Balochistan in the course of an economic activity, including the commencement or termination of the activity.

Explanation

(1) This sub-section deals with services provided by a person regardless whether such services are provided to a resident person or a non-resident person.

(2) If a service listed in Second Schedule is provided to a resident person by a non-resident person in the course of an economic activity, including the commencement or termination of the activity, it shall be treated as a taxable service.

Explanation

This sub-section deals with services provided by a non-resident person to a resident person whether or not the end consumers, if any, of such services are identifiable for purposes of this Act or the rules.

(3) For purposes of sub-section (2), where a person has a registered office or place of business in Balochistan and another outside Balochistan, the registered office or place of business in Balochistan and that outside Balochistan shall be treated as separate legal persons,

(4) The Authority may, with prior approval of the Government, by notification in the official Gazette, prescribe rules for determining the conditions under which a particular service or class of service shall be considered to have been provided by a person from his registered office or place of business in Balochistan.

(5) For purposes of this Act and the rules, providing of service shall, where the context requires, include rendering, supply, initiation, origination, execution, reception, consumption or termination of service whether in whole or in part”.

4. Application of Principles of Origin and Reverse Charge in Certain Situations.—

(1) Where a person is providing taxable services in Province other than Balochistan but the recipient of such services is resident of Balochistan or is otherwise availing such services in Balochistan and has charged tax accordingly, the person providing such services shall pay the amount of tax so charged to the Government.

(2) Where the recipient of a taxable service is person registered under the Act, he shall deduct the whole amount of tax in respect of the service received and pay the same to the Government.

(3) Where a person is providing taxable services in more than one provinces or territory in Pakistan including Balochistan, such person shall be liable to pay tax to the Government to the extent the tax is charged from a person resident in Balochistan or from a person, who is otherwise availing such services in Balochistan,

(4) Where rendering of a taxable service originates from Balochistan but terminates outside Pakistan, such person shall be required to pay tax on such service to the Government.

(5) Where a taxable service originates from outside Pakistan but is received or terminates in Balochistan, the recipient of such service shall be liable to pay the tax to the Government.

(6) The persons who are required to pay the tax to the Government in terms of sub-sections (1), (2), (3), (4), and (5) shall be liable to registration for purposes of this Act and the rules.

(7) All questions or disputes relating to the application of the principle of origin given in this section shall be resolved in terms of the already recorded understanding between the Federal Government and the Provincial Governments on the implementation of reformed General Sales Tax provided that pendency of any such question or dispute shall not absolve the concerned person from his obligation to deposit the tax.

(8) The provisions of this section shall apply notwithstanding any other provision of this Act or the rules and the Government may specify special procedure to regulate the provisions of this section.

A cursory look at the definition clauses and bases of chargeability under provincial laws confirm that conflicts are inherent with respect to

jurisdiction to tax services on the basis of **“origin” and/or “destination” and confusion also exists about composite contracts entailing both supply of goods and rendering of services as well as those where end supply is immovable property e.g. a company engaged in delivering the end product of roads or bridges to the governments.** In view of these issues, Sindh High Court in a case¹ held:

“Whatever may be imminent in India, the position in Pakistan is clear: there is no concurrent taxing power. There has only been a division, and not a sharing, of the taxing powers. Thus, the Concurrent Legislative List of the present Constitution did not contain any entry relating to a taxing power. The position was likewise in the concurrent lists of the Interim Constitution and the 1956 Constitution. The position under the GOIA, which served as Pakistan’s first constitution, has already been noted. Special mention must however be made of the 1962 Constitution, which had certain features peculiar to it. It will be recalled that this Constitution had only one list, set out in the Third Schedule and exclusive to the Centre, and provided in Article 132 that the Provinces could legislate in respect of the powers not there listed. Now, Article 131(2) provided that the Centre could also legislate in respect of any matter not enumerated in the Third Schedule where the national interest of Pakistan so required, in relation to either the security of the country (including its economic and financial stability) or planning or co-ordination or the achievement of uniformity of any matter in different parts of the country. Article 133 provided that the responsibility of deciding whether a legislature had the competence to make a law was that of the legislature itself, and that the validity of a law could not be challenged on the ground that the legislature in question had not the competence to make it. Thus, the Central legislature could, of its own volition and subject to its own determination that the conditions laid down in Article 131(2) were fulfilled or applicable, legislate in respect of a matter not enumerated in the Third Schedule. However, in *Province of East Pakistan v. Siraj ul Haque Patwari* PLD 1966 SC 854, the Supreme Court had indicated that the Court could determine whether the preconditions that made permissible Central legislation in respect of a matter not enumerated existed or not (on this, see the judgment in *Hirjina* at pg. 1350). In our view, the position under the 1962 Constitution was not true concurrence but rather conditional concurrence.

¹ *International Freight Forward Association v Province of Sindh and Other* [(2016) 114 TAX 413 (H.C. Sindh)]

By the former, we mean a situation where either legislature has the competence, without anything more and subject only to any applicable rules of precedence, to make laws in relation to any matter that is concurrent. By the latter, we mean a situation where such power does vest in one legislature but the other can only legislate in respect of the “concurrent” matters if the conditions specified are fulfilled. However, be that as it may, one point is clear: the 1962 Constitution had special features peculiar to it, which are conspicuous by their absence in the present Constitution. The guiding principle is therefore as noted above: there have never been any concurrent taxing powers in terms of the present Constitution. Taxing powers have at most been divided but not shared”.

The above cited contentious issues and avoidance of double taxation¹, capable of hampering inter-provincial transactions of exchange of services, can be addressed through HST suggested in this book. The following case study will prove this point.

1.2 Conflict of laws—case study

The Punjab Revenue Authority (PRA) is applying Sr. No 16 of Second Schedule to the Punjab Act, inserted by Notification No. SO(TAX)1-1/2013-14, dated May 22, 2013, in respect of engineering, procurement and construction or commissioning (EPCC) contracts on turnkey or other basis:

9809.0000: Services provided or rendered by persons engaged in contractual execution of work or furnishing supplies.

EXCLUDING:

- (i) Annual total value of the contractual works or supplies does not exceed Rs.50 million.
- (ii) the contracts involving printing or supplies of books

As evident from above, serious constitutional issues are emerging over what is **sales tax on services**. The intention on the part of PRA or any other provincial revenue authority to tax ‘**work contracts**’ will be violative of the Constitution. The provincial assemblies can only levy **sales tax on services** and not on ‘**work contracts**’ that are different from contracts for services or supplies of goods.

Plain reading of the provisions of Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan Acts reproduced above show that through legal fiction

¹ The Supreme Court of Pakistan in 2018 SCMR 802 has elaborated that the Federal Legislature has extra-territorial authority but no such extra-territorial authority has been conferred to the Provincial Legislature by the Constitution and that the Federal legislature does, but the Provincial Legislature does not, have legislative competence to legislate to regulate the trade unions functioning at trans-provincial level.

the concept of “service” has been broadened by providing that “a service shall remain and continue to be treated as service regardless whether or not rendering thereof involves any use, supply, disposition or consumption of any goods either as an essential or as an incidental aspect of such rendering.” None of the Acts clearly says that **no charge will arise** on contracts where ultimately immovable property (roads, bridges, plants etc) is handed over under turnkey or other composite contracts that have both the elements of **services** and consumption of **goods**. All the provincial laws include in the ambit of **taxable services** such composite contracts [services provided or rendered by persons engaged in contractual execution of work or furnishing supplies services] known as **work contracts**. In this scenario, FBR will also claim bifurcation of such contracts and can demand sales tax on value of goods under the Sales Tax Act, 1990. This is a very serious conflict of laws between federal and provincial authorities, and its best resolution is possible only under HST. The taxpayers are presently facing many difficulties in complying with these conflicting and unambiguous laws, especially those where trans-provincial transactions are undertaken in respect of which one agency claims tax on the basis of origination of the service and the other one on the basis of termination.

The provinces cannot impose sales tax on **work contracts**¹ as it will be *ultra vires* of the Constitution. Entry 49 of Legislative List, Fourth Schedule to the Constitution only gives power to the provinces to impose **sales tax on services**. Some contracts are contracts for labour, work or service and not for sale of goods, though goods are used in executing the contract for labour, work or service e.g. when a contractor constructs a building, the buyer pays for cost of building which includes cost of building material, labour and other services offered by the contractor. Property in building is passed on to buyer and there is no contract for supply of building material as such. This is contract for sale of labour and material and not contract of sale. **Strangely, the provinces want to tax such contracts on the pretext that supply of immovable property also includes the element of services.** This stance of provincial revenue authorities is untenable in law, for example, property in air-conditioning equipment passes as incidental to the works contract. Here, there is no sale of ‘goods’. It is a ‘works contract’ and not liable to Sales Tax Act, 1990 as well as provincial sales tax on services. The provincial tax authorities think that even composite contracts or pure

¹ It is a settled law that goods/services/persons chargeable to tax must come within the letter of charging section. In taxing statutes there is no room for any intendment—(1991) 64 TAX 60 (H.C. Kar.). The charging section must be construed strictly and onus lies on the Department to show that the person whom it sought to tax, falls clearly within its operation—1 ITC 172 (Madras) & 1 ITC 189 (Lahore). In case a person or a transaction falls outside the ambit of the charging section no tax can be levied or collected.

work contracts not involving services falls in Entry 49 of Legislative List, Fourth Schedule to the Constitution. They have constitutional sanction to the extent of **sales tax on services**. For example, a contract to paint a portrait is a contract for skill and labour and not a contract for sale of goods or services. Both the federal government and provincial governments cannot collect sales tax for such contracts under Entry 49 of Legislative List, Fourth Schedule to the Constitution.

Sometimes, it is difficult to establish whether a particular contract is 'contract for work' or 'contract of sale' and rigid and inflexible fast tests cannot be laid down. It depends on main object of the parties, circumstances and custom of trade. Generally, a contract of sale is a contract whose main object is the transfer of the property in, and delivery and possession of, a chattel to the buyer. Where the main object of work undertaken by the payee of the price is not the transfer of a chattel qua chattel, the contract is one for labour and work. The aspects like ownership of material, value of skill and labour compared to value of material can be considered, but these are not conclusive¹. Contract of building is one, entire and indivisible. There is no sale of movables (building materials) or rendering of services, hence, contract for building is not a contract for 'sale of goods' or rendering of services².

In *State of Rajasthan v. Man Industrial Corporation Ltd* (1969) 24 STC 349 (SC), on facts of the case, the Indian Supreme Court held that manufacturing window leaves and fixing the same in the building was a composite contract. There were no two contracts, one for sale and one for service. It was held that contract for execution of work and not contract involving sale of goods. This was followed in *N Srinivasamoorthy v. State of Tamilnadu* (1991) 81 STC 52 (Mad HC DB), where it was held that contract for fixing auditorium chairs in an auditorium building by fabricating work at site is a pure works contract.

Gannon Dunkerley and co v. State of Rajasthan (1993) 66 Taxman 229³ is an important judgment on 'works contract', wherein it was held that taxable event is the transfer of property in the goods involved in the execution of a works contract. The said transfer of property takes place when goods are incorporated in the works. Hence, value of goods at the time of incorporation in the works can constitute measure for levy of tax. However, cost of incorporation of the goods in works contract cannot be made part of measure for the levy of tax. It was held that value of goods involved in works contract would have to be considered for taxation on

1 Halsbury's Laws of England quoted with approval in *State of Gujrat v. Variety Body Builders* (1976) 38 STC 176 (SC).

2 *Gannon Dunkerley & Co. (Madras) Ltd. v. State of Madras* [(1958) 9 STC 353] = AIR 1958 SC 560 = (1959 SCR 379).

3 This judgement was later followed in *Builders' Association of India v. State of Karnataka* (1993) 88 STC 248 = AIR 1993 SC 991

works contract. Charges for labour and services have to be deducted from total value of works contract. Moreover, tax cannot be levied on goods which are not taxable under the Sales Tax Act, 1990. If contractor is not able to give detailed break up, legislature can prescribe scales for deductions permissible on account of cost of labour and services for various types of works contract. It is permissible to have a uniform rate for works contract. This rate may be different from the rates applicable to individual good.

There are serious lacunae in present laws relating to sales tax on goods (administered by FBR) and sales tax on services (administered by provincial governments) as ‘contract for work’ falls outside the legislative competence of both National Assembly and provincial assemblies. In a fixed price contract, “goods” and “services” consumed cannot be considered as supply of goods or services¹. This necessitates introduction of HST to avoid all these conflicts and many others discussed below.

1.3 Controversial issues

As explained above, misinterpretation of Entry 49, as amended by the 18th Constitutional Amendment, can lead to prolonged litigations between the taxpayers and provincial revenue authorities. The right to levy “taxes” on **services** under the respective laws of all the four provinces—Punjab, Sindh, Khyber Pakhtunkhaw and Balochistan—mention chargeability in respect of rendering, supply, initiation, origination, reception, consumption, termination or execution of service. In some cases, this raises serious issues of conflicts; overlapping jurisdictional matters and extraterritorial implications. The taxpayers are suffering because of various conflicting provisions of the provincial sales tax on services and compliance to various agencies rather than one at national level as is the case in Canada where CRA (Canada Revenue Agency) administers tax laws for the Government of Canada and for some provinces and territories, and administers various social and economic benefits and incentive programmes delivered through the tax system.

Since 2011 there have been serious disputes between SRB and FBR. These remain unresolved. Later, many issues cropped up between FBR and PRA as well as among all provincial authorities entrusted with collection of sales tax on services. The significant areas of conflicts are mentioned below.

- The provincial revenue authorities have serious disputes/reservations over the mode of collection of sales tax on services—as to whether it should be on the basis of ‘origination’ or ‘destination’. Strangely, for B2B cross-border

¹ For detailed discussion, see Indian Supreme Court decision reported as *Daelim Industry Co. Ltd* 2003(155) ELT 457.

services, PRA has provided chargeability on reverse-charge basis, but it not acceptable to SRB. Sindh insists that sales tax on B2B services should be charged on the principle of 'origination'.

- Punjab and Khyber Pakhtunkhwa are of the view that services received or consumed in their jurisdiction are liable to tax under their laws, but Sindh says services originating in its territory should be subjected to its sales tax even if they are delivered or consumed in other provinces. These contentious and conflicting viewpoints cause hardship to taxpayers many of whom have to seek interference of the courts as they are being doubly-taxed that consequently leads to increase in their cost of doing business. The argument of Sindh is that taxation of services on the basis of 'destination' raises issues about enforcement and the audit of taxpayers registered in the province.
- The argument of PRA is that the taxation of services on the basis of 'origination' is against the universal practice of VAT because VAT functions on the basis of 'destination' at the national level. That is why the European Union agreed in 2004 that for the purpose of VAT, the union would be considered as one country.
- None of the provinces has examined the implications of Article 141 vis-à-vis enacting laws with extraterritorial implications, which is the sole prerogative of National Assembly. Article 41 clearly says:

141. Subject to the Constitution, Majlis-e-Shoora (Parliament) may make laws (including laws having extra-territorial operation) for the whole or any part of Pakistan, and a Provincial Assembly may make laws for the Province or any part thereof.
- Taxation of composite supplies having components of services as well as sale of goods, for example, hotels where accommodation includes supplies of food (goods). In most of the countries, services of hotels and restaurants are considered as composite for value-added taxation (VAT). In Pakistani scenario, input paid on foodstuff is with FBR whereas sales tax on services is with provincial authorities. The argument by the provincial tax authorities that "a service shall remain and continue to be treated as a service whether it involves any use, supply or consumption of any goods either as an essential or an incidental aspect of service" becomes problematic when credit for input on goods is involved. Till

today, many FBR officers administering Sales Tax Act, 1990 insist upon tax from restaurants and hotels in respect of supplying of food.

- Taxpayers engaged in composite supplies face difficulties as there is no objective test for determining the nature of the contract—whether it is for the supply of services or for the supply of goods or both—composite contract. It is not possible to issue separate invoices for many composite contracts as bifurcation becomes difficult for the value of goods and services. Then FBR is not ready to surrender its right of taxation where in contracts for the supply of goods, services are an incidental or essential part.
- SRB has repeatedly asked FBR to resolve all contentious issues to avoid double or multiple taxation on taxpayers including abolition of services from Federal Excise Act, 2005, levy of Federal Excise Duty (FED) on services, exemption notification by FBR, federal sales tax on the food services provided or rendered by restaurants and provincial sales tax on the services of toll manufacturing.
- According to the communication¹ of SRB to FBR, the issue of FED on services has been raised by SRB several times ever since 18th Constitutional Amendment made in 2010 (specifically in relation to item No 49 of Part I of the Fourth Schedule to the Constitution) and the 7th NFC Award. In consequence to which the Finance Division (NFC Secretariat), Islamabad, issued D.O. Letter No F-5.(5)- NFC/2010-56 dated 26th March, 2010, requiring FBR to propose amendments in the Federal Excise Act enabling provinces to impose sales tax on all services, except terminal taxes on goods or passengers carried by railway, sea or air, taxes on their fares and freights through the Finance Bill, 2010.
- After promulgation of the Sindh Act, FBR issued a press release on 1st July, 2011 on its website informing the general body of taxpayers that FED on such services levied under the provincial sales tax laws has been withdrawn. Sindh Government/SRB since then has continuously pursued this matter of exemption notification with FBR but no action has been taken till today. Although FED on telecommunication services (where levied on provincial sales tax) was removed vide the amendment made in 2014 (through the Federal Finance Act, 2014) in S. No 6 of the First Schedule to the

¹ <http://www.brecorder.com/taxation/181:pakistan/1249754:srb-approaches-fbr-to-resolve-policy-issues/?date=2015-11-25>

Federal Excise Act, 2005, similar necessary action in relation to other services is still pending with FBR, causing unrest and anxiety for the taxpayers. It is pertinent to mention that even after recognizing this outstanding issue, no action appears to have been taken by FBR to issue the requisite exemption notification.

- Sindh wrote¹ to FBR that the issues of (i) levy of FED on services (subject to levy of provincial sales tax); (ii) federal sales tax on the food services provided or rendered by restaurants, and (iii) provincial sales tax on the services of toll manufacturing should be resolved urgently in a manner that the taxpayers are not subjected to any threat of double or multiple taxation.

1.4 Sales tax base and compliance level

It is difficult to determine the actual tax base of sales tax on goods and services due to the large size of undocumented economy and lack of reliable data. The case study of wholesale & retail trade (WRT) sector can be an indicator to determine the overall picture. There is a consensus that actual potential of sales tax at federal and provincial levels is much higher than what is presently being collected. FBR did a study of tax gap² in 2012 which suggested that due to leakages and weaknesses, loss was nearly 79%³.

In a comprehensive study⁴, discussing various aspects of WRT sector, a huge gap is established. The wholesale and retail trade activities contribute a substantial proportion of total economic activity in terms of GDP and its share in employment. These activities are scattered throughout the country channelizing the flow of goods and services from the producers to the consumers. Like other neighboring countries,

1 C. No 1/23-STB/2010(pt)/72589-R dated 21.5.2014) referring to the minutes of the meeting circulated vide FBR's letter (C. No 1(1)Chief(Automation & ST/2014.164838-R dated 4.12.2014. FBR pointed out that Sindh had imposed tax on overseas Pakistanis (reference minutes of the meeting held on 14.9.2015). It asked Sindh to reconsider and abolish terminal tax on airport for international travel (reference Para 11.1 of the minutes of the said meeting). SRB says no such tax has been imposed by the Sindh Government. SRB has requested that Finance Division/ FBR may intimate the provisions of the Sindh Sales tax on Services Act, 2011, which have been interrupted to be levying the taxes on overseas Pakistanis and/or on international air travel—
<http://www.brecorder.com/taxation/181:pakistan/1249754:srb-approaches-fbr-to-resolve-policy-issues/?date=2015-11-25>

2 **How to bridge huge tax gaps?** *Business Recorder*, April 15, 2011. The tax gap is the difference between potential and actual tax collection. The potential is the amount of tax the government will collect if everyone fully complies with the tax law.

3 **Tax evasion hit 79pc, FBR admits**, *Dawn*, June 7, 2011. <http://www.dawn.com/news/634686/tax-evasion-hit-79pc-fbr-admits> (accessed on November 26, 2015)

4 **Industry Profile: "Wholesale and Retail Trade Sector in Pakistan"**, Naeem Ahmad, *FBR Quarterly Review*, October-December, 2012.

retailing in Pakistan is also witnessing a radical change¹. Factors like growth in population, rising income levels and entry of foreign chains in the country are providing impetus to this boom. In recent times, in post-WTO scenario, well known international players have extended their business chains towards poor and developing countries, thus creating a host of economic opportunities.

“The wholesale & retail trade facilitates billions of consumers on the one hand and it adds trillions of dollars i.e. 64% of GDP in world economy on the other hand. The degree of its contribution varies from country to country depending on the structure of economy. In low income countries, share of services in GDP ranges between 30-40%, middle income countries 50%-60% and high income countries more than 70%². The services sector contributes 53% in GDP of Pakistan. In the Indonesian economy, services sector contributes 38%, Bangladesh 54%, India 56%, Turkey 63%, China 43% and Egypt 49%.”³

“The share of WRT in Pakistan’s GDP is 17% and within services, the share of wholesale & retail trade is about 34%. Moreover, Pakistan’s retailing industry has enormous potential to grow substantially.”⁴

WRT Sector promotes services related economic activities and boosts demand and production of various goods in commodity producing sectors of the economy. There are about 1.5 million wholesale and retail trade units in Pakistan. These include sale, maintenance/repair of motor vehicles, wholesale trade and commission agents and retail trade. Nearly 85% units are of retail trade, followed by sale/repair (11%) and wholesale (4%). Within retail trade, most of the units i.e. 54% are engaged in sale of food, beverages and tobacco. Out of total, 80% units are in the urban areas and according to the provincial distribution, 62.2% units are situated in the Punjab, 19.9% in Sindh, 14.6% in NWFP, 2.7% in Balochistan and 0.6% in Islamabad.⁵

In sales tax, the compliance level of WRT Sector is just 41%. “According to the bifurcation, 48.1% retailers and 39.5% wholesalers file their sales tax returns. Over the time the ratio of return filers of wholesalers has declined considerably from 57% in 2001-02 to 39.5% in 2011-12. During the same period the compliance level of retailers has comparatively improved. The overall compliance level of return filers has decreased. The

1 **Economic impact of retailing in Pakistan**, Imran Sadiq, School of Business and Economics, University of Management & Technology, Lahore, Proceedings of 2nd International Conference on Business Management (ISBN: 978-969-9368-06-6)

2 **Growth of retail sector**, http://www.worldbank.org/depweb/beyond/beyondco/beg_09.pdf

3 **Service, etc., value added (% of GDP)**, <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS>

4 **Industry Profile: “Wholesale and Retail Trade Sector in Pakistan”**, Naeem Ahmad, *FBR Quarterly Review*, October-December, 2012.

5 *Ibid.*

reason behind this decline can be attributable to weaknesses in enforcement, audit and monitoring by the department.”¹

The WRT share in sales tax (domestic) has been hovering around 1.5% only during the last 15 years. The contribution of retailers is around 0.3% and wholesalers 1.1% in total Sales Tax (domestic). Within the sector, major contribution is made by wholesalers with around 77% and remaining 23% is paid by the retailers.²

In 2011-12, there were about 62,000 total registrants with sales tax department comprising 8,174 retailers and 53, 314 wholesalers (**Annexure B**). The total number of sales tax registrants in WRT were more than 24% of sales tax base in 2011-12, whereas, in 2001-02 about 18% registrants related to WRT. As compared to overall base of nearly two million wholesalers & retailers in the country, the share of WRT sales tax registrants presently is less than 5%. The revenue contribution by the WRT like various other sectors is dismal. It is shocking that a sector which contributes more than 17% towards national economy, contributes a meager amount to the federal taxes. As a whole, the WRT sector contributed around 0.5% in total federal taxes, which is quite low as compared to its 17% share in GDP. This reflects a huge tax gap, even if we ignore the mammoth size of parallel economy. This calls for fundamental structural reforms as, namely, introduction of HST and efficient collection of all kinds of taxes through National Revenue Authority.

“The collection of sales tax has been highly concentrated in few commodities. This is confirmed by the fact that only petroleum products contribute around 44% of the total sales tax domestic. Major 10 items including POL and natural gas shared 73% of the total net sales tax domestic³.” The following facts expose the narrow base of sales tax and lack of enforcement efforts by FBR:

- Net collection under sales tax: Rs. 1087.7 billion
- Imports: Rs. 556.6 billion
- Domestic: Rs. 531.2 billion
- POL products:
 - Contribution in STD: Rs. 233.2 billion (43.9%)
 - Contribution in STI: Rs. 166 billion (29.8%)
- Out of total 175,000 registered taxpayers only 117,072 (67%) filed returns and only 55,000 (less than 32% of registered

1 Ibid.

2 Ibid.

3 FBR's *Biannual Review* (January-June 2014-15)

persons and 0.025% of total population of the country) paid any tax.

- Out of total domestic sales tax collection of Rs. 531 billion, more than 89% was paid by only less than 400 entities. In other words, only 0.19% of the registered taxpayers contributed more than 89% of sales tax.
- The effective sales tax rate for total domestic sales is 4.55 percent. This rate is 6.81, 7.96, 8.36 and 13.56 for top 40, 30, 20 and 10 sales tax paying entities. This shows that domestic sales made by more than 99% of taxpayers contribute sales tax at effective rate less than 4.55%.

1.5 Multiple tax rates

Various countries in the world have adopted single VAT rate and others multiple rates. Pakistan is administrating GST with multiple rates. The question for determination is as to whether multiple-rate regime has proved to be efficient and effective revenue raiser or has rather resulted in higher costs to businesses and tax administration. Official statistics confirm that sales tax¹ is the main source of tax revenue of FBR.

GST was introduced in 1991 but was converted into a full-fledged VAT mode in 1996. Its scope was further extended to importers in 1997 and to wholesalers and retailers in 1998. Initially, services were excluded from its scope under the plea of limited documentation, but finally GST was extended to certain services in 2000. However, GST on services became explicitly a provincial subject following 18th Constitutional Amendment in 2010.²

Initially, GST was introduced at a standard rate of 12.5%, which was increased to 18% in 1995³ [presently it is 17%]. In addition, an additional GST at the rate of 3% was levied on supplies of registered person to unregistered persons in 1999. This move complicated the GST system by introducing multiple tax rates. For example, by 2004, there were five different GST rates including 2%, 15%, 18%, 20% and 23%.

At present, Pakistan has multiple GST rate system. Besides 17% standard rate, some goods are subject to higher than standard rate. In the past through SRO 693(I)/2015 dated September 30, 2015, FBR imposed

1 This tax, though known as general sales tax, is in fact VAT-type in its essence. Under this system imports and domestic supplies are taxed while exports are zero-rated. It is based on self-assessment, functional distribution, input tax credit facility and audit procedures.

2 B. Hassan and T. Sarker. Reformed General Sales tax in Pakistan. *International VAT Monitor* (November/December, 2012), p. 417.

3 However, standard rate was reduced to 15% in 1998 along with a higher rate of 29% on range of industrial raw materials.

the following rates of sales tax, against standard rate of 17%, on petroleum products, which were perhaps the highest in the world:

- High speed diesel oil: **50% *ad volorem***
- Kerosene: **30% *ad volorem***
- Light diesel oil: **29.5% *ad volorem***
- Motor spirit excluding HOBC: **26% *ad volorem***
- HOBC: **24% *ad volorem***

There are many countries where VAT is administered at single standard rate. For example, Mexico (16%), New Zealand (12.5), Canada (5%), Chile (19%), Japan (5%), etc.¹ Among the developing countries, Nepal has a single VAT rate of 13%, Bangladesh 15%, Indonesia (10%) Sri Lanka (12%) etc. Standard VAT rates ranges from a low of 5 percent in Canada, Japan, Nigeria, and Panama, to a high of 25 percent in Denmark, Norway, and Sweden. The large majority of countries, however, have rates ranging from 10 percent to 20 percent.² As some countries have single VAT rate while others have multiple rates, this gives rise to a question either VAT/GST system with multiple rates is effective and efficient in comparison to single rate. Here a brief analysis is presented to answer this question using Pakistan as an example.

In Pakistan, GST compliance is low and it has further declined from 79.6% in 2000 to 46% in 2012.³ The total number of registered sales tax payers in various categories, including wholesalers and retailers, were 75,538 in 2000, increased to less than 100,000 during the year 2012—the figure till today is less than 200,000. Less than half of the total registered taxpayers actually file returns.⁴

One important reason for increased non-compliance of GST in Pakistan is higher compliance cost to businesses. The times (hours per year) for paying GST is 480 hours in Pakistan as opposed to world average of 108 hours.⁵ On the other hand, VAT compliance cost in other developing countries not to speak of developed countries is much lower. For example, the VAT compliance cost in Nepal and Bangladesh in terms of times required for VAT payments is 122 hours and 162 hours, respectively.

An important reason of high cost for compliance is the multiplicity of GST rates. It is because rate differentiation entails the need to ensure that products are correctly categorised. In Pakistan, the gross compliance ratio (GCR) has reduced from about 36% in 2003 to 25% in 2014, with average

1 OECD (2011)

2 L. Durner, H. Duncan and J. Sedon. *Views on VAT: An Article Series*. Tax Notes (October 19, 2009).

3 B. Hassan and T. Sarker. *Reformed General Sales tax in Pakistan*. International VAT Monitor (November/December, 2012).

4 M. Z. Khan. *GST compliance level declines*. Dawn (November 6, 2012).

5 World Bank. *Paying Taxes, the Global Picture* (2012). Presently Pakistan ranked 171 out of 189 countries [2015 survey of World Bank]

31% during this period. This ratio is significantly lower than world average of 65%.¹

At the same time, multiple rate system increases opportunities for avoidance, and therefore increases the government's cost of administering VAT. It is empirically quantified that multiple rates tend to reduce VAT compliance and increase tax evasion. Using cross-country data, Agha and Haughton (1996) find that having an additional rate of VAT is associated with a 7 percentage point increase in tax evasion, and thus undermine the equity goals normally attached with multiple rates system.² Thirsk (2008) identifies administration inability in applying the law as one important issue hindering the efficiency of the GST system.³

Rate differentiation has also increased illegal input tax adjustments and inadmissible refunds in Pakistan. As a result, GST-gap was estimated to be Rs. 755 billion in 2012⁴ and also the effective GST rate reduced to 3.9% as opposed to statutory rate of 16%. The extent of illegal input tax adjustment and inadmissible refunds can be gauged from the fact that percent increase in export sales in 2011 and 2012 was 37.36% and 31.56% over the base year of 2010, while percent increase in refunds was 114.32% and 82.21% in these years.

Multiple rates are often justified on equity grounds.⁵ However, exemptions of basic necessities are also justified to achieve equity goals. In view of widespread poverty, most of the basic necessities including agricultural products are kept out of GST net in Pakistan. However, multiple GST rate system has not contributed to maintain equity in Pakistan. Empirical evidence shows that the GST incidence at the bottom 20 percent appeared to be very high and this increased further for the middle classes but came down for the richest segments of the population over the period 1991 to 2002, suggesting that a higher proportionate GST tax burden is borne by the poor and the middle classes compared to the richer segment of the population.⁶

In addition, the average consumption expenditure of the richest class in urban areas is more than two and half times higher than the lowest income class and almost three times more than the same income class living in the rural areas.⁷ The level of consumption expenditure in urban

1 See, for example, African Development Bank, Domestic Resource Mobilization for Poverty Reduction in East Africa: Tanzania Case Study Regional Department East Africa (OREA), Nov. 2010.

2 A. Agha and J. Haughton. *Public Finance Management*. p.227.

3 W. Thirsk. *Tax Policy in Pakistan: An Assessment of Major Taxes and Options for Reforms*. International Studies Program Working Paper 08-08 (December 2008).

4 B. Hassan and T. Sarker. *Reformed General Sales tax in Pakistan*. International VAT Monitor (November/December, 2012).

5 See Agha and Haughton. *Public Finance Management*. note.17

6 S. Refaqt. Redistributive Impact of GST Tax Reform: Pakistan, 1990–2001. *The Pakistan Development Review* 44 : 4 Part II (Winter 2005) pp. 841–862.

7 Household Integrated Economic Survey (2010-11).

areas is higher as compared to rural areas, where more than 65% population resides. Therefore, as the level of consumption expenditure of the rich people is higher than the poor, therefore, they will bear more burden of GST provided the tax covers maximum goods and services, if GST is levied at a uniform single rate.

“As the single rate has been becoming more influential¹ and many countries such as Australia, Thailand and Singapore recently introduced single rate, therefore, abolishing multiple rates in favour of single GST rate can help to improve the efficiency and effectiveness of GST system in Pakistan. Moreover, multiple rate system has not addressed the core challenges over the years as discussed supra; rather it has complicated the GST system, entailing higher costs to businesses and to tax administration. It is believed that introduction of single rate at import stage could discourage illegal input tax adjustments and also would minimize the margin of profits for making flying or fake invoices.”² For reasons of neutrality and efficiency and reducing noncompliance and complexity, tax policy analysts and most administrators favour VAT system with a single rate.³ As discussed in this paper, in the Pakistani context HST with single rate will be more efficient and beneficial.

1.6 Failure of sales tax regime

The present sales tax regime⁴ at federal and provincial levels is a failure—neither collection is as per actual potential nor goal of ease of doing business⁵ achieved. On the contrary, as discussed above, serious issues of conflicts have arisen that are creating antagonism among federal government and the provinces. Taxpayers are also facing the brunt of multiplicity of laws and compliance with five agencies. It is hampering business growth and cost of doing business. Billions of rupees are struck up with FBR as refunds.⁶

1 Proportion of countries born with a single rate before 1990 was 25%, increased to 71% of countries born with VAT between 1990 to 1999, and the proportion further increased to 81% of countries born with single rate between 1999-2011. See Keen, note 13.

2 B. Hassan and T. Sarker. *Reformed General Sales tax in Pakistan*. International VAT Monitor (November/December, 2012).

3 L. Ebrill, M. Keen, Jean-Paul Bodin and V. Summers. *The Modern VAT*. International Monetary Fund (2001), pp. 18-20.

4 Introduced in 1990s, the value-added based GST system could not achieve desired results after successive governments created many distortions by giving tax exemptions and concessions to influential lobbies. The main thrust of the existing system is to capture the whole supply chain of goods and services, which has been broken due to sector-specific exemptions. Despite massively increasing sales tax rates, the FBR's tax collection remained dismal. From July through September 2015, FBR collected Rs. 247 billion as sales tax, which was Rs.11 billion or 4.3% less than the collection in the comparative period of the last fiscal year (2014-15).

5 The followers of World Bank's "Ease of Doing Business" report have noted with dismay that paying taxes in Pakistan continues to have a poor rating. The international lender has ranked Pakistan 171 out of 189 countries in its 2015 survey. It takes 594 hours to comply with provisions of tax law (withholding tax compliance time is not included). In India it takes 243 hours for tax compliance.

6 "What other rating could be expected for a country like Pakistan where the federal tax collectors tend to keep sitting for years on billions of rupees tax refunds and that too of foreign investors," commented a

FBR, since the inception of Tax Administration Reforms Programme (TARP) failed on all fronts—in meeting revenue targets, broadening of tax base, implementing sales tax, increasing share of direct taxes and improving tax-to-GDP ratio. At the end of TARP, tax-to-GDP ratio nosedived to 8.8% from 9.4% in the year when the programme started!. Despite having both money and expertise, FBR could not introduce an effective automated tax intelligence system to bridge the huge tax gap.

The World Bank in its report, “**Implementation, Completion and Result Report**” issued on the completion of TARP observed that “the current narrow-base of general sales tax (GST) in Pakistan remained almost entirely unchanged throughout 2005-2012, despite efforts to overhaul the indirect taxation structure by introducing a reformed GST featuring few exemptions and wide coverage of goods and services.”

For evaluating FBR’s overall performance during the TARP, the World Bank used GST administration as an indicator. The results compiled were highly disappointing—GST productivity turned out to be only 23 percent, compared to an average ratio of 34 percent worldwide. According to the World Bank, “the estimation covering the project life reflected an overall decreasing trend during 2005-06 to 2010-11 suggesting feeble tax administration efforts throughout the reform period.”

Majority of taxpayers say they are ready to pay sales tax on all transactions involving goods and or services, but the present complex sales tax system is not viable in Pakistan’s peculiar milieu. They allege that it has only created a powerful mafia—comprising unscrupulous traders, dishonest tax advisers and corrupt tax officials. Courtesy this mafia, they allege, effective collection rate under sales tax is 3.7 per cent against the standard rate of 17 per cent.¹

At the end of TARP, all indicators of sales tax and income tax were extremely poor. Out of total population of 180 million, less than 1.45 million filed returns in 2011—disturbingly the share of business returns was only 35.5%. In 2014, the number of filers nosedived to 856,229—decrease of 593,771 in just four years! In the same manner, sales tax actual contributors were less than 50,000.

Not only has VAT failed to take roots in Pakistan, its high rate and regressive nature is proving disastrous for millions living below the poverty line who are bearing its agonising burden.

member of Overseas Investors Chamber of Commerce and Industry (OICCI). The foreign investor said the OICCI members were badly impacted by a tendency of the tax officials to delay the refunds process, in some cases by many years, without adhering to a transparent process for release of their long outstanding tax refunds. The refundable taxes related to OICCI members, he claimed, amounted to Rs 45 billion as of August 2015. “Some of the refunds are outstanding for several years, starting from 2006,” he added.— <http://www.brecorder.com/taxation/181:pakistan/1249778:foreign-investors-rs-45-billion-tax-refunds-a-skeleton-in-the-closet-of-federal-tax-collectors/?date=2015-11-25>

¹ **Case for simple sales tax**, *The News*, May 28, 2014

At the moment, due to disputes between the provinces over the mode of collection, weak enforcement and complicated procedures, loss of revenue is too high. The monitoring system of the provincial tax authorities is incapable of capturing each and every taxable service due to their limited financial and administrative resources.

There is a lack of an effective mechanism to determine the true value of services, particularly those of composite supplies.

Since the sales tax system has become highly complicated, it has resulted in significant revenue losses due to frauds, as they tend to occur more when interprovincial transactions are involved.

There are gaps and overlaps between the authorities of individual provinces to tax cross-border services.

It is reported in the Press¹ that ex-Prime Minister Nawaz Sharif's desire to halve the standard 17% General Sales Tax (GST) under a new sales tax regime met its first serious opposition when tax authorities on November 24, 2015 objected over the official plan fearing massive reduction in tax collection. FBR opposed the plan to introduce a single-stage sales tax during the meeting called by then Finance Minister Ishaq Dar to devise a strategy, according to officials of the Finance Ministry. The Finance Minister convened the meeting prior to meeting with International Monetary Fund (IMF) to discuss the possibility of introducing a single-stage sales tax.²

According to a report, after the interim report³, the Finance Minister directed the TRC to prepare a detailed report on the new sale tax regime, which was completed in the second week of November 2015. Prime Minister liked the idea of introducing the single-stage, single-digit sales tax after the business community approached him to review the existing flawed structure that is causing more revenue leakages rather than increasing revenue. Earlier, the TRC also supported the idea of replacing the existing system with a new single-stage tax mechanism. According to the proposal, the sales tax charged by the government would be the final liability and the government would not issue refunds. This would allow it to reduce the overall rate to less than half of the present 17% tax and revenues would not be affected.

1 **FBR opposes single stage, reduced GST rate proposal**, *The Express Tribune*, November 25, 2015

2 According to report, the Chairman of TRC and the author of the new sales tax regime study, Mr. Ashfaq Tola tried to convince IMF. In October, IMF's Resident Representative Tokhir Mirzoev said the IMF would be open to reviewing the new system before formulating its own position.

3 A single-digit, single-stage sales tax would help lower inflation, plug revenue leakages and stop corrupt practices, according to the TRC interim report that was submitted to the government prior to announcement of 2015 Budget. The TRC, in the report, termed the present system of sales tax "cumbersome" and full of leakages and abuses.

The officials of FBR, however, questioned the data used by the TRC in making projections of revenue collection after implementation of the single-stage sales tax.

2. Advantages of HST

2.1 Failed experience of RGST

According to reports, FBR entered into engagement with IMF “to discuss the crucial tax reforms of indirect taxes including Single Stage Sales Tax (SSST) and examine possibility to replace SSST with existing standard rate of 17 percent sales tax.” FBR reportedly sought “guidance of the IMF experts in implementation of the Single Stage Sales Tax in Pakistan” as recommended by the Tax Reform Commission (TRC). This was a wrong step as the better option would have been HST. Reportedly IMF also opposed the idea of Single Stage Sales Tax (SSST).

In 2010, we had a failed experiment with IMF-desired Reformed General Sales Tax Bill, 2010 which was presented by the then Finance Minister Abdul Hafeez Shaikh in Parliament on November 12, 2010 amid uproar and slogans by opposition and government’s coalition partner Muttahida Quami Movement (MQM). The Minister introduced ‘The General Sales Tax Bill, 2010 and amendments in certain laws [The Finance (Amendment) Act, 2010] in the National Assembly and faced tough time from Pakistan Muslim League (Nawaz), Pakistan Muslim League (Quaid) and members of MQM.

Leader of the House in Senate, Nayyer Hussain Bokhari, presented these Bills in the Senate. When the Finance Minister presented the Bills in the Lower House, the members of opposition parties and MQM rose in their seats and started chanting slogans, ‘No, No, No’, ‘So called GST unacceptable, so called RGST unacceptable’.

According to statement of objects and reason of ‘The General Sales Tax Bill, 2010’, commonly called Reformed General Sales Tax (RGST), “the existing sales tax system has not performed well to broaden the tax base.” The General Sales Tax Act, 2010 was drafted to cover import and supply of goods for the whole of Pakistan and sales and purchases of services for Islamabad Capital Territory. It was to replace the Sales Tax Act, 1990. The new GST system was proposed to:

- reduce standard sales tax rate to 15 percent and increase exemption threshold to Rs 7.5 million;
- curtail exemptions, mostly to basic food items, charities and international/sovereign commitments;
- provide no general zero-rating facility to local consumption;
- promote documentation of the national economy and broaden the base of consumption/expenditure taxation in the country;

- authorize the value-added tax system of the country by adopting international best concepts and practices of indirect taxation;
- facilitate the cash flow of businesses through authorized/electronic expeditious refund payment system; and
- provide for appropriate provisions to collect and administer/provincial sales tax on services in integrated manner along with federal sales tax as and when authorized by the provinces.

According to statement of objects and reasons of Finance (Amendment) Bill, 2010, the government was in immediate need of additional local resources to relieve the pressures on the budget caused by the extraordinary demands for expenditures relating to rehabilitation of a large number of internally displaced citizens.

The then Leader of Opposition in the National Assembly Chaudhry Nisar Ali Khan said that the government had presented General Sales Tax Bill, 2010 on the last day of the session and did not take the opposition and even its coalition partners into confidence. He said that the government should not have presented the Bill in the House without taking the opposition into confidence. "We will not accept it (Bill) and we will not allow the government to use this House as rubber-stamp. We will not allow accepting anti-public decisions in the House. The government can approve this bill by throwing the opposition out of the House. The government wants to impose more taxes on the people while they already are crying due to price hike," he said.

In the Senate, the coalition partners of the government—MQM and Jamiat Ulema-e-Islam (Fazlur Rehman)—expressed reservations over RGST, terming the bill as anti-people. "The people are also facing severe problems due to the price hike and in such circumstances, the JUI-F would not become part of the Bill", said Ghafoor Haidri while opposing the bill in the Senate. Tahir Mashhadi, of MQM, said that his party would also not support the bill as, according to him, it would have direct negative impact on the poor people. He said that the government should have brought reforms in PIA, Pakistan Steel Mills and other departments and also should have curbed corruption, instead of imposing RGST. MQM senators also raised slogans, 'No to RGST'.

2.2 Why HST?

In 2010 the Parliament of Pakistan passed 18th Constitutional Amendment ["18th Amendment"] that became effective from April 10, 2010. The fiscal management, both at federal and provincial levels, in the wake of 18th Amendment needs revision. The federal government, having all buoyant and broad-based taxes is not collecting substantial taxes while

provinces, which are almost entirely dependent on the divisible pool under National Finance Commission (NFC) Award, have failed to raise their own resources for their ever-growing needs of development, maintenance of infrastructure and providing people with the facilities of education, health, transport and universal entitlements like clean drinking water, electricity, transport, accommodation etc. In these circumstances, Pakistan needs a paradigm shift in tax policy¹ and revamping of entire tax administration by establishing National Tax Authority (NTA). 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 introduction of HST [based on the experience of three countries, namely, Canada, India and Malaysia] and the mode and working of NTA can be discussed and finalised under Council of Common Interests [Article 153]. The control of NTA should be under National Economic Council [Article 156]. Tax collection and compliance 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 National Tax Agency 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 Pakistan 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 Agency² is worth-studying in this respect.

1 Track record of FBR shows remote possibility of collecting even Rs. 6 trillion in the next three years to give enough fiscal space both to the Centre and the provinces to come out of the present economic mess, thus providing some relief to the poor as well as trade and industry. Under the given scenario, federation-provinces tax tangle will continue unchecked and further taxation through local governments, when elected, would not serve any useful purpose—there will be no relief to the people, rather tax burden will increase manifold. Pakistan will remain in debt enslavement and more and more people will be pushed below the poverty line. If we want to come out of this crisis, the parliament will have to reconsider the prevailing social contract between federation and the provinces. Provincial autonomy and local self-governance without taxation rights and equitable distribution of income and wealth is meaningless. We cannot overcome perpetual economic and political crises unless the provinces are given true autonomy; ownership of all resources; generation of own revenue and exclusive right to utilise it for the welfare of their denizens.

2 <http://www.cra-arc.gc.ca/menu-eng.html>

Conclusions

Narrow tax base is one of the core challenges faced by the revenue organizations at Federal and provincial levels. It is believed that a wide tax base with lower tax rates is much efficient than a narrow tax base with higher tax rates. A large tax base with lower rates automatically reduces tax evasion, whereas, higher tax rates lead to tax evasion.

There are about three million wholesale and retail establishments in the country, but only a small segment (less than 5%) is registered as sales tax payers. Moreover the actual tax filers are only 2% of the overall base of the WRT sector.

There are a number of other issues which need proper attention of the policy makers which include weak enforcement and poor monitoring. A large number of entities remain out of the tax net due to lack of proper documentation; hence, devising a system to address the issue of poor documentation should be the top priority. Another grey area is the large number of vendors whose businesses are not formally recorded. Tapping the untapped and unregistered business entities, scattered all over the country, should be given more focus.

Provincial authorities responsible for collecting sales tax on services are also facing the problems of effective enforcement. The multiple rates and exemptions are also serious cause of distortions in tax base and tax evasion.

The current sales tax regime is imposing unbearable compliance burden on small and medium-sized enterprises, which do not always have the resources necessary to deal with the administrative burdens of compliance.

The wholesale and retail trade sector in Pakistan has grown substantially during the last two decades. The growth in population, individual income levels, availability of bank loans and aggressive marketing techniques raised the demand for consumer goods. The growing demand and consumption has provided impetus to the producers and suppliers at all levels, hence wholesale and retail trade has flourished manifold in the country. As a whole, the WRT sector contributes a lot in the economy. Nonetheless, despite many positive aspects, taxes paid by this sector remained dismal, below expectations and potential. It is a reality that millions of small and large wholesalers and retailers earn huge profits, but their tax contribution to the national exchequer remains low. WRT that is the largest sector in respect of establishments in the country, if pays due taxes would hopefully be an immense support to the national

exchequer and would enable the tax/GDP ratio to reach a reasonable level¹.

Undoubtedly, poor documentation and weak enforcement are the main reasons for low tax contribution. The low tax revenues lead to fiscal constraints and resultantly, the efforts to alleviate poverty remain ineffective. Without adequate tax revenues, the fiscal gap is usually filled by borrowing from internal and external sources. In annual budgets a substantial portion of hard earned government revenues is allocated for debt servicing, hence leaving meager resources for core areas like poverty alleviation, education, health and infrastructure.

The meaningful tax reforms agenda, as suggested in this paper, is introduction of HST and its collection through National Revenue Authority. It would facilitate taxpayers and boost economic growth. Under the HST regime, businesses will file one unified HST form, instead of multiple ones with many authorities at the moment.

The HST will simplify and harmonise the indirect tax regime. HST will broaden the tax base, and result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one province to another in the chain of value addition, there will be an in-built mechanism in the design of HST that would incentivise tax compliance by business houses. Introduction of HST will foster a common and flawless market, contributing significantly to the growth of economy.

Pakistan needs to learn from experiences of other countries that are successfully administrating harmonised sales tax. Collection of all taxes, including HST, at federal and provincial levels through NTA will not only reduce the cost of collection of taxes but help in creating a centralised data bank for efficient collection of taxes and counter avoidance and evasion.

HST, if properly administered as in Canada through national revenue agency, can relieve the State and businesses from extraordinary costs of collection and compliance respectively. It will encourage cross-border trade and end harmful competition. Pakistan must consider HST in VAT mode that is workable. In this regards Malaysian model of simplified GST blended with Canadian experience of HST can be the best initiative. A simpler and transparent HST system is essential for growth of business that can lead to better collections without hassles. Taxes are byproduct of growth. Tax policy thus should promote growth and not stifle it. Provincial tax authorities and federal tax authorities must work under one National Tax Authority (NTA) that will have national databases for better collection countering revenue leakage.

¹ **Industry Profile: "Wholesale and Retail Trade Sector in Pakistan"**, Naeem Ahmad, *FBR Quarterly Review*, October-December, 2012.

“...the raison d’être of establishing special tribunals has been to dispense better quality of justice where people, better trained in particular fields and disciplines could provide quality decisions and resolution of disputes.... Appointing members to these tribunals on political basis or who are otherwise incompetent or have doubtful integrity would prove completely counterproductive.....”—2000 PTCL CL 515

In any society, administration and dispensation of justice should be the top most priority. A society without a sound, reliable and speedy judicial system, which does not ensure effective dispensation of justice, cannot survive for long. Administration and dispensation of justice under the various tax laws in Pakistan need serious attention, the entire system being on the brink of disaster. There is an urgent need to ensure “justice”, “rule of law”, “fairness”, “equity” and independence of appellate authorities from the control of administration. The present tax dispute resolution system, based on conventional appeal and review system under various tax statutes, is on the verge of collapse. Everybody is totally dissatisfied with it. Those imparting justice complain about lack of facilities and huge number of cases, the complainants crying for early orders but forced to wait for years (sometimes decades), and the revenue persistently worrying about blockade of colossal amount of money in litigation process.

The present pathetic state of tax administration can be measured from the fact that every year over 85,000 writ petitions/appeals are filed in Pakistan against orders of the tax authorities. Litigants have to wait for years to obtain orders. On the contrary, in civilized countries, only a few cases go for litigation to higher courts. A case in point is the United Kingdom where the number of income tax filers is 30 million whereas appeals reaching the Lord Chancellor in a year number only around 30. This confirms the tremendous public satisfaction with the credibility of system and good governance by fiscal administration. In Pakistan, we have less than 1.5 million income tax filers and around 150,000-180,000 sale tax registered parsons, but the number of appeals filed annually is in thousands.

Appellate authorities, as a matter of law and principle, should be independent in the true sense of the word. The honourable apex court of Pakistan has elaborated this principle in *Government of Baluchistan v Azizullah Memon* PLD 1993 SC 31 by holding that **“separation of judiciary from executive is the cornerstone of independence of**

judiciary". The right of access to justice to all is a well-recognized inviolable right enshrined in the Constitution of Pakistan. It concludes "the right to be treated according to law, the right to have a fair and proper trial and right to have an impartial court or tribunal. Justice therefore can only be done if there is an independent judiciary which shall be separate from executive and not at its mercy or depend on it"—PLD 1982 SC 146.

It is a matter of record that none of the Government in Pakistan, military or civilian, has ever followed directions of the honourable apex court in making tax appellate system independent of Executive. In the given Pakistani milieu, it is imperative that all the judicial and quasi-judicial authorities working in tax appellate system should be merged into National Tax Tribunal and regulated/supervised by Supreme Court of Pakistan as is the case with Federal Service Tribunal. This is the only way to ensure independence of tax justice system in its true substance and constitutional requirement [Article 203].

Tax codes of Pakistan—Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 and Customs Act, 1969—provide grievance redressal mechanisms for taxpayers against the orders of tax officials and appellate authorities. The right of appeal against orders of the first appellate authority [Commissioner of Appeals or Collector of Adjudication] is available to the tax administration as well, because it is not uncommon that tax authorities are aggrieved at the relief granted by the appellate authorities to taxpayers, and a higher appellate forum to examine the correctness of relief so given by an appellate authority is justified.

The appellate mechanism under the tax codes provides right to appeal before the Commissioner of Appeals/Collector Adjudication in case a taxpayer is aggrieved by orders passed by the revenue authorities. In case the taxpayer or even the Commissioner/Collector is aggrieved by the decision of the Commissioner (Appeals)/Collector (Adjudication), the aggrieved party can carry the matter further in appeal before the Appellate Tribunal Inland Revenue (ATIR) or Customs Appellate Tribunal as the case may be.

Tax Tribunal in the Sub-Continent was established on 25th January, 1941. On 28 October 2009 it was renamed as Appellate Tribunal Inland Revenue (ATIR) through a Presidential Ordinance in Pakistan in the wake of amalgamation of income tax and sales tax into one unified group. ATIR is not only an appellate forum for the taxpayers, but it is an equally important forum for FBR aggrieved by any relief given to the taxpayer by Commissioner (Appeals), who is incidentally a member of the Inland Revenue Service.

In developing economies like Pakistan, one of the biggest problems is higher tax rates on a relatively small tax base and the reluctance of ordinary people to file tax returns and thus submit themselves to scrutiny of their affairs by the tax administration. However, once a taxpayer professes faith in the effectiveness of legal remedies against an unjust tax levy or unjust action of the taxation authorities, he would be more likely to be truthful to the taxation authorities, and willing to accept a reasonable levy of tax.

The degree of taxpayer satisfaction would consequently increase which, in turn, is a *sine qua non* for better voluntary compliance resulting in greater resource mobilization. While on the surface a tax judiciary inherently deals with the involuntary collections enforced by the tax administration, an efficient tax judiciary actually creates a conducive atmosphere for better voluntary compliance by taxpayers and, thus, for greater resource mobilization by the State. A tax administration which disposes of appeals promptly and speedily reaches a fair and final settlement is itself entitled to be classified as a tax incentive.

To a tax collector, an efficient tax judiciary ensures that demands arising out of legitimate tax assessments, which can stand scrutiny of law, are not unnecessarily locked up in litigation. As long as there is a pending litigation in relation to a particular tax levy, there is a natural, and quite understandable, desire on the taxpayer's part not to pay the disputed amount during pendency of litigation. An efficient tax judiciary resolves disputes quickly, quashes demands which are not legally sustainable, and thus segregates serious tax demands from frivolous tax demands, as also giving finality to legitimate tax demands. This in turn ensures that taxpayers cannot resort to dilatory tactics for paying these genuine and legitimate tax demands which have received judicial approval. An efficient tax judiciary thus helps removing impediments from collection of genuine tax demands by the State, which, once again, results in greater resource mobilization. An effective tax judiciary does not only settle tax dispute between a taxpayer and the State, but it also lays down principles on the basis of such resolved disputes which provide guidance for the future. These decisions, which have precedence value in the sense that same decision has to be taken on materially identical facts, also have normative effect thus helping in correcting the judicial course. This way, an effective tax judiciary also contributes to smooth functioning of the tax machinery.

The powers of the ATIR are exercised by benches comprising Judicial and Accountant Members. The qualification for appointment as Judicial Member is the same as that for the appointment of a High Court judge, and only well experienced and competent people from the legal profession and judiciary are selected. Prior to amendment in 2007, the Accountant Member must have been an officer of Grade 21. In 2007, the

Commissioner in Grade 20 having appellate experience of five years was also included. In 2010, the condition of working as Commissioner Appeal was removed. And the Finance Bill 2012 has reduced the condition from 5 to 3 years. The amendments made in 2007, 2010 and 2012 were highly undesirable. Officers from FBR having little or no experience of appellate work should not be made part of ATIR. The technical quality of pure judicial work and understanding of matters required at Tribunal level would be compromised by appointment of such officers. Their induction should also be through Public Service Commission of Pakistan.

To make Tribunal a truly independent forum, it is even imperative to recruit Chartered Accountants as Accountant Members through Federal Public Service Commission. Officers from FBR coming as Accountant Members should possess minimum 20 years of experience, having served at least two years as Commissioner of Appeals.

The following points should seriously be debated for effective and efficient resolution of tax dispute:

1. Existing 4-tier appeal system under the tax laws—direct and indirect—consumes so much time for final settlement that the very purpose of seeking remedy becomes meaningless—justice delayed is justice denied aptly applies to the existing tax appellate system. The government has borrowed millions of dollars from the World Bank and other donors for tax reforms, but no effort has so far been made to revamp the ailing tax appellate system for rapid disposal of tax disputes and reduction in unnecessary litigation.
2. The first appeal under the prevalent 4-tier appellate system lies before the Commissioner of Appeals/Collector Appeals working under the administrative control of Federal Board of Revenue (FBR). It is a travesty of justice. An aggrieved taxpayer is to seek relief from the departmental authorities. The FBR-appointed and controlled appellate authorities act as helping hands for their brothers in service for collection of irrational and harsh demands to meet budgetary targets. They do give relief where issues are already decided by higher courts in favour of taxpayers but even for this “favour” taxpayers have to grease their palms. The Annual Confidential Reports (ACRs)—vital for further promotion in the service—of these “appellate” (sic) authorities are written by their bosses in FBR. Due to this constraint, they cannot impart justice even if they want to do so. **The first-tier of appeal in view of this fact alone should be abolished immediately.**

3. The second tier i.e. Tax Appellate Tribunal (one dealing with Customs and second with all other indirect and direct taxes) is under the Federal Government [Ministry of Law] which is against the principle of “independence of judiciary” [highlighted in Para 5, page 12 of NJP 2009]. Working as single, double or full (in special cases) benches, members are chosen from the legal fraternity or judicial services (Judicial Member) and the tax department (Accountant Member or Technical Member). Accountant/Technical Members work with heavy heart as they are mostly sent against their consent. They are the “dumped ones”—not liked by the Department hence condemned to go on deputation to Tribunals. **They do, however, get double salary, courtesy FBR that is bent upon wasting billions of borrowed rupees on perks and perquisites rather than for any productive purposes. On the contrary salary of a Judicial Member is even lower than that of a civil judge.** Tribunal is the final fact-finding authority and no further appeal lies to the High Court unless question of interpretation of law is required. Such an important forum dealing with federal statutes is financially dependent on Federal Government. **The Customs Tribunal and Appellate Tribunal Inland Revenue should be merged into singular National Tax Appellate Tribunal. Like the Services Tribunal this too should function under direct supervision of the Supreme Court. Appeals against its decisions should go directly to the Supreme Court.**
4. After merging Appellate Tribunal Inland Revenue and Customs Tribunal, the new entity should be renamed as **National Tax Tribunal**. Appeals against orders of the Tribunal should lie with the Supreme Court alone. Members for Tax Appellate Tribunal should be recruited in the same manner as judges of High Court.
5. The pay, perquisites and salary structure of Chairman, members and staff should be at par with the Judge of a High Court, Sessions Judge and staff of the lower judiciary respectively.
6. Tax codes are federal statutes but references against orders of the Tribunal go to the High Court that operates within provincial jurisdictions. A person filing reference in Lahore High Court may get a different order on an identical issue filed in Sindh High Court. On identical issues, there is no certainty of uniform orders at the level of High Courts. It is

hence advisable to place Tax Appellate Tribunal directly under the Supreme Court. Presently, thousands of tax references are lying in different High Courts of the country. At this forum takes years and years for taxpayers to get the first hearing—what to talk of final decision that may take more than ten years as normal routine.

7. The final court of appeal—as for all other matters—is the Supreme Court that ends the tumultuous journey of taxpayer or government on any disputed legal issue requiring interpretation of law. If Tax Appellate Tribunal is established, there will be drastic reduction in litigation.

Without any iota of doubt, the four-tier appellate tax structure discussed above has become out-dated, ineffective—fraught with innumerable encumbrances. Replacement of the entire system as suggested above—in line with prevailing judicial remedies in other departments of the government—is the only way out. To quote an example, one can easily refer to the Civil Services Act of 1973 under which government employees can approach the Services Tribunal to settle all disputes pertaining to their service matters. Appeal against any order of the Services Tribunal lies directly to the Supreme Court. This should also be the case for tax matters. First appeal should lie with Tribunal and for final adjudication, before the Supreme Court. If 2-tier tax appellate system is implemented, the following benefits and advantages will emerge:

- Appeal Commissioners (sic) will be relieved of passing biased judgements and worrying about the future of their careers.
- Existing Tax Tribunals after their conversion into National Tax Tribunal and selection of members by the Supreme Court will be better equipped to give quality and speedy decisions.
- The High Courts would be relieved of the continuously rising number of tax cases that remain undecided for many years because of the huge backlog of other civil/criminal cases and non-availability of specialised tax judges.
- Very few tax cases would go to the apex court where leave to appeal is granted in which important issues of legal interpretation are involved.

The tax reforms must start from making tax tribunals (inland revenues and customs) truly independent and effective judicial forums not working under the Ministry of Law. Tax Appellate system—like all other judicial institutions—should be independent in the true sense of the word. In order to initiate a debate, a proposed draft for National Tax Tribunal is given at Annex H. It may be discussed in public and Parliament after taking input from all stakeholders may enact it after adopting due process of law.

One of the main tools of tax policy is to increase the level of savings and capital formation in the private sector partly for borrowing by the government and partly for enhancing investment resources within the private sector for economic development. On the contrary, Pakistani economic managers have not only failed to achieve this goal, they are ruthlessly taxing capital gains arising out of immovable property and shares to destroy creation of capital and incentives for investment that can boost growth. Tax is a byproduct of growth. With more growth we would automatically have more taxes. The prevalent anti-growth taxes are the real cause of retarded economic growth, burgeoning fiscal deficit and insurmountable debt burden.

Recent years have experienced closure of large industries and stagnation in growth. Besides inefficiency, corruption and incompetence of Federal Board of Revenue (FBR), inconsistent, illogical, burdensome, complicated and confiscatory tax policies have forced the business community to search for safer havens abroad, depriving the country of invaluable capital. Similarly, foreign investors are reluctant to avail the tremendous Pakistani talent that goes to waste for lack of proper funding.

Economic challenges faced by Pakistan are multiple and grim—we are trapped in a deadly debt trap, but there is no will on the part of the rulers to come out of it. They are least pushed to accelerate growth, induce investment, stop wastage of resources and tap the real tax potential. Continuous surge in wasteful and unproductive expenses is no cause for concern. Rather, the entire emphasis on daily basis is on “more” (sic) taxes. Our total debt at present is about 68% of GDP which is increasing due to sheer callousness of our rulers. The last government of PML(N) during 2013-18 added Rs. 6.3 trillion to our debt burden—an increase of 103% while the record of the present government is equally appalling. It has been borrowing heavily to pay earlier debts and bridging the fiscal gap—pushing debt servicing alone to Rs. 1.5 trillion in 2015-16—nearly 68% of total revenue collection. The reckless borrowing to bridge burgeoning fiscal deficit is estimated to cross Rs. 2 trillion this year. The position of balance of payment is also worsening. Current account deficit widened by 91% in the first five months (Jul-Nov) of 2016-17, increasing to \$2.6 billion from \$1.36 billion in the corresponding period last year, according to data released by the State Bank of Pakistan (SBP). Inward remittances and Foreign Direct Investment are also showing negative trends.

Pakistan also faces the herculean task of providing jobs to millions—on an average we need to create 1.2 million jobs annually for young people alone. For achieving this task we will have to ensure that economy grows at the rate of 8% to 10% per annum over a long period of time—for this we need investment of 20% of GDP. This challenge is also our great opportunity for economic progress. Majority of job seekers are young people, who are our greatest asset—imparting education and skills to them and creating matching jobs is the real challenge. This can be met successfully by assignment of taxes for productive investment and employment generation—our real engine of growth.

The prevalent pessimism is due to the attitude of rulers and financial managers, who cannot think beyond what they are “commanded” or “trained” to think. They keep on telling us about symptoms of an ailing economy but never try to cure the real causes of illness. Unfortunately no serious effort has ever been made in Pakistan to devise a rational tax policy for encouraging industrialisation through corporatization of business leading to economic growth and documentation of economy. The sole stress on irrationally-fixed revenue targets—with main incidence on the weaker sections of society—has created an ugly fiscal mess.

The persistent failure of successive governments—military and civil alike—to broaden the tax net, crack down on untaxed assets and ill-gotten wealth, spend public money prudently and remove socio-economic imbalances has pushed Pakistan into a ‘debt prison’. We can get out of it provided there is leadership having competence and unshakeable determination to pursue a pragmatic reform agenda to transform Pakistan into an egalitarian state—true social democracy with justice for all.

Pakistan is one of those very fortunate countries of the world that has an abundance of resources and a climate that is fit for simply any activity throughout the year. But thanks to donors’ agenda of overemphasis on retrogressive taxation and incompetence of our economic wizards (sic), Pakistan’s dependence on imported products has increased manifold, whereas value-added exports have not been given any attention, let alone promoting high-tech industries capable of technological innovations—modern economies are knowledge-based and future is for those people who can develop them as quickly as possible.

For technological transfers, rapid industrial growth and employment generation, foreign direct investment (FDI) is desirable. In Pakistan when local investment is dying, expecting FDI is like living in a fool’s paradise. Tax incentives play an important role in attracting FDI—which has nose-dived in Pakistan during the last decade. Tax policy constitutes an important, if not a determinant factor, for favourable investment behaviour. Unfortunately, our budget makers have always been

preoccupied with revenue targets and have never bothered to provide some long-term investment-oriented tax incentives for infrastructure development, investments and employment generation, without which sustainable growth is not possible.

Foreign investors will not come to Pakistan as long as unsatisfactory law and order situation and energy shortages exist. Due to these and other negative factors even the existing industrial units are closing down or working at low capacity. Nobody is willing to invest in special economic zones, where tax incentives are available. The main reason is lack of proper infrastructure. The result is unprecedented decline in foreign direct investment during the last ten years. Pakistani industrialists—fearing loss of life and property, threats from extortionists, acute power shortages, rising costs of doing business and hostile tax policies—are shifting their capital abroad. Investors, both domestic and foreign, prefer a place that characterises stability, consistency and requisite infrastructure facilities—we lack all these.

Tax incentives do matter but not as first priority—any feasible growth-oriented project can be profitable after paying reasonable taxes. In Pakistan, corporate taxation in 2018 is still as high as 40% (company tax rate plus tax on dividends plus Workers' Welfare Fund (WWF) and Workers' Profit Participation Fund (WPPF) etc). The corporate sector is the worst sufferer of FBR's ill-designed policies and widespread corruption—top management of FBR has very myopic outlook as evident from over-emphasis on withholding taxes. With low tax rates we could have promoted corporate growth. On the contrary, in 2015 FBR imposed '**Tax on undistributed reserves**' [section 5A of Income Tax Ordinance, 2001] ignoring the fact that reserves are created from already taxed income. Minimum taxation on service sector companies was another wrong move. In 2014, FBR imposed '**Alternative Corporate Tax**' [section 113C of Income Tax Ordinance, 2001]. Such erratic, arbitrary and expropriatory taxation is bound to further retard corporate sector and discourage future growth.

We need to incentivize corporatization of business. At present there are about 86,876 companies registered with Securities & Exchange Commission of Pakistan (SECP) out of which less than 35,000 file tax returns. There are numerous anti-corporate provisions in the tax codes. Companies are maltreated by FBR—after collecting billions as 'withholding tax agents' of the state without any compensation; they are penalised for small lapses that may neither be intentional nor willful. Taxation of notional benefits e.g. concessional loans in the hands of employees, high corporate tax rate and double taxation of dividends and reserves out of already taxed profits are some examples of anti-corporate provisions—the list is not exhaustive. In these circumstances, no one would like to conduct business through a company, especially when

audited accounts by independent and credible auditors are rejected by taxation officers on mere whims and without bringing any material evidence on record. Litigation is imposed on the companies and they have to hire costly professionals to get justice. It is thus no surprise that in the World Bank's '*Doing Business 2018*' data for Pakistan, our ranking is still very low.

Devising an efficient tax model for rapid economic growth in Pakistan requires an analytical study of all the irritants prevailing in tax codes, procedures and implementation processes. The main irritant is highhandedness, corruption and unprecedented high level of maladministration in tax apparatuses—both at federal and provincial levels. We need public debates for suggesting solutions to remedy the situation and to promote taxation and business growth attracting domestic and foreign investment and ensuring much-needed jobs.

On our part and for initiating such a debate, we have identified a few fundamental maladies that need to be fixed through holistic tax reforms aimed at incentivising rapid growth and voluntary tax compliance.

PART IV

ANNEXURES

Annexure-A

FBR Tax Collection: 1948-49 to 2019-20
As per data of State Bank of Pakistan

Source: <http://www.sbp.org.pk/ecodata/tax.pdf>

Period	Direct Taxes	Indirect Taxes			Total	Total		Ratio
		Sales	Excise	customs		Tax Collection	Indirect	
1948-49	50	-	45	216	261	311	83.9%	16.1%
1949-50	90	-	39	319	358	448	79.9%	20.1%
1950-51	100	-	54	631	685	785	87.3%	12.7%
1951-52	133	116	71	631	818	951	86.0%	14.0%
1952-53	162	141	92	487	720	882	81.6%	18.4%
1953-54	166	110	147	278	535	701	76.3%	23.7%
1954-55	185	141	141	308	590	775	76.1%	23.9%
1955-56	208	167	144	446	757	965	78.4%	21.6%
1956-57	197	191	149	347	687	884	77.7%	22.3%
1957-58	229	220	174	355	749	978	76.6%	23.4%
1958-59	413	263	236	369	868	1,281	67.8%	32.2%
1959-60	303	270	248	357	875	1,178	74.3%	25.7%
1960-61	322	362	288	428	1,078	1,400	77.0%	23.0%
1961-62	383	378	297	507	1,182	1,565	75.5%	24.5%
1962-63	428	423	386	523	1,332	1,760	75.7%	24.3%
1963-64	472	512	559	540	1,611	2,083	77.3%	22.7%
1964-65	555	588	636	719	1,943	2,498	77.8%	22.2%
1965-66	583	613	787	703	2,103	2,686	78.3%	21.7%
1966-67	615	684	1,187	813	2,684	3,299	81.4%	18.6%
1967-68	643	401	1,385	784	2,570	3,213	80.0%	20.0%
1968-69	742	485	1,522	1,153	3,160	3,902	81.0%	19.0%
1969-70	958	522	1,890	1,240	3,652	4,610	79.2%	20.8%
1970-71	949	608	2,020	1,407	4,035	4,984	81.0%	19.0%
1971-72	1,257	482	2,111	1,312	3,905	5,162	75.6%	24.4%
1972-73	1,195	461	2,211	2,641	5,313	6,508	81.6%	18.4%
1973-74	1,257	692	2,895	4,175	7,762	9,019	86.1%	13.9%
1974-75	1,447	1,074	3,670	4,746	9,490	10,937	86.8%	13.2%
1975-76	2,244	1,200	4,585	5,164	10,949	13,193	83.0%	17.0%
1976-77	2,734	1,363	5,429	6,138	12,930	15,664	82.5%	17.5%
1977-78	2,909	1,590	6,299	8,390	16,279	19,188	84.8%	15.2%
1978-79	3,424	1,935	6,916	10,124	18,975	22,399	84.7%	15.3%
1979-80	5,333	2,410	9,701	12,572	24,683	30,016	82.2%	17.8%
1980-81	7,182	2,893	10,413	14,276	27,582	34,764	79.3%	20.7%
1981-82	8,486	3,251	11,740	15,074	30,065	38,551	78.0%	22.0%
1982-83	8,624	3,489	12,675	18,510	34,674	43,298	80.1%	19.9%

1983-84	8,788	4,624	15,387	21,532	41,543	50,331	82.5%	17.5%
1984-85	9,312	4,674	15,053	23,371	43,098	52,410	82.2%	17.8%
1985-86	9,782	4,928	15,149	29,343	49,420	59,202	83.5%	16.5%
1986-87	10,568	6,409	14,960	33,364	54,733	65,301	83.8%	16.2%
1987-88	11,841	8,743	16,840	38,001	63,584	75,425	84.3%	15.7%
1988-89	13,920	14,700	19,399	42,362	76,461	90,381	84.6%	15.4%
1989-90	15,642	18,574	21,433	48,584	88,591	104,233	85.0%	15.0%
1990-91	19,871	17,008	23,087	50,528	90,623	110,494	82.0%	18.0%
1991-92	28,851	20,799	28,305	61,821	110,925	139,776	79.4%	20.6%
1992-93	36,771	23,521	31,546	61,400	116,467	153,238	76.0%	24.0%
1993-94	43,452	30,379	34,520	64,240	129,139	172,591	74.8%	25.2%
1994-95	61,660	43,574	43,691	77,653	164,918	226,578	72.8%	27.2%
1995-96	78,165	49,841	51,115	88,916	189,872	268,037	70.8%	29.2%
1996-97	85,060	55,668	55,265	86,094	197,027	282,087	69.8%	30.2%
1997-98	103,182	53,942	62,011	74,496	190,449	293,631	64.9%	35.1%
1998-99	110,207	72,105	60,905	65,292	198,302	308,509	64.3%	35.7%
1999-00	112,950	116,711	55,784	61,659	234,154	347,104	67.5%	32.5%
2000-01	124,585	153,565	49,080	65,047	267,692	392,277	68.2%	31.8%
2001-02	142,505	166,561	47,186	47,818	261,565	404,070	64.7%	35.3%
2002-03	151,898	195,139	44,754	68,836	308,729	460,627	67.0%	33.0%
2003-04	165,079	219,167	45,552	91,045	355,764	520,843	68.3%	31.7%
2004-05	183,372	238,537	53,104	115,374	407,015	590,387	68.9%	31.1%
2005-06	224,988	294,798	55,272	138,384	488,454	713,442	68.5%	31.5%
2006-07	333,737	309,396	71,804	132,299	513,499	847,236	60.6%	39.4%
2007-08	387,862	377,430	92,137	150,663	620,230	1,008,092	61.5%	38.5%
2008-09	*443,548	*451,744	*117,455	*148,403	*717,602	*1,161,150	*61.8%	*38.2%
2009-10	*525,977	*516,348	*124,784	*160,273	*801,405	*1,327,382	*60.4%	*39.6%
2010-11	602,451	633,357	137,353	184,853	955,563	1,558,014	61.3%	38.7%
2011-12	738,424	804,899	122,464	216,906	1,144,269	1,882,693	60.8%	39.2%
2012-13	743,409	842,528	120,964	239,460	1,202,952	1,946,361	61.8%	38.2%
2013-14	877,255	996,382	138,084	242,810	1,377,276	2,254,531	61.1%	38.9%
2014-15	1,033,720	1,087,790	162,248	306,220	1,556,258	2,589,978	60.1%	39.9%
2015-16	*1,217,474	*1,302,371	*188,055	*404,572	*1,894,998	*3,112,472	*60.9%	*39.1%
2016-17	1,344,226	1,328,965	197,911	496,772	2,023,648	3,367,874	60.1%	39.9%
2017-18	1,536,638	1,491,297	205,877	608,324	2,305,498	3,842,136	60.0%	40.0%
2018-19	1,445,508	1,459,213	238,186	685,575	2,382,974	3,838,482	62.2	37.8
2019-20	1,523,064	1,596,804	250,470	626,378	2,473,652	3,996,716	61.9	38.1

FBR collection (1996-97 to 2019-20)**Based on final revised targets****(Rs. in billions)**

Year	Targets	Collection	Growth in Collection (%)	Target Achieved (%)	Tax to GDP ratio	Ratio in total taxes (%)	
						Indirect taxes	Direct taxes
1996-97	286.0	282.1	5.2	98.6	11.6	69.8	30.2
1997-98	297.6	293.6	4.1	98.7	11.0	64.9	35.1
1998-99	308.0	308.5	5.1	100.2	10.5	64.3	35.7
1999-00	351.7	347.1	12.5	98.7	9.1	67.5	32.5
2000-01	406.5	392.3	13.0	96.5	9.3	68.2	31.8
2001-02	414.2	404.1	3.0	97.6	9.1	64.7	35.3
2002-03	458.9	460.6	14.0	100.4	9.4	67.0	33.0
2003-04	510	520.8	13.1	102.1	9.2	68.3	31.7
2004-05	590	590.4	13.4	101.8	9.1	68.9	31.1
2005-06	690	713.4	20.8	103.4	9.4	68.5	31.5
2006-07	935	847.2	18.8	101.5	9.8	60.6	39.4
2007-08	1,000	1008.1	18.9	100.8	9.8	61.5	38.5
2008-09	1,179	1157.0	14.8	98.1	8.9	61.8	38.2
2009-10	1,380	1327.4	14.7	69.0	9.0	60.4	39.6
2010-11	1,667	1587.0	19.6	95.2	8.8	61.3	38.7
2011-12	1952.3	1883.0	18.2	96.5	9.1	60.8	39.2
2012-13	2007	1939.4	03.0	96.6	8.5	61.8	38.2
2013-14	2275	2254.5	16.0	99.0	8.8	61.1	38.9
2014-15	2810	2589.9	13.0	92.2	9.2	60.1	39.9
2015-16	3103.7	3112.4	20.2	100.3	9.6	60.9	39.1
2016-17	3621	3367.8	8.0	92.9	9.8	60.1	39.9
2017-18	4013	3842.1	14.1	97.6	10.4	60.0	40.0
2018.-19	4435	3828.5	(-) 0.35	86.3	8.4	62.2	37.8
2019-20	3908	3996.7	4.4	102%	9.1	67.9	32.1

Source: Economic Annual Surveys & FBR Year Books

Note:

It was admitted¹ by FBR's officials that refunds of Rs. 532 billion were due from June 2014 to June 2019. They again failed to mention refunds due for the fiscal year 2019-20 after paying Rs.135 billion under sales tax, income tax, customs and federal excise against last year's figure of Rs. 122 billion. This year for the first time, an amount of Rs. 100 billion was paid in respect of long-outstanding refunds through technical supplementary grant (TSG) by the government. Bulk of outstanding refunds, as is clear from data given to the Standing Committee, was blocked by the government of PMLN to show higher collection and extraordinary growth by FBR. **It is now the duty of the Standing Committee to fix responsibility and order recovery of bonuses given to FBR's officers by PMLN Government for showing inflated figures and recast the actual collection of each year to which these blocked refunds relate!**

The following is the brief summary, according to Press report², of some facts revealed by FBR officials before the Standing Committee:

- "FBR did not report the claims outstanding from before June 2014 and also for the period of July 2019 to June 2020.
- The admission confirms the existence of yet another circular debt, like Rs. 2.1 trillion in the power sector, and also affirms that FBR's tax collection was grossly over-reported.
- From June 2014 to June 2019, Rs. 413.5 billion of income tax refund claims had been outstanding.
- Outstanding sales tax refund claims amounted to Rs112 billion.
- Customs rebate claims amounted to Rs. 6 billion.
- In fiscal year 2018-19, the total tax collection was Rs. 3.826 trillion and if amount of unpaid refunds of Rs. 532 billion is excluded, the net collection would be only Rs. 3.294 trillion (just 8.6% of GDP).
- FBR did not share tax refund claims data for fiscal year 2019-20. If it is included, the due refunds of taxpayers would be far higher than Rs. 600 billion. It is also a failure of the International Monetary Fund (IMF) that could not pick gross over-reporting of revenues.

¹ **Tax refunds amount to Rs. 523 billion:**FBR, *The Express Tribune*, July 10, 2020
<https://tribune.com.pk/story/2254122/tax-refunds-amount-to-rs532b-fbr>

² Ibid

- The trend showed that like Pakistan Muslim League-Nawaz (PML-N), Pakistan Tehreek-e-Insaf (PTI) government too blocked tax refunds to inflate its revenues.
- During PTI's first year, FBR received Rs. 101.5 billion in income tax refund claims but did not pay Rs. 87.5 billion, which was 86.2% of the claimed amount, according to the presentation before the Standing Committee.
- To a question on actual tax collection from withdrawal of concessionary tax regime of the exporters, FBR said that the government had estimated receiving Rs. 70 billion due to withdrawal of SRO 1125 and its net general sales tax (GST) collection after withdrawal of SRO 1125 was Rs. 83.4 billion. FBR admitted that the exporters filed refund claims of Rs. 105.2 billion refund, out of which Rs. 72.2 billion were paid and the remaining Rs. 33 billion included in collection of Rs 3.99 trillion for fiscal year 2019-20.
- A member of the Standing Committee could not get an answer to his question about FBR's claim of existence of \$12 billion local textile market. "Had such market existed, the FBR could have collected Rs. 250 billion after withdrawal of SRO 1125", he added.
- To a question whether there were no outstanding income tax refunds prior to 2014, FBR said that there could be refunds even prior to the 2014 period but their data was with the field formations, "but he said that the amount may not be too high".
- One member of the Standing Committee also criticised the government's decision to give Rs.100 billion refunds through a supplementary grant to FBR, which he said "was ethically and professionally wrong, as the refunds could only be paid out of gross tax collection".

Note: The claim of exceeding target by FBR is now exposed as refunds of Rs. 710 billion are admittedly outstanding. If from collection of Rs. 3.9 trillion, this amount is deducted, the actual collection comes to Rs. 3.2 trillion (7.9% of GDP). FBR on September 2, 2020, before the National Assembly Standing Committee on Finance [hereinafter "the Committee"], confessed that actual liability of income tax and sales tax refund as on June 30, 2020 was Rs. 710 billion (sales tax Rs. 142 billion and income tax Rs. 568 billion). Misrepresentation of figures when we are under \$6 billion Extended Fund Facility (EFF) programme of International Monetary Fund [IMF] is quite amazing. After its first review and seeing that FBR was far behind the original target of Rs. 5555 billion, the IMF revised

it to Rs. 5238 billion, then to Rs. 4803 billion on the eve of incomplete second review, held prior to Covid-19 pandemic, and after coronavirus outbreak, finally to Rs. 3908 billion. The target fixed by the PTI Government for the current fiscal year 2020-21 for FBR is Rs. 4963 billion, amid heavy economic toll of Covid-19 endemic and minus growth. Interestingly, even according to Advisor to Prime Minister on Finance and Revenue, Dr. Abdul Hafeez Shaikh, it is not achievable! In a statement he “advised the provinces not to make their budgets on the basis of proposed Rs. 4.963 trillion tax collection target fixed for FBR for fiscal year 2020-21” and added: “The provinces should make their budgets while keeping in mind the Federal Board of Revenue’s past performance and difference between performance, projections and reality”. It can only happen in Pakistan where the head of Finance Ministry is openly admitting that budget is prepared on exaggerated revenue figures!

Annexure-B

Sales Tax Base & Collection

Non-compliance or low compliance by the taxpayers is one of the major issues faced by the revenue collecting authorities both at federal and provincial levels. For sales tax, the compliance is even lesser compared to income tax filers as evident from the following data.

Table B-1: Comparison of sales tax registered and filer persons

Province/ territory	FY 2015-16		FY 2016-17		FY 2017-18		FY 2018-19	
	Registered	Filer	Registered	Filer	Registered	Filer	Registered	Filer
Sindh	60,425	38,954	63,195	40,440	65,582	41,513	67,826	42,215
Punjab	111,213	74,025	118,009	77,378	124,674	81,247	131,821	84,951
KPK	8,568	5,565	9,255	5,897	10,002	6,347	10,934	6,830
Balochistan	3,941	3,014	4,500	3,398	5,041	3,787	5,501	4,022
Islamabad	11,893	6,576	13,234	7,370	14,481	8,174	16,018	8,902
Un-identified	47	2	47	2	47	1	47	2
Total	196,087	128,136	208,240	134,485	219,827	141,069	232,147	146,922
Compliance		65.35%		64.58%		64.17%		63.29%

Table B-2: Bifurcation of sales tax ‘filers’

Filer	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Payment filer	43,294	41,555	43,845	43,942
Null Filers	53,207	55,457	58,991	61,367
Nil Filers	31,635	37,473	38,233	41,613
Total	128,136	134,485	141,069	146,922

Null filers means dormant/no business

Source: FBR data reported by PRAL

For the last many years, there are only 10 revenue spinners that contribute nearly 70 percent of sales tax (domestic) collection¹.

¹ FBR Quarterly Reviews (2010 to 2014)

Table B-3: Comparison of Sales Tax Domestic (Net) Collection by Major Commodities During FY: 2018-19 & FY: 2017-18

(Rs. Million)

Commodities	Net collection			(Share (%))	
	2018-19	2017-18	Growth (%)	2018-19	2017-18
POL Products	248,511	236,814	4.9	38.3	35.8
Electrical Energy	57,898	53,852	7.5	8.9	8.1
Withholding Agents	29,831	27,134	9.9	4.6	4.1
Sugar	26,611	20,193	31.8	4.1	3.1
Cigarettes	23,109	20,527	12.6	3.6	3.1
Cement	21,633	24,103	-10.2	3.3	3.6
Food Products	17,557	16,022	9.6	2.7	2.4
Aerated Waters/ Beverage	12,193	17,666	-31.0	1.9	2.7
Iron and Steel Products	11,444	15,439	-25.9	1.8	2.3
Motor Cars	6,304	9,418	-33.1	1.00	1.4
Major Ten Commodities	455,091	441,168	3.2	70.1	66.7
Others	193,765	219,919	-11.9	29.9	33.3
All Commodities	648,856	661,087	-1.9	100.0	100

Source: FBR Data published in *FBR Year Book 2018-19*.

According to FBR's own admission in its Year Book 2018-2019, "During FY 2018-19, sales tax remained top revenue generating source of federal taxes receipt after direct taxes. It constitutes 38.1 percent of the total net revenue collection. Collection during FY 2018-19 has been around Rs. 1,459.2 billion against around Rs. 1,485.3 billion in PFY. Overall sales tax collection grew by (-) 1.8% and around Rs.26.1 billion of lesser amount has been collected during financial year 2018-19 as compared to the collection of previous year."

Major reasons of shortfall in the collection of sales domestic and imports are following:

- A sharp reduction in the GST rate on Petroleum Products on both import and domestic stages
- Reduced GST on Natural Gas
- Import compression

The overall collection of sales tax (domestic) depends on the collection of petroleum products as it contributes around 38 percent of total gross

collection. The petroleum products have been the top revenue spinner of sales tax domestic.

The imports of the country contribute significantly to the exchequer in the form of sales tax. Sales tax on imports contributed around 56 percent of the total sales tax.

Table B-4: Sales Taxes Revenue Receipts 2017-18 & 2018-19

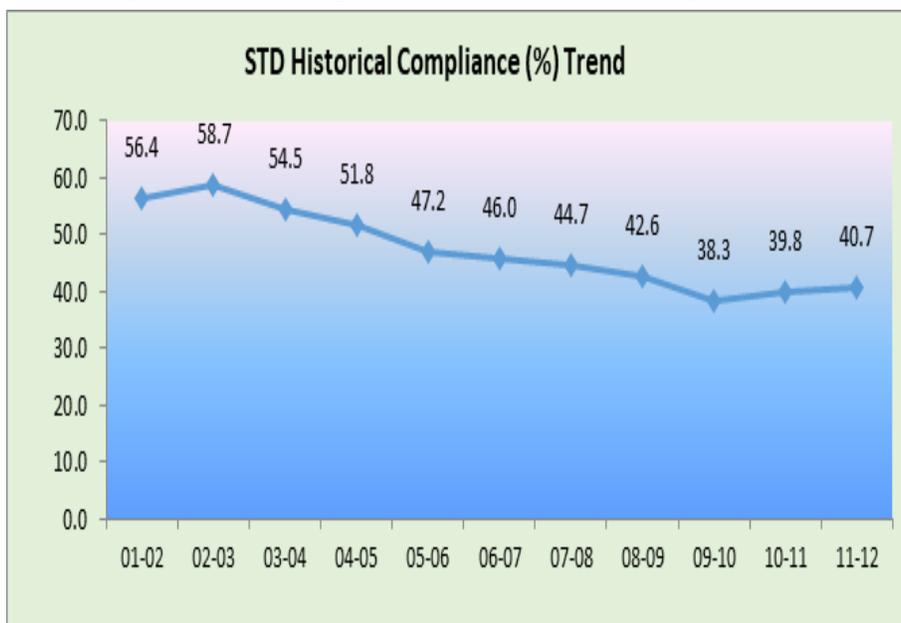
(Rs. Million)

Tax-Head	Net Collection		Growth	
	FY 2017-18	FY 2018-19	Absolute	(%)
Sales Tax (Imports)	824,219	810,357	-13,862	-1.7
Sales Tax (Domestic)	661,087	648,856	-12,231	-1.9
Sales Tax (Total)	1,485,306	1,459,213	-26,093	-1.8

Source: FBR Year Book 2018-19

In the first edition of 2016, the following data was given and reproduced for historic record purposes:

Figure A-1: Compliance of Sales Tax Registration



Source: Industry Profile: "Wholesale and Retail Trade Sector in Pakistan"
By Naeem Ahmad, *FBR Quarterly Review*, October-December, 2012.

Table B-5: Tax Base: Number of Registrants in Sales Tax (Domestic)

Years	Retailer	Wholesaler	WRT (Total)	All Others	Total
01-02	1,559	23,553	25,112	115,203	140,315
02-03	1,685	28,084	29,769	123,706	153,475
03-04	1,881	30,553	32,434	130,361	162,795
04-05	2,296	32,510	34,806	138,412	173,218
05-06	3,123	34,666	37,789	147,380	185,169
06-07	4,694	37,111	41,805	155,274	197,079
07-08	5,442	39,680	45,122	162,591	207,713
08-09	6,259	42,783	49,042	170,977	220,019
09-10	7,152	46,503	53,655	178,984	232,639
10-11	7,700	50,313	58,013	186,824	244,837
11-12	8,174	53,314	61,488	193,970	255,458

Source: Computer Centre, Sales Tax, FBR (Quoted in *FBR Quarterly Review*, October-December, 2012)

Table B-6: Sales Tax Filers and Compliance Ratio (%)

Years	No. of Filers			Compliance Ratio (%)		
	Retailers	Wholesalers	WRT (Total)	Retailer	Wholesaler	WRT (Total)
01-02	730	13,434	14,164	46.8	57.0	56.4
02-03	807	16,665	17,472	47.9	59.3	58.7
03-04	966	16,718	17,684	51.4	54.7	54.5
04-05	1,238	16,786	18,024	53.9	51.6	51.8
05-06	1,547	16,274	17,821	49.5	46.9	47.2
06-07	2,452	16,779	19,231	52.2	45.2	46.0
07-08	2,818	17,347	20,165	51.8	43.7	44.7
08-09	3,137	17,758	20,895	50.1	41.5	42.6
09-10	3,255	17,288	20,543	45.5	37.2	38.3
10-11	3,655	19,445	23,100	47.5	38.6	39.8
11-12	3,934	21,068	25,002	48.1	39.5	40.7

Source: *FBR Quarterly Review*, October-December, 2012

Table B-7: Sales Tax (Domestic) Collection by WRT

Years	Retailer	Wholesaler	WRT (total)	All Others	Total STD
(Rs. Millions)					
01-02	193	1,141	1,334	72,448	73,782
<i>Years</i>	<i>Retailer</i>		<i>Wholesaler</i>		<i>WRT (Total) % of STD</i>
02-03	243	1,530	1,773	87,761	89,534
03-04	341	1,952	2,293	90,999	93,292
04-05	374	1,236	1,611	92,082	93,692
05-06	409	1,218	1,627	121,726	123,353
06-07	589	1,645	2,234	131,253	133,487
07-08	581	1,819	2,399	178,997	181,396
08-09	966	2,250	3,216	244,813	248,029
09-10	1,067	2,458	3,525	265,577	269,102
10-11	1,082	2,937	4,019	320,690	324,709
11-12	1,260	4,289	5,549	368,952	374,501
	<i>As % of WRT</i>	<i>As % of STD</i>	<i>As % of WRT</i>	<i>As % of STD</i>	
01-02	14.4	0.3	85.6	1.5	1.8
02-03	13.7	0.3	86.3	1.7	2.0
03-04	14.9	0.4	85.1	2.1	2.5
04-05	23.2	0.4	76.8	1.3	1.7
05-06	25.2	0.3	74.8	1.0	1.3
06-07	26.4	0.4	73.6	1.2	1.7
07-08	24.2	0.3	75.8	1.0	1.3
08-09	30.0	0.4	70.0	0.9	1.3
09-10	30.3	0.4	69.7	0.9	1.3
10-11	26.9	0.3	73.1	0.9	1.2
11-12	22.7	0.3	77.3	1.1	1.5

Source: Industry Profile: "Wholesale and Retail Trade Sector in Pakistan",

Naeem Ahmad, FBR Quarterly Review, October-December, 2012

“It has been noted that wholesale & retail registrants in sales tax department were more than 24 percent of sales tax base, whereas collection was just 1.5 percent in 2011-12. During last ten years, the trend of this mismatch is almost same. The mismatch raises the questions as why the collection is too low despite a large number of registrants and what policy changes, measures and steps have been taken by the department to address the issue?”¹

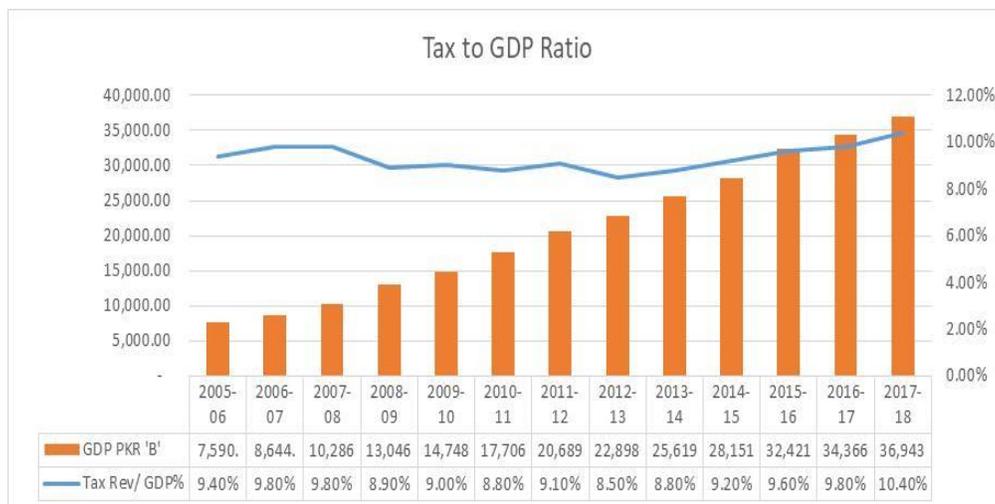
¹ *Industry Profile: “Wholesale and Retail Trade Sector in Pakistan”, Naeem Ahmad, FBR Quarterly Review, October-December, 2012. 3.1*

Annexure-C

Tax Collection/Tax Potential

For tax collection figures from 1948-49 to 2019-20 see Appendix A

Figure C-1: Tax to GDP Ratio Pakistan



Source: SBP tax collection data and Economic Survey

For later years see Appendix A

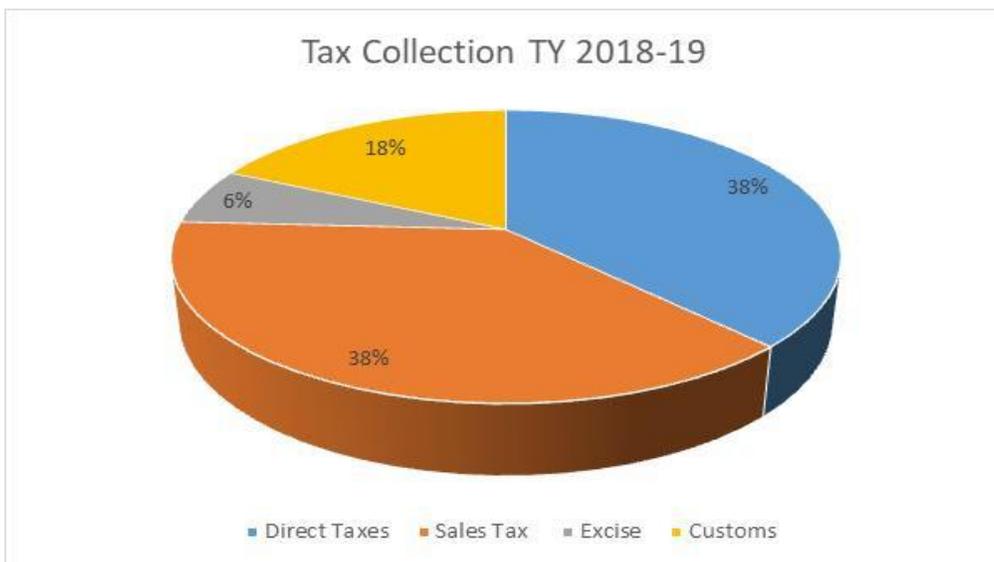
Table C-1: Comparison of Collection vis-a-vis Target 2018-19

(Rs. Billion)

Tax Head	Target			Collection	Achievement (%) of Target			Absolute Difference 2 nd Revision
	Original	1st Revision	2 nd Revision					
Direct Taxes	1735	1727	1659	1445.5	83.3	83.7	87.1	-213.5
Sales Tax	1700	1670	1490	1459.2	85.8	87.4	97.9	-30.8
Federal Excise	265	266	266	238.2	89.9	89.5	89.5	-27.8
Custom Duty	735	735	735	685.6	93.3	93.3	93.3	-49.4
Total	4435	4398	735	3828.5	86.3	87.1	92.3	-321.5

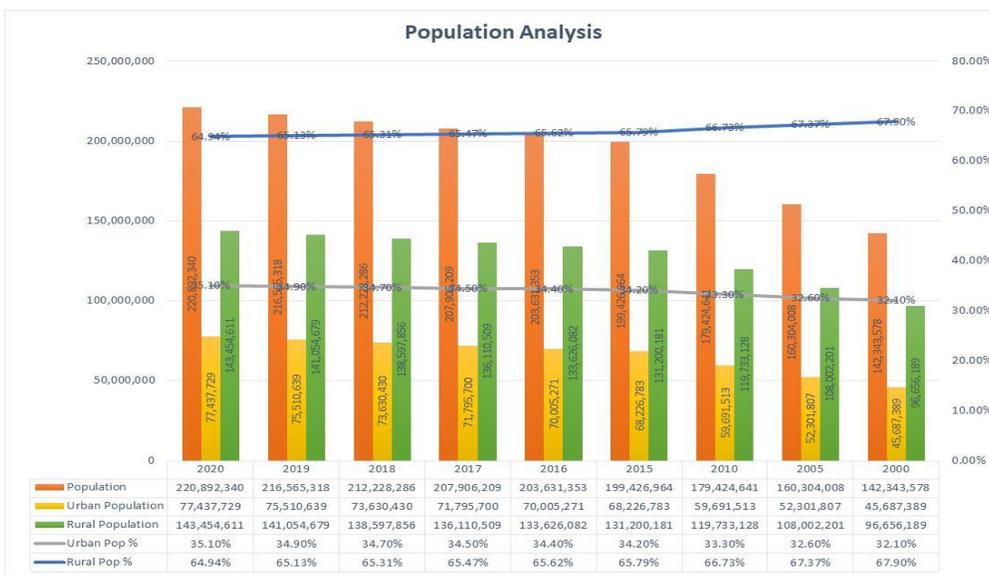
Source: FBR Year Book 2018-19)

Figure C-2: Tax-wise Share (%) in Collection FY 2018-19



Source: FBR Year Book 2018-19

Figure C-3: Population Distribution Over-time



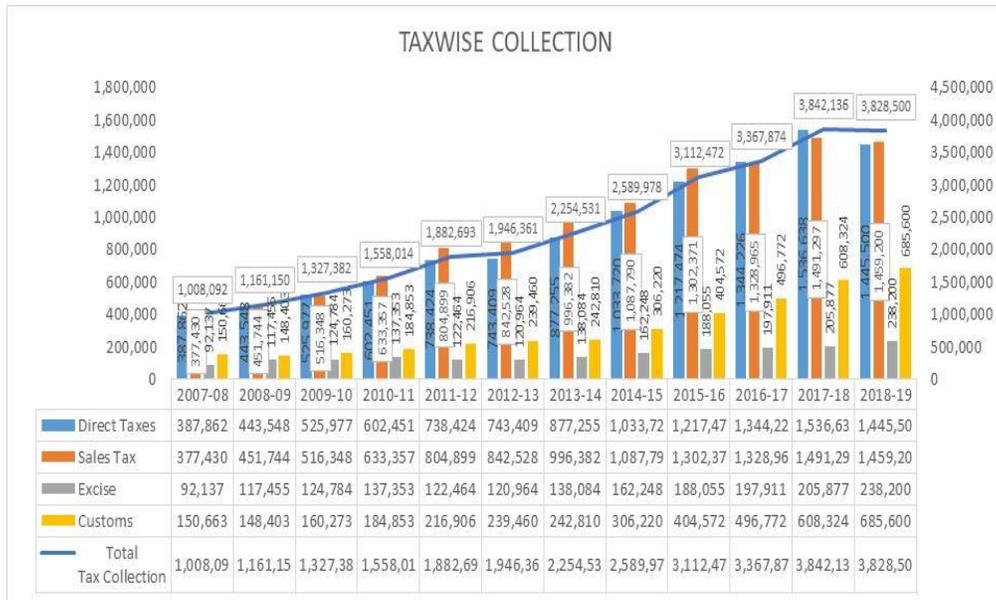
Source: World Wealth Annual Report 2019 by Credit Suisse

Figure C-4: Wealth Analysis



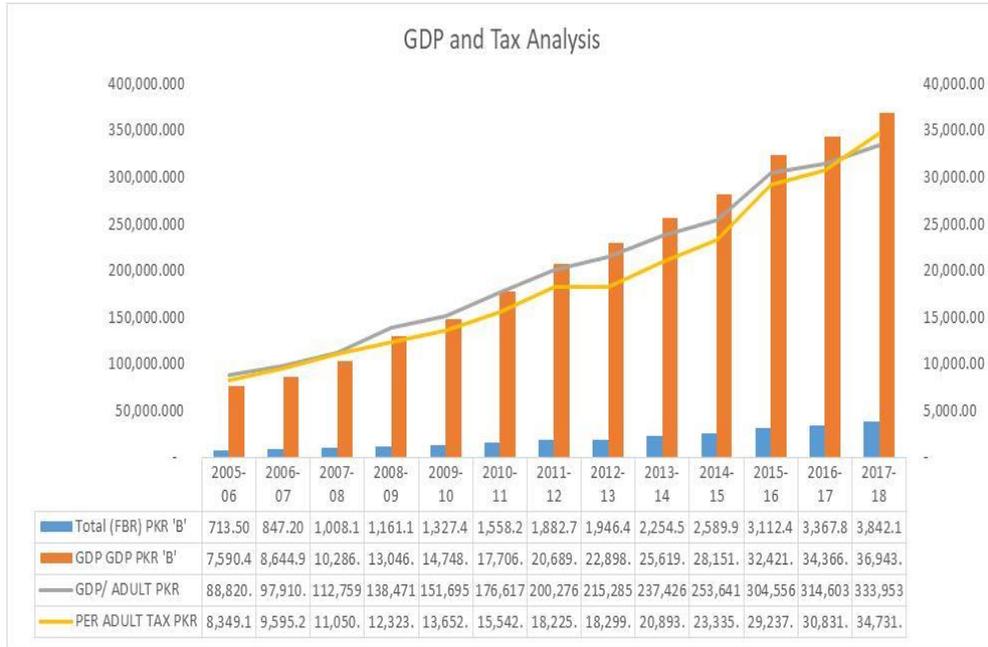
Source: Yearly Economic Surveys of Pakistan

Figure C-5: Tax Analysis



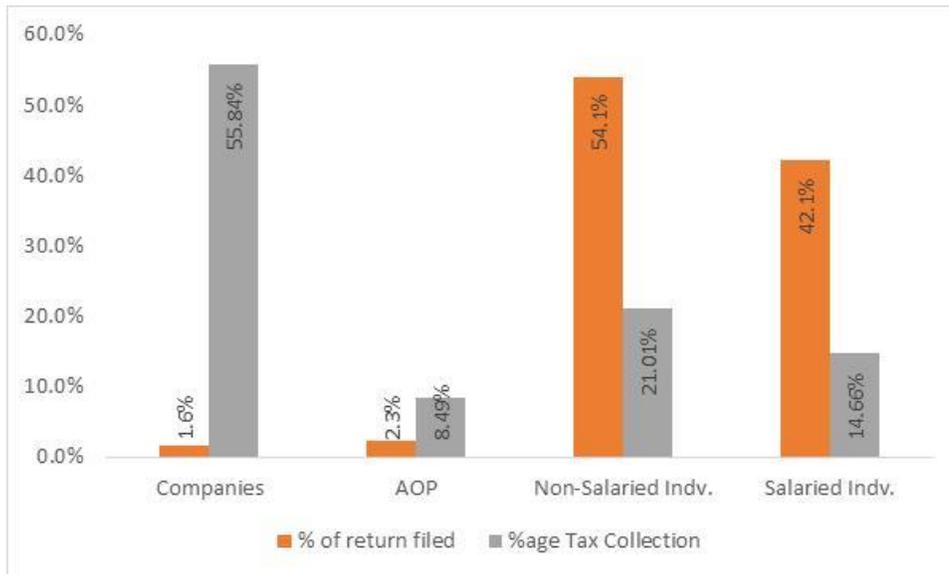
Source: FBR Year Books and yearly Economic Surveys of Pakistan

Figure C-6: GDP and Tax Analysis



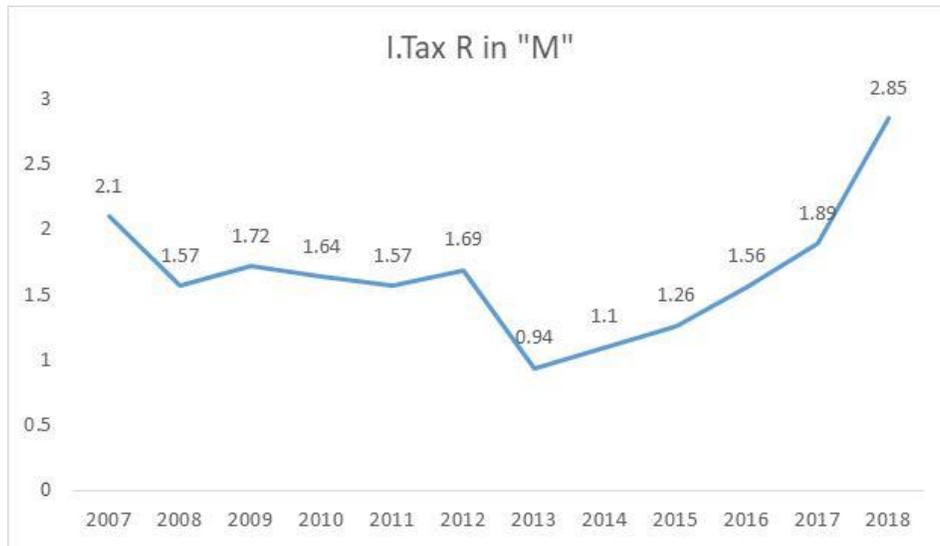
Source: FBR Year Books and yearly Economic Surveys of Pakistan

Figure C-7: Return v. Collection Analysis



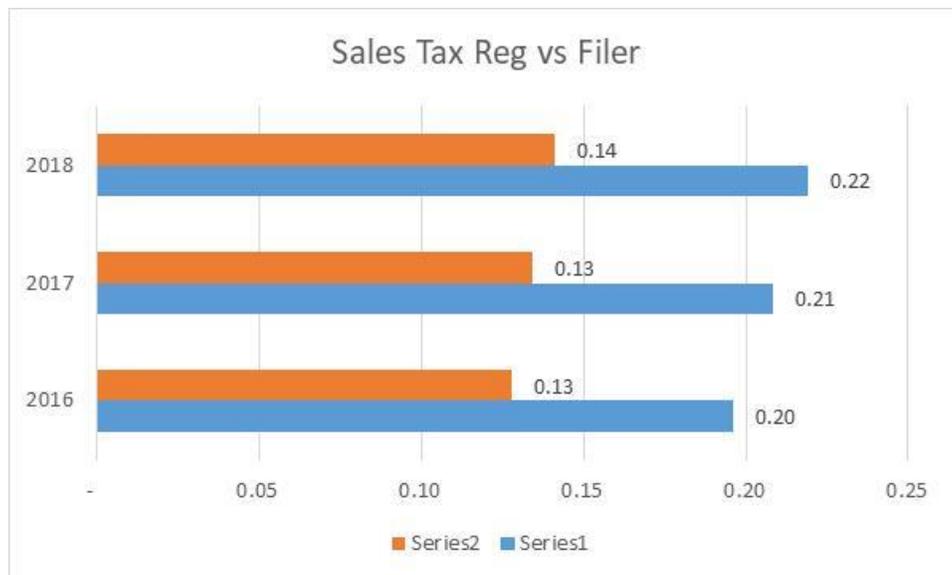
Source: FBR Year Books.

Figure C-8: Income Tax Return filing analysis



Source: FBR Year Book 2018-19

Figure C-9: Sales Tax Compliance analysis



Annexure-D

Blueprint of HST

Canadian perspective

Introduction

The goods and services tax (GST) is a tax that applies to the supply of most goods and services in Canada¹. These goods and services also include real property and intangible personal property. In Canada, generally, the harmonized sales tax (HST) applies to the same base of property and services as GST. HST is imposed in provinces that have harmonized their provincial sales tax with the GST; these provinces are referred to as the “participating provinces”. The participating provinces are New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and Prince Edward Island. In the remaining provinces and territories, GST is imposed on taxable goods and services. In these provinces, there may also be a provincial sales tax or a retail sales tax in place. In Pakistani scenario as discussed in the paper there is a need to convince Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan to be “participating provinces” in HST as it will be beneficial for the entire federation as well as helping the taxpayers to deal with only one revenue agency. Provinces will get full participation in the tax collection process as part of National Tax Agency (NTA)

Historic background

“On October 23, 1996, three Atlantic Canada provinces — Newfoundland, Nova Scotia, and New Brunswick — together with the federal government, announced that they would harmonize their respective provincial sales taxes (PST) with the federal Goods and Services Tax (GST). The three PST rates would be equalized and lowered to 8 percent. Furthermore, the three PST tax bases would be converted to the GST valued-added base, and be expanded to include those goods and services exactly covered by the GST.

The tax-collection and tax-compliance mechanisms would be merged such that the federal government would collect the harmonized sales tax (HST). Before the official HST announcement, going back to when the original tax harmonization intentions were made in April 1996, a host of policy discussions among the participating governments, the provincial opposition parties, and the media were held to assess the potential impact of HST on consumer prices. The federal government and the three HST-participating provincial governments claimed that the HST would benefit.

The opposition parties, the media, and many lobby groups stated that the HST would raise consumer prices, similar to the way in which the earlier

¹ http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/gnrl/menu-eng.html#wht_sppls

GST raised consumer prices in 1991. Also, there was the worry that lower income households would be disproportionately hurt by the HST — analogous to the earlier debate of how the GST would disproportionately affect lower income families. A formal agreement to legislate the HST was officially signed on 23 October 1996. Briefly put, the HST consists of the following:

- The provincial sales tax bases of the three participating provincial governments will be converted into value-added tax bases, the bases defined to be exactly equivalent to the operative GST tax base.
- The provincial sales tax rates in operation at the time of the sales tax conversion (12% for Newfoundland; 11% in New Brunswick; and 11% in Nova Scotia) will be reduced to 8 percent for all three provinces, and will be defined as the “provincial sales tax portion” of the HST.
- The participating provinces will no longer apply their provincial sales tax onto the GST, that is, imposing “a tax upon a tax,” as was done before the HST was put into effect. In the case of New Brunswick and Nova Scotia, the 11 percent PST applied on the 7 percent GST meant that an extra 0.77 percent tax was collected on taxable goods before the HST was instituted.
- Businesses would now file one unified HST form (replacing the earlier GST), pay the tax, and receive credits, using the HST rate (instead of the GST rate). In turn, the federal government now collects the HST tax, and rebates the provincial sales tax portion of the HST back to the participating provinces. The participating provinces have closed their respective sales tax collection departments, transferring employees to other areas of work. This was similar to the run-up of the implementation of the GST before 1991, there were many controversies surrounding the HST.

The participating governments agreed to enforce “tax-inclusive pricing” for all goods and services. The total price of commodities, including the total 15 percent HST tax rates, were to be stated on price tickets and advertising. Criticism from retailers, lobby groups, and the media led the senate to amend the original tax-in policy. The federal government passed the amended HST law, whereby retailers and others were given the option of showing tax inclusive and tax-exclusive prices.

Second, in the HST-participating provinces a considerable lobbying effort was launched against the prospect of provincial sales taxation on textbooks, a protest that continued throughout much of 1996. As a result of this protest, when the HST was announced in October 1996, Canada’s

then Finance Minister Paul Martin also stated that a full Canada-wide GST rebate would be applied to textbooks, library books, and books purchased by non-profit organizations (Finance Canada 1996a). Similar rebates would be given on the provincial sales tax portion of the GST.

The stated objective of the HST was to further tax harmonization, both vertical and horizontal. Horizontal harmonization takes place when states or provinces in a federation set identical tax bases. In this sense the HST is seen as a limited success since only three provinces comprising only a small part of the national economy took part. Vertical harmonization occurs when — in a situation where multi-level jurisdictions tax the same revenue source — the lower level jurisdiction sets an identical tax base with the higher level jurisdiction. The HST, with vertical harmonization, needs only one form to be filed, instead of two: PST and GST respectively. This reduction in complexity reduces taxpayer costs (having less paperwork and accounting documentation) and administration costs (the three HST provinces no longer collect the tax).

In the promotional literature on the HST, the federal government stated these objectives. The literature advertised “a simpler tax system for both consumers and businesses,” “lower costs and less paperwork” for businesses that will improve their “competitiveness.” Although not specifically an objective of tax harmonization, the value-added feature of the HST was also well promoted. Analogous to the GST, the value-added nature of the provincial sales tax portion means that exporters in the participating provinces (exporters shipping to other provinces as well as to international destinations) could export at more competitive prices, since taxes on all intermediate goods and services would be credited back to the exporting firms.

The belief that businesses would benefit from the HST was generally well accepted at the time of the original announcement. But there is no clear a priori reason, before the HST came into effect, as to why the implementation of the HST in the participating provinces would in fact lower average consumer prices.

In theory, overall consumption prices could either rise or fall for the following reasons. First, since the new HST broadens the overall tax base, consumer prices would rise for those components that are taxed under the GST, but not taxed under the provinces’ PST. Many such components — fuel and electricity, most clothing and footwear, gasoline and diesel fuel, and purchased transportation — typically make up a significant part of the household’s budget.

Second, for many other items already covered by both the old PST and GST before the HST came into being, consumer prices would fall, since the new rate covering the “provincial portion” of the HST falls to 8 percent from a higher old PST rate. These items include snack foods, personal

care products, cleaning supplies, electronic products, restaurant meals, and “big ticket” items such as new and used cars, appliances and furniture, among many goods purchased.

It was generally accepted that these effects that raise prices on some products and lower them on others would take place in the short run, immediately as the HST came into effect on 1 April 1997. Furthermore, after the HST came into being, firms at each stage of production paid no effective provincial tax on capital and intermediate goods and services. The move to the HST meant that producer, wholesaler, and retailer costs were lowered on this account, and that the lowering of such costs, through market competition, would take place over time.

Similarly, it was expected that consumers would adjust their purchases to buy less of goods whose prices went up, and more of those goods that became less costly. In other words, a longer run adjustment of consumer prices after the original HST-implementation took place on 1 April 1997. Finally, the federal government agreed to special transfers to the HST-participating governments, to partially compensate for the anticipated shortfall in sales tax revenues.

Most economists support the efficiency arguments for tax harmonization. Yet the failure to bring in the seven non-participating provinces might be the result of the federal government’s insistence on a harmonized, equal sales tax rate. The pre-harmonized sales tax rates among the provinces were so unequal that it was difficult to find unanimous agreement on a uniform tax rate. But perhaps agreement on a harmonized tax base, without a harmonized tax rate, would have been a more achievable goal.

The participating provinces could have agreed on a uniform tax base such as the GST tax base, but then agree to be allowed to set their own tax rates. Such a scheme is analogous to the current personal income tax system. Yet the efficiency gains for having a common tax base, vertical and horizontal, would be retained. The questions of impacts on consumers for such a scheme would still have to be answered, but the ultimate goal of full-fledged sales tax cooperation could be attained¹.

As per agreement, HST is collected by the Canada Revenue Agency, which then remits the appropriate amounts to the participating provinces. Studies² conducted have been equivocal about the success of HST implementation for the economies of participating provinces and their consumers.

1 **The Effect of the Harmonized Sales Tax on Consumer Prices in Atlantic Canada**, David Murrell and Weiqiu Yu, Department of Economics University of New Brunswick Fredericton, New Brunswick <http://qed.econ.queensu.ca/pub/cpp/Dec2000/Murrell.pdf>

2 *ibid*

Who pays the GST/HST?

Almost everyone has to pay the GST/HST on purchases of taxable supplies of property and services (other than zero-rated supplies). However, certain persons may not always pay the GST/HST on taxable supplies. These exceptions may be decided to protect certain backward areas.

Who charges the GST/HST?

GST/HST registrants, or businesses required to have a GST/HST registration number, must charge and account for the GST on taxable supplies (other than zero-rated supplies) of goods and services. Where GST/HST registrants make taxable supplies (other than zero-rated supplies) in a participating province, they must charge and account for the HST instead of the GST. GST/HST registrants must meet certain responsibilities. Generally, they must file returns on a regular basis, collect the tax on taxable supplies they make, and remit any resulting net tax owing.

What supplies does the GST/HST apply to?

Most goods and services supplied in or imported are taxable supplies and are subject to the GST/HST. Some supplies of goods and services are taxable at the rate of 0 percent (zero-rated¹). GST/HST is charged at a rate of 0 percent on these supplies. Some common examples of zero-rated supplies of property and services are:

- basic groceries such as milk, bread, and vegetables;
- agricultural products such as grain and raw wool;
- prescription drugs and drug-dispensing fees; and
- medical devices such as hearing aids and artificial teeth.

A limited number of goods and services are exempt from GST/HST. This means the GST/HST is not charged. Some common examples of exempt supplies of property and services are:

- most services provided by financial institutions such as arrangements for a loan or mortgage;
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities;
- certain goods and services provided by non-profit organizations, governments, and other public service bodies such as municipal transit services and standard residential services such as water distribution;

¹ <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/glssry-eng.html#zero>

- used residential housing;
- long-term residential accommodation (of one month or more), and residential condominium fees;
- most health, medical, and dental services performed by licensed physicians or dentists for medical reasons;
- child-care services (day-care services for less than 24 hours a day) for children 14 years old and younger;
- bridge, road, and ferry tolls (ferry tolls are taxed at 0% if the ferry service is to or from a place outside Canada);
- legal aid services;
- many educational services such as:
 - courses from a vocational school that leads to a certificate or a diploma to practice a trade or a vocation, or
 - tutoring services for an individual who takes a course approved for credit by a school authority or the service follows a curriculum designated by a school authority;
 - music lessons;

Success in Canada

The introduction of the HST changed the PST for the participating provinces from a cascading tax system, which has been abandoned by most economies throughout the world to a value added tax like the GST. To help maintain revenue neutrality of total taxes on individuals, the Canadian government and the participating provincial governments have accompanied the change from a cascading tax to a value-add tax with a reduction in income taxes, and instituted direct transfer payments (refundable tax credits) to lower-income groups. The federal government provides a refundable “GST Credit” of up to \$248 per adult and \$130 per child to low income people. Provinces offer similar adjustments, such as Newfoundland and Labrador providing a refundable tax credit of up to \$40 per adult and \$60 for each child.

Indian perspective

Introduction

The Goods and Service Tax Bill or GST Bill¹, was proposed a national value added tax to be implemented in India and was finally adopted in 2017. “Goods and Services Tax” is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments.

¹ It is officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014

GST is levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method¹. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility is generally rest with a single authority to levy tax on goods and services. Exports are zero-rated and imports are subjected the same taxes as domestic goods and services adhering to the destination principle. It is appropriate time that Pakistan should also strive for unified sales tax on goods and services.

The adoption of Goods and Services Tax (GST) proved to be a significant step in the reform of indirect taxation in India. Amalgamating several central and state taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage is in terms of a reduction in the overall tax burden on goods, which was prior to imposition of integrated sales tax in India was estimated at 25-30 percent.

We can collect Rs. 4000 billion through integrated sales tax on goods and services as against collection of around Rs. 1659 by the Federal Government through sales tax on goods in 2019-20 [Rs. 1459 billion in 2018-19] and provinces by sales tax on services [cumulatively Rs. 190 billion]. The additional revenue collection of around Rs. 2300 billion will not only give fiscal space to the federal government to narrow down fiscal deficit but will also enhance distribution amount to the provinces. Distribution will be strictly as per Constitution. The collection under new law will be by FBR till NTA is made functional. The provincial assemblies need to pass only resolutions under Article 144 of the Constitution empowering the National Assembly to enact integrated sales tax on goods and services. There is no need to enter into controversial amendment in the Constitution disturbing 18th Amendment. The slogan of ‘One nation, One Tax’, adopted by India in 2017, and Harmonised Sales Tax (HST) by Canadian federal and provincial governments is the way forward as taxpayers operating on trans-provincial level are facing many difficulties.

In India, before levying single national level GST, the following points were raised, which we need to keep in mind as well:

“The GST is a very good type of tax. However, for the successful implementation of the same, we must be cautious about a few

¹ [https://en.wikipedia.org/wiki/Goods_and_Services_Tax_\(India\)_Bill](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)_Bill)

aspects. Following are some of the factors that must be kept in mind about GST:

- Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability.
- For smooth functioning, it is important that the GST clearly sets out the taxable event. Presently, the CENVAT credit rules, and the point of taxation rules are amended/ introduced for this purpose only. However, the rules should be more refined and free from ambiguity.
- The GST is a destination based tax, not the origin one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in case of services, because it is not easy to identify where a service is provided, thus this should be properly dealt with.
- More awareness about GST and its advantages have to be made, and professionals like us really have to take the onus to assume this responsibility”¹.

Pakistan and India are federal states and the introduction of harmonised sales tax requires consensus and concurrent implementation by the federal and provincial governments.

Historic background

In 2000, the Vajpayee government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, Finance Minister of Government of West Bengal. It was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the new tax will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

The Kelkar Task Force on implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been

¹ <https://www.quora.com/How-will-the-goods-and-sevices-tax-GST-work-in-India-How-is-it-any-different-than-the-value-added-tax-VAT>

steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle. GST system is targeted to be a simple, transparent and efficient system of indirect taxation as has been adopted by over 130 countries around the world. This involves taxation of goods and services in an integrated manner as the blurring of line of demarcation between goods and services has made separate taxation of goods and services untenable.

The introduction of an Goods and Services Tax (GST) to replace the existing multiple tax structures of centre and state taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transactions value into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. The integration of various central and state taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

A proposal to introduce a national level Goods and Services Tax by April 1, 2010 was first mooted in the budget speech for the financial year 2006-07. Since the proposal involved reform/ restructuring of not only indirect taxes levied by the centre but also the states, the responsibility of preparing a design and road map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).

In April, 2008, the EC issued a report titled "A Model and Roadmap for Goods and Services Tax (GST) in India" containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST. Based on inputs from the centre and the states, the EC released its First Discussion Paper on Goods and Services Tax in India on the 10th of November, 2009 with the objective of generating a debate and obtaining inputs from all stakeholders.

A dual GST module for the country was proposed by the EC. This dual GST model has been accepted by centre. Under this model, GST have two components viz. the central GST to be levied and collected by the centre, and the state GST to be levied and collected by the respective states. Central excise duty, additional excise duty, service tax, and additional duty of customs (equivalent to excise), state VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

In order to take the GST related work further, a Joint Working Group consisting of officers from central as well as state governments was constituted. This was further trifurcated into three sub-working groups to work separately on draft legislations required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST.

In addition, an Empowered Group for development of IT Systems required for GST regime had been set up under the chairmanship of Dr. Nandan Nilekani. A draft of the Constitutional Amendment Bill was later prepared and sent to the EC for obtaining views of the states. After the final inputs, the Goods and Service Tax Bill or GST Bill was passed by the Indian Parliament.

Malaysian perspective

Introduction

GST is a broad based consumption tax in Malaysia covering all sectors of the economy i.e. all goods and services made in Malaysia including imports except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by the Minister of Finance and published in the official gazette.

GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

The basic fundamental of GST is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction in their accounting system. This eases the administrative procedures on the part of businesses and the government. Thus, the government's delivery system will be further enhanced.

“Over the past few decades, the worldwide trend has been for the introduction of a multi-stage GST system. Today, almost 90 percent of the world's populations live in countries with GST, including China, Indonesia, Thailand, Singapore and India”¹.

¹ http://gst.customs.gov.my/en/gst/Pages/gst_hdw.aspx

Annexure-E

National Tax Appellate Tribunal Bill, 2021

ACT NO. ----- OF 2021

An Act to provide for the adjudication, by an appellate tribunal, of disputes with respect to all federal tax codes and for matters connected therewith or incidental thereto.

Short title, extent and commencement

1. Short title, extent and commencement

(1) This Act may be called the National Tax Appellate Tribunal Act, 2016.

(2) It extends to the whole of Pakistan.

(3) It shall come into force on such date as the Federal Government may, by notification in the Official Gazette, appoint.

2. Definitions. In this Act, unless the context otherwise requires, -- (a) "Appellate Tribunal" means the Tax Appellate Tribunal constituted under section 3; (b) "appointed day" means the date with effect from which the Appellate Tribunal is established, by notification, under section 3; (c) "Bench" means a Bench of the Appellate Tribunal; (d) "Board" means the Federal Board of Revenue constituted under the Federal Board of Revenue Act, Act, 2007 (Act No. IV of 2007); (e) "federal tax codes" mean the acts annexed at Schedule I to this Act; (f) "Member" means a Member of the Appellate Tribunal and includes the President; (g) "notification" means a notification published in the Official Gazette; (h) "President" means the President of the Appellate Tribunal; (i) "prescribed" means prescribed by rules; (j) "rules" means rules made under this Act; and (k) "Supreme Court" means the Supreme Court of Pakistan as defined in Constitution of Pakistan;

3. Establishment of the Appellate Tribunal. The Federal Government shall by notification, establish a tax appellate tribunal, to be known as Tax Appellate Tribunal, to exercise the jurisdiction, powers and authority conferred on such Appellate Tribunal by or under this Act.

4. Composition of the Appellate Tribunal and Benches thereof. (1) The Appellate Tribunal shall consist of a President and such number as the President with the approve of Chief Justice of Pakistan may deem fit, and subject to the other provisions of this Act, the jurisdiction, powers and authority of the Appellate Tribunal may be exercised by Benches thereof.

(2) A Bench shall consist of at least two Members.

(3) Subject to the other provisions of this Act, the Benches of the Appellate Tribunal shall ordinarily sit at Islamabad and at such other places as the President may deem fit.

5. Qualifications for appointment as President or Member. (1) A person shall not be qualified for appointment as the President unless he-- (a) is, or has been, a Judge of a High Court; or (b) has, for at least two years, held the office of a Member of Appellate Tribunal.

(2) A person shall not be qualified for appointment as a Member unless he-- (a) is, or has been, or is qualified to be, a Judge of a High Court; or (b) has been a member of the Judicial Service and has held a post of District and Sessions Judge or any equivalent or higher post for at least five years.

6. Appointment of President and Members. (1) Subject to the provisions of sub-section (2), the President and every Member shall be appointed by the President of Pakistan following the same procedure as is laid down in the Constitution of Islamic republic of Pakistan for appointments of Judges of High Court.

(2) Appointment of a person as the President or a Member shall be made in consultation with a Selection Committee consisting of-- (a) a Chairman who shall be nominated by the Chief Justice of Pakistan; and (b) such other members as may be nominated by the President of Pakistan through gazette notification.

7. Member to act as President or to discharge his functions in certain circumstances. (1) In the event of the occurrence of any vacancy in the office of the President by reason of his death, resignation or otherwise, such one of the Members as the President, on the advice of Chief Justice of Pakistan, may by notification, authorise in this behalf, shall act as the President until the date on which a new President, appointed in accordance with the provisions of this Act to fill such vacancy enters upon his office.

(2) When the President is unable to discharge his functions owing to absence, illness or any other cause, such one of the Members as the President, on the advice of Chief Justice of Pakistan, may by notification, authorise in this behalf, shall discharge the functions of the President until the date on which the President resumes his duties.

8. Term of office. The President or other Member shall hold office as such for a term that is prescribed in the Constitution of Islamic Republic of Pakistan for the Judges of the High Court.

9. Resignation and removal. (1) The President or other Member may, by notice in writing under his hand addressed to the President of Pakistan, resign his office: Provided that the President or other Member shall, unless he is permitted by the President of Pakistan to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of his term of office, whichever is the earliest.

(2) The President or any other Member shall not be removed from his office except by an order made by the President of Pakistan on the ground of proved misconduct or incapacity after an inquiry made by a Judge of the Supreme Court in which such President or other Member had been informed of the charges against him and given a reasonable opportunity of being heard in respect of those charges.

(3) The Chief Justice of Pakistan may, by rules, regulate the procedure for the investigation of misconduct or incapacity of the President or other Member referred to in sub-section (2).

10. Salaries and allowances and other terms and conditions of service of President and other Members. The salaries and allowances payable to, and the other terms and conditions of service (including pension, gratuity and other retirement benefits) of the President and other Members shall be the same as that of Judges of the High Court.

12. Financial and administrative powers of President. The President shall exercise such financial and administrative powers over the Benches as may be vested in him under the rules: Provided that the President shall have authority to delegate such of his financial and administrative powers as he may think fit to any Member or officer of the Appellate Tribunal, subject to the condition that the Member or such officer shall, while exercising such delegated powers, continue to act under the direction, control and supervision of the President.

13. Staff of the Appellate Tribunal. (1) The President shall determine the nature and categories of the officers and other employees required to assist the Appellate Tribunal in the discharge of its functions and provide the Appellate Tribunal with such officers and other employees as it may think fit.

(2) The officers and other employees of the Appellate Tribunal shall discharge their functions under the general superintendence of the President.

(3) The salaries and allowances and conditions of service of the officers and other employees of the Appellate Tribunal shall be the same as that of judicial staff of High Courts.

14. Jurisdiction, powers and authority of the Appellate Tribunal. Save as otherwise expressly provided in this Act, the Appellate Tribunal shall exercise, on and from the appointed day, all the jurisdiction, powers and authority exercisable in relation to an appeal against any appealable order mentioned in tax codes contained in Schedule I of this Act.

15. Power to punish for contempt. The Appellate Tribunal shall have, and exercise, the same jurisdiction, powers and authority in respect of contempt of itself as a High Court has and may exercise, and, for this purpose, the provisions of the Contempt of Courts Act shall have effect

subject to the modifications that-- (a) the references therein to a High Court shall be construed as including a reference to the Appellate Tribunal; (b) the references to the Advocate-General shall be construed, in relation to the Appellate Tribunal, as a reference to the Attorney-General.

16. Distribution of business amongst the Appellate Tribunal and its Benches. (1) Where any Benches of the Appellate Tribunal are constituted, the President may, from time to time, by order, make provisions as to the distribution of the business of the Appellate Tribunal amongst the Benches and specify the matters which may be dealt with by each Bench.

(2) If any question arises as to whether any matter falls within the purview of the business allocated to a Bench of the Appellate Tribunal, the decision of the President thereon shall be final.

17. Appeals to Appellate Tribunal. (1) Subject to the other provisions of this Act, every appeal to the Appellate Tribunal under this Act shall be filed within three months from the date on which the decision or order sought to be appealed against is communicated to the person aggrieved by the decision.

(2) On receipt of notice that an appeal has been preferred under this section, the party against whom the appeal has been preferred may, notwithstanding that he may not have appealed against such decision or order or any part thereof, file within forty-five days of the receipt of the notice a memorandum of cross-objections verified in such manner as may be specified by rules made in this behalf against any part of the order appealed against and such memorandum shall be disposed of by the Appellate Tribunal as if it were an appeal presented within the time specified in sub-section (1).

(3) The Appellate Tribunal may admit an appeal or permit the filing of a memorandum of cross-objections after the expiry of the relevant period referred to in sub-section (1) or sub-section (2), if it is satisfied that there was sufficient cause for not presenting it within that period.

(4) Every appeal to the Appellate Tribunal shall be in such form and shall be verified in such manner as may be specified by rules made in this behalf and shall, except in the case of an appeal preferred by the proper officer or a memorandum of cross-objections referred to in sub-section (2), be accompanied by a fee of two hundred rupees.

18. Procedure and powers of the Appellate Tribunal. (1) The Appellate Tribunal shall not be bound by the procedure laid down in the Code of Civil Procedure, 1908 (5 of 1908), but shall be guided by the principles of natural justice and subject to the other provisions of this Act and of any rules made by the Appellate Tribunal shall have power to regulate its own procedure, including the fixing of places and times of its hearing.

(2) The Appellate Tribunal shall have, for the purposes of discharging its functions under this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely:-- (a) summoning and enforcing the attendance of any person and examining him on oath; (b) requiring the discovery, inspection and production of books of account and other documents; (c) reviewing its decisions; (d) dismissing an appeal for default or deciding it ex parte; and (e) any other matter which may be prescribed.

19. Deposit, pending appeal, of duty demanded or penalty levied.

Where in any appeal under this Act, the decision or order appealed against relates to any duty demanded in respect of goods which are not under the control of the federal excise authorities or the customs authorities, as the case may be, or any penalty levied under the Federal Excises Act or the Customs Act, the person desirous of appealing against such decision or order shall, pending the appeal, deposit with the proper officer the duty demanded or the penalty levied: Provided that where in any particular case, the Appellate Tribunal is of opinion that the deposit of duty demanded or penalty levied would cause undue hardship to such person, the Appellate Tribunal may dispense with such deposit subject to such conditions as it may deem fit to impose so as to safeguard the interests of revenue.

20. Right of applicant to take assistance of legal practitioner and Government to appoint representing officers.

(1) A person preferring an appeal to the Appellate Tribunal under this Act may either appear in person or take the assistance of a legal practitioner of his choice to present his case before the Appellate Tribunal.

(2) The Federal Government may authorise one or more legal practitioners or any of its officers to act as presenting officer and any person so authorised by it may present its case with respect to any appeal before the Appellate Tribunal.

21. Conditions as to making of interim orders.

Notwithstanding anything contained in any other provisions of this Act or in any other law for the time being in force, no interim order (whether by way of injunction or stay or in any other manner) shall be made on, or in any proceedings relating to, an appeal under this Act unless-- (a) copies of such appeal and of all documents in support of the plea for such interim order are furnished to the party against whom such appeal is preferred; and (b) opportunity is given to such party to be heard in the matter: Provided that the Appellate Tribunal may dispense with the requirements of clauses (a) and (b) and make an interim order as an exceptional measure if it is satisfied, for reasons to be recorded in writing, that it is necessary so to do for preventing any loss being caused to the appellant which cannot be adequately compensated in money but any such interim order shall, if it is not sooner vacated, cease to have

effect on the expiry of a period of fourteen days from the date on which it is made unless the said requirements have been complied with before the expiry of that period and the Appellate Tribunal has continued the operation of the interim order.

22. Power of President to transfer cases from one Bench to another. On the application of any of the parties and after notice to the parties, and after hearing such of them as he may desire to be heard, or on his own motion without such notice, the President may transfer any case pending before one Bench, for disposal, to any other Bench.

23. Procedure for deciding the case where the Members of a Bench differ in opinion. If the Members of a Bench differ in opinion on any point, they shall state the point or points on which they differ, and make a reference to the President who shall either hear the point or points himself or refer the case for hearing on such point or points by one or more of the other Members and such point or points shall be decided according to the opinion of the majority of the Members who have heard the case, including those who first heard it.

24. Orders of the Appellate Tribunal. (1) The Appellate Tribunal may, after giving the parties to the appeal an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or annulling the decision or order appealed against or may refer the case back to the authority which passed such decision or order with such directions as the Appellate Tribunal may think fit, for a fresh adjudication or decision, as the case may be, after taking additional evidence, if necessary.

(2) The Appellate Tribunal may, at any time within four years from the date of the order, with a view to rectifying any mistake apparent from the record, amend any order passed by it under sub-section (1) and shall make such amendments if the mistake is brought to its notice by any party to the appeal: Provided that an amendment which has the effect of enhancing the assessment or reducing a refund or otherwise increasing the liability of the other party shall not be made under this sub-section, unless the Appellate Tribunal has given notice to him of its intention to do so and has allowed him a reasonable opportunity of being heard.

(3) The Appellate Tribunal shall send a copy of every order passed under this section to the concerned taxation officer and the other party to the appeal.

25. Exclusion of jurisdiction of courts, etc On and from the appointed day after deleting section 133 of the Income Tax ordinance, 2001, section 37I of the Sales Tax Act, 1990, section 34A of the Federal Excise Act, 2005 and section 196 of the Customs Act, 1969, no court (except the Supreme Court) shall have, or be entitled to exercise, any jurisdiction, powers or authority in relation to matters in respect of which appeals would lie to the Appellate Tribunal under section 14.

26. Transfer of pending cases. (1) Every suit, appeal or other proceeding pending before any court or other authority or the Income Tax Appellate Tribunal, Customs, Excise and Sales tax Appellate Tribunal, immediately before the appointed day, being a suit, appeal or other proceeding which would have been within the jurisdiction of the Appellate Tribunal, if it had arisen after such day, shall stand transferred on that day to the Appellate Tribunal: Provided that nothing in this sub-section shall apply to any appeal and or reference pending as aforesaid before a High Court.

(2) Where any suit, appeal or other proceeding stands transferred from any court, tribunal or other authority to the Appellate Tribunal under sub-section (1), the Appellate Tribunal may, on receipt of such records, proceed to deal with such suit, appeal or other proceeding, so far as may be, in the same manner as in the case of an appeal under section 18 from the stage which was reached before such transfer or from any earlier stage or de novo as the Appellate Tribunal may deem fit.

(3) Any person, who immediately before the appointed day, is an advocate or authorised representative entitled to practice in any court or other authority or Income tax Appellate Tribunal, or the Customs, Excise and Sales tax Appellate Tribunal and was authorised to appear or to act in any proceedings transferred from the said court, other authority or Tribunal to the Appellate Tribunal under this section shall have the right to appear or to act, as the case may be, before the Appellate Tribunal in relation to the said suit, appeal or other proceeding.

27. Proceedings before the Appellate Tribunal to be judicial proceedings. All proceedings before the Appellate Tribunal shall be deemed to be judicial proceedings within the meaning of sections 193, 219 and 228 of the Pakistan Penal Code (45 of 1860).

28. Act to have overriding effect. The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force or any instrument having effect by virtue of any law other than this Act.

29. Power to make rules. (1) The President of Pakistan may, by notification, make rules to carry out the provisions of this Act.

(2) Without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:- (a) the salaries and allowances and other terms and conditions of service of the President and other Members under section 10; (b) the financial and administrative powers which the President may exercise over the Benches under section 12; (c) the salaries and allowances and conditions of service of the officers and other employees of the Appellate Tribunal under sub-section (3) of section 13; (d) the form in which every appeal to the Appellate Tribunal shall be filed and the manner in which such appeal

shall be verified under sub-section (4) of section 18; (e) the rules subject to which the Appellate Tribunal shall have power to regulate its own procedure under sub-section (1) of section 19 and the additional matters in respect of which the Appellate Tribunal may exercise the powers of a civil court under clause (e) of sub-section (2) of that section; and (f) any other matter which has to be, or may be, prescribed by rules under this Act.

(3) Every rule made under this Act shall be laid, as soon as may be after it is made, before both of Houses of Parliaments, while it is in session, for a total period of thirty days which may be comprised in one session, or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

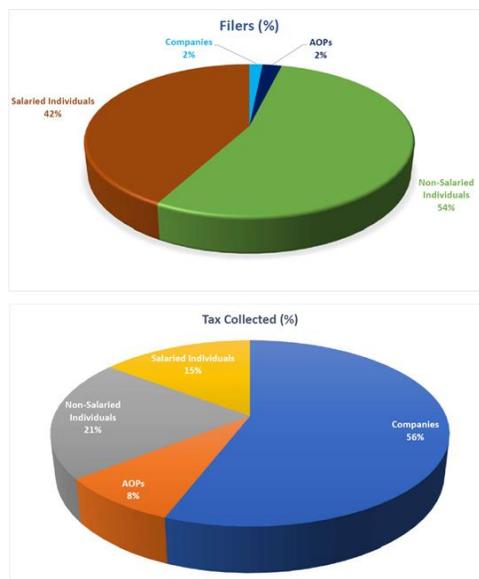
30. Power to remove difficulties. (1) If any difficulty arises in giving effect to the provisions of this Act, the President may, by order published in the Official Gazette, make such provisions, not inconsistent with the provisions of this Act as appear to it to be necessary or expedient for removing the difficulty: Provided that no such order shall be made after the expiry of a period of three years from the appointed day.

(2) Every order made under this section shall, as soon as may be after it is made, be laid before each House of Parliament.

Annexure-F**Tax Directory 2018 Analysis by FBR¹****FOR YEAR ENDED 30 JUNE 2018**(Returns filed up to 14th September 2020)

Data analysis is based on Income Tax

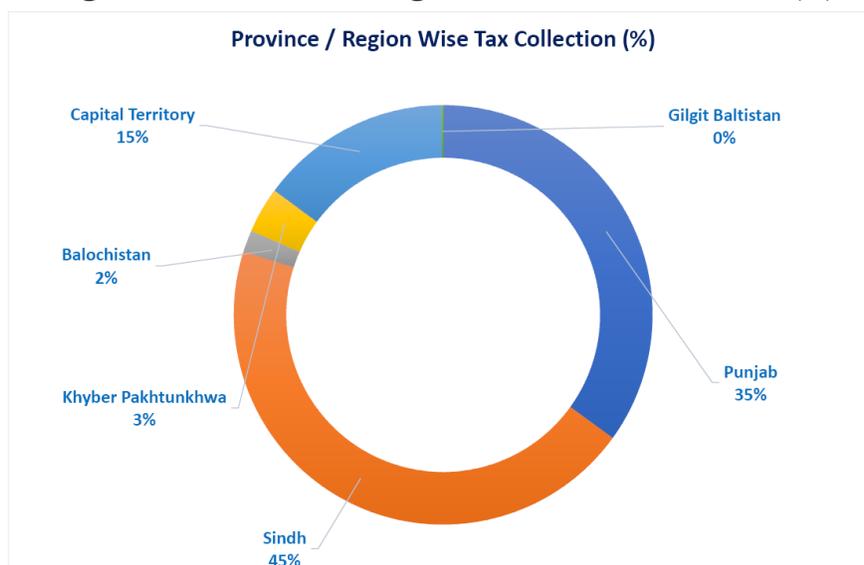
Type	# of Filers	Filers (%)	Tax Collected (%)
Companies	44,609	1.56	55.84
AOPs	64,336	2.26	8.49
Non-Salaried Individuals	1,542,088	54.06	21.01
Salaried Individuals	1,201,316	42.12	14.66
Total	2,852,349	100	100

Figure F-1: Filers and Tax Collections (%)

¹ This is verbatim reproduction of FBR's 'The Tax Directory Analysis for Tax Year 2018 For Year ended 2018 (Return filed up to 14th September 2020)', released for the first time since start of publishing directories for tax year 2013, presents figures of return filers and their contribution—category-wise as well as on the basis of provinces, large cities and leading markets but without giving the total amount of income tax received on the basis of returns filed up to September 14, 2020. Our critical analysis on it is published in two-part series, publishes in *Business Recorder*: **FBR's statistics: a critical analysis—I**, *Business Recorder*, September 25, 2020 and **FBR's statistics: a critical analysis—II**, *Business Recorder*, September 25, 2020.

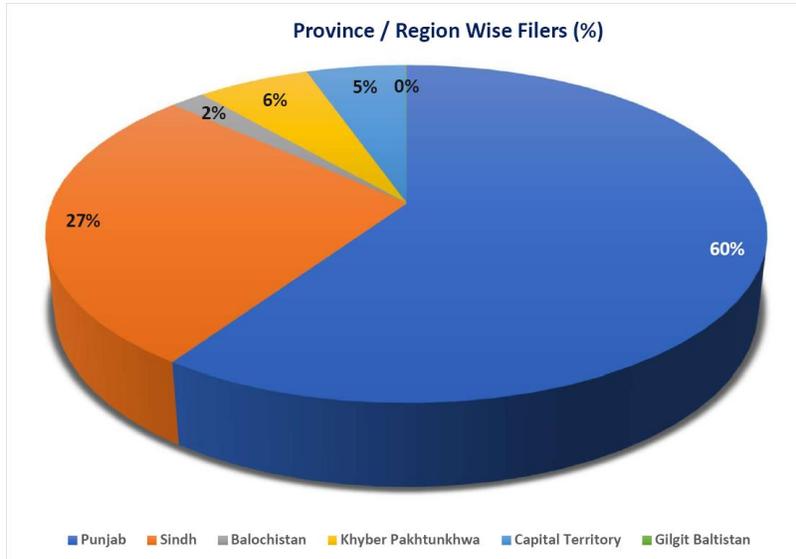
Province / Region	Tax Collected (%)
Punjab	34.99
Sindh	44.91
Balochistan	1.67
Khyber Pakhtunkhwa	3.54
Capital Territory	14.77
Gilgit Baltistan	0.12
Total	100

Figure F-2: Province/Region-wise Tax Collection (%)



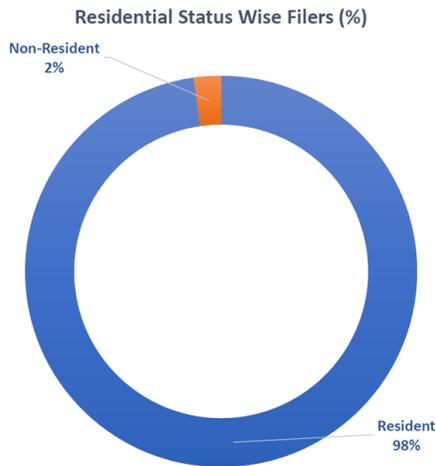
Province / Region	# of Filers	Filers (%)
Punjab	1,696,533	59.48
Sindh	779,771	27.34
Balochistan	52,101	1.83
Khyber Pakhtunkhwa	171,303	6.01
Capital Territory	151,204	5.30
Gilgit Baltistan	1,437	0.05
Total	2,852,349	100

Figure F-3: Province/Region-wise Filers (%)



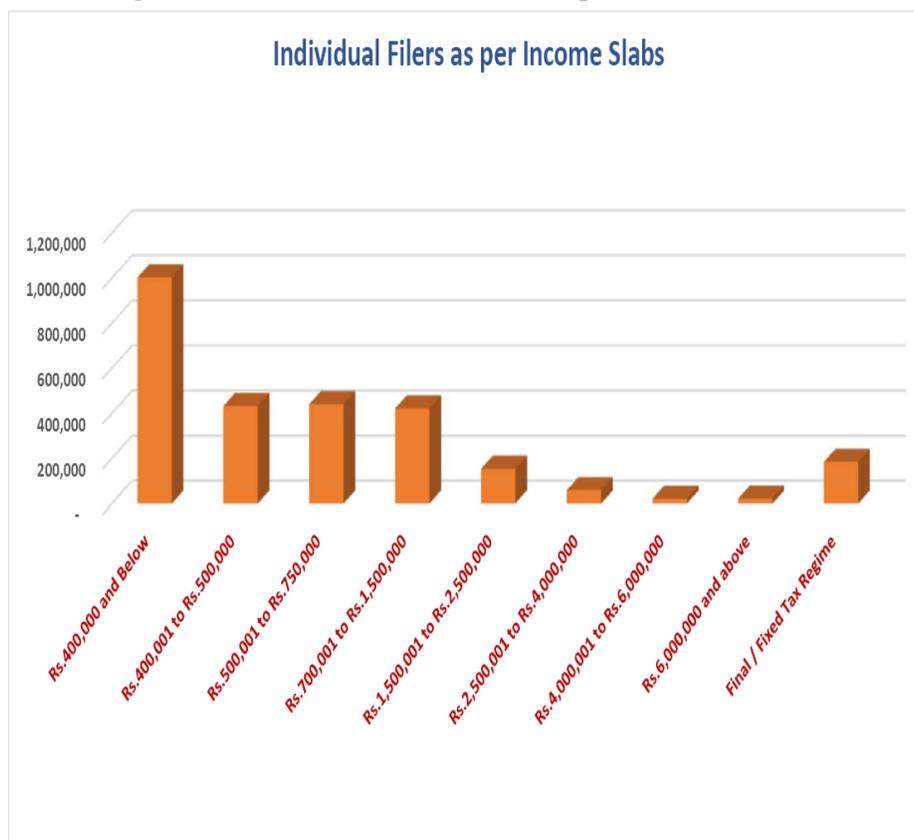
Status	# of Filers	Filers (%)
Resident	2,788,335	97.76
Non-Resident	64,014	2.24
Total	2,852,349	100.00

Figure F-4: Residential Status-wise Filers (%)



Taxable Income / Slab	# of Filers	Filers (%)
Rs.400,000 and Below	1,004,221	36.60
Rs.400,001 to Rs.500,000	433,144	15.79
Rs.500,001 to Rs.750,000	441,312	16.09
Rs.700,001 to Rs.1,500,000	422,349	15.40
Rs.1,500,001 to Rs.2,500,000	153,645	5.60
Rs.2,500,001 to Rs.4,000,000	59,276	2.16
Rs.4,000,001 to Rs.6,000,000	21,934	0.80
Rs.6,000,000 and above	22,593	0.82
Final / Fixed Tax Regime	184,930	6.74
Total	2,743,404	100

Figure F-5: Individual Filers as per Income Slabs



Taxable Income / Slab	# of Filers	Filers (%)
Rs.400,000 and Below	29,480	45.82
Rs.400,001 to Rs.500,000	2,412	3.75
Rs.500,001 to Rs.750,000	4,585	7.13
Rs.700,001 to Rs.1,500,000	5,280	8.21
Rs.1,500,001 to Rs.2,500,000	2,375	3.69
Rs.2,500,001 to Rs.4,000,000	1,357	2.11
Rs.4,000,001 to Rs.6,000,000	784	1.22
Rs.6,000,000 and above	1,379	2.14
Final / Fixed Tax Regime	16,684	25.93
Total	64,336	100

Figure F-6: AOP Filers as per Income Slabs

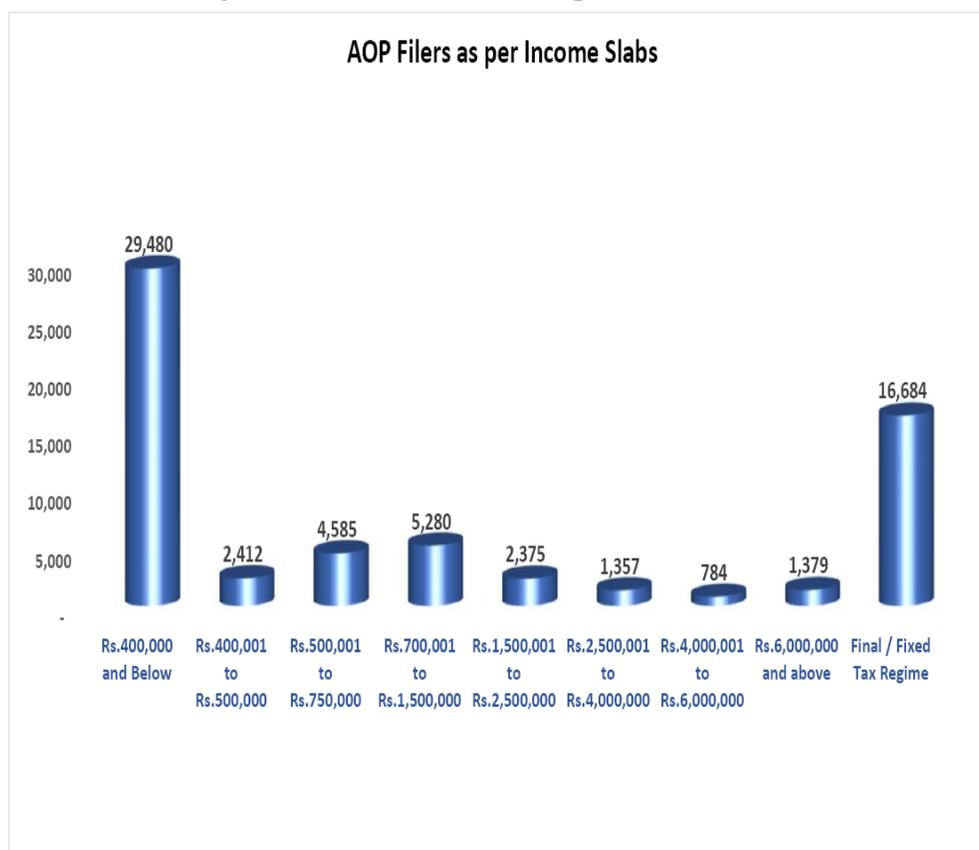


Table F-7: Corporate Filers as per Income Slabs		
Taxable Income / Slab	# of Filers	Filers (%)
Does Not Exceed Rs.500,000	31,561	70.75
Exceeds Rs.500,000 But Does Not Exceed Rs.1,000,000	1,167	2.62
Exceeds Rs.1,000,000 But Does Not Exceed Rs.1,500,000	907	2.03
Exceeds Rs.1,500,000 But Does Not Exceed Rs.3,000,000	1,357	3.04
Exceeds Rs.3,000,000 But Does Not Exceed Rs.5,000,000	876	1.96
Exceeds Rs.5,000,000 But Does Not Exceed Rs.7,000,000	552	1.24
Exceeds Rs.7,000,000	3,380	7.58
Final / Fixed Tax Regime	4,809	10.78
Total	44,609	100

Figure F-7: Corporate Filers as per Income Slabs

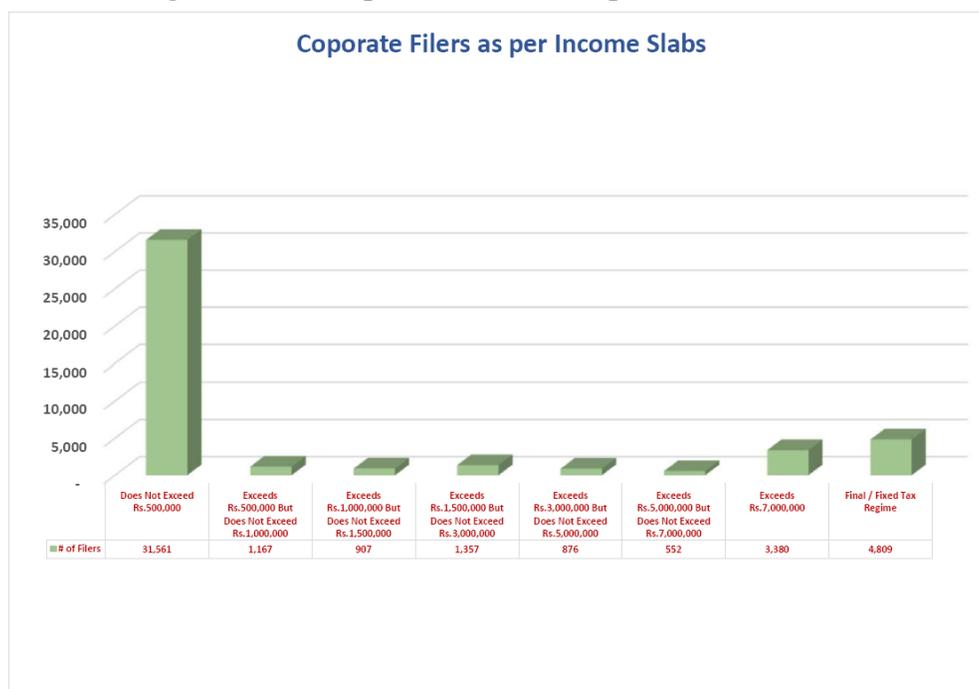


Table F-8: Tax Collection from Major Cities	
City	Tax Collected (Rs.)
ABBASPUR	1,826,613
ABBOTTABAD	1,610,871,493
ADENZAI	29,123,639
AHMADPUR EAST	184,707,729
AHMADPUR SIAL	38,508,592
ALI ABAD	2,503,565
ALIPUR	60,694,430
ALLAI	961,262
ALPURI	6,214,890
AMBAR UTMAN KHEL	2,728,238
ANANTHNAG	290,176
ARIF WALA	271,421,849
ASTORE	1,557,123
ATHMUQAM	1,097,811
ATTOCK	983,338,934
AWARAN	38,964,088
BADIN	262,247,157
BAGH	18,992,802
BAHAWALNAGAR	521,202,223
BAHAWALPUR	2,481,243,943
BAJAUR AGENCY	2,200
BALA KOT	36,703,353
BALAMBAT	1,739,971
BANDA DAUD SHAH	40,833,729
BANNU	237,142,722
BAQRANI	29,494,648
BAR CHAMER KAND	40,000
BARA	56,078,474
BARANG	6,373,301
BARAWAL	500,992

BARKHAN	16,340,523
BARNALA	1,353,347
BARSHORE	15,971,014
BATAGRAM	38,289,037
BELA	32,746,792
BHAG	1,871,467
BHAKKAR	359,879,959
BHALWAL	492,061,004
BHIMBER	9,820,140
BHIRIA	30,867,437
BIRMIL	2,187,218
BISHAM	48,961,332
BOLAN	30,000
BUDGAM	1,462
BULEDA	4,953,384
BUNER	878,618
BUREWALA	647,923,579
CENTRAL	81,074,080
CENTRAL KURRAM	2,857,373
CHACHRO	5,891,646
CHAGAI	21,511,303
CHAK JHUMRA	345,616,918
CHAKISAR	200,544
CHAKWAL	694,634,498
CHAMAN	75,891,456
CHARSADDA	260,182,750
CHHATTAR	1,905,375
CHICHAWATNI	429,021,898
CH I LAS	6,755,189
CH I N I OT	534,074,067
CH ISHTIAN	250,526,910
CH ITRAL	338,091,603
CH CIA SAI DAN SHAH	33,890,354

CHOTA LAHORE	839,462,423
CHOUBARA	5,118,758
CH U N IAN	230,501,192
D.I. KHAN	773,559,460
DADU	381,295,503
DAGGAR	37,100,401
DAHARKI	544,014,581
DALBAN DI N	42,269,364
DAREL/TANGIR	6,488
DARYA KHAN	63,435,871
DASHT(KECH)	571,695
DASHT(MASTUNG)	178,623
DASKA	472,957,956
DASSU	1,407,947
DATTA KHEL	431,485
DAULAT PUR	21,949,247
DE-EXCLUDED AREA D.G KHAN	604,327,387
DE-EXCLUDED AREA RAJANPUR	148,822,495
DEPALPUR	473,294,013
DERA BUGTI	49,473,668
DERA GHAZI KHAN	6,357,384,959
DERA MURAD JAMALI	35,844,283
DHADAR	9,842,544
DHIR KOT	3,997,464
DIAMIR	61,304
DIGRI	72,499,051
DI PLO	10,476,667
DIR(DIR)	39,753,929
DIR(UPPER DIR)	36,145,506
DO KR I	19,881, 547
DOSSALI	1,288,732
DRABAN	777,848
DRAZINDA	32,129

DU DYAL	18,298,499
DU KI	29,699,433
DUNYAPUR	58,151,435
DU REJI	3,751,348
DURUBK	9,709,879
F.R KALA DHAKA	1,490,938
FAISALABAD	16,264,148,003
FAISALABAD CITY	1,150,736,554
FAISALABAD SADAR	148,927,552
FAIZ GANJ	12,758,060
FATEH JANG	74,226,628
FATEHPUR THAKIALA	691,232
FBR-HQ	173,629,919
FEROZEWALA	172,230,366
FO RTAB BAS	66,644, 998
GADDANI	33,230,995
GAM BAT	60,681,586
GANDAKHA	355,247
GAN DAWA	849,914
GANDOH	4,783,863
GARHI KHAIRO	4,784,482
GARHI YASIN	14,841,039
GARYU M	208,300
GAWARGO	354,083
G HAZI	42,616,524
GHIZER	532
GHORABARI	2,354,965
GHOTKI	530,379,107
GHULAM KHAN	400,826
G I LG IT	53,310,596
GOJAL	12,998,902
G OJ RA	243,086,875
GOLARCHI	28,196,664

GUJAR KHAN	232,116,593
GUJRANWALA	7,926,264,130
G U J RAT	1,697,060,864
G U LISTAN	12,243,359
GUPIS	333,194
G WA DAR	100,142,395
HAFIZABAD	286,906,671
HAJ I RA	4,240,219
HALA	44,393,350
HALIM ZAI	660,519
HANGU	52,917,099
HARIPUR	1,706,260,030
HARNAI	13,316,398
HAROONABAD	922,091,185
HASAN ABDAL	98,921,774
HASILPUR	281,470,086
HATTIAN	2,779,506
HAVELI(BAGH)	660,861
HAVELI(POONCH)	126,202
HAVELLI	96,891
HAZRO	33,451,468
HUB	626,906,680
H U NZA	9,757,113
HYDERABAD	2,502,654,699
HYDERABAD CITY	1,562,967,874
ISAKHEL	33,278,253
ISHKOMAN	66,623
ISLAMABAD	204,148,673,059
ISMAIL ZAI	1,667,250
JACOBABAD	257,774,424
JAFFARABAD	10,534,089
JAHAN IAN	73,673,603
JAHEEN PROOM	66,952

JALALPUR PIRWALA	65,307,036
JAM NAWAZ ALI	7,409,272
JAM PU R	69,472,596
JAM RU D	83,051,019
JAMSHORO	568,198,481
JAN D	53,769,309
JAN DOLA	198,291
JAN DOOL	6,394,003
JARANWALA	1,422,698,632
JATI	3,433,672
JATOI	69,534,498
JAUHARABAD	37,401,584
JHAL JHAO	259,001
JHAL MAGSI	3,248,010
JHANG	920,100,309
JHAT PAT	79,508,885
J H E LU M	676,217,666
J I WAN I	490,203
JOHI	15,236,476
KABIRWALA	327,729,037
KACH H I	4,025,015
KAHAN	584,903
KAHROR PACCA	50,370,395
KAH UTA	49,828,291
KAKAR KHURASAN	9,309,556
KAL KOAT (KOHISTAN)	29,230
KALAT	55,285,446
KALLAR KAHAR	8,688,528
KALLAR SAYADDAN	17,859,897
KALUR KOT	19,968,935
KAMALIA	192,904,157
KAMBAR ALI KHAN	24,667,601
KAMBAR SHAHDADKOT	13,871

KAMOKE	107,907,979
KANDH KOT	40,609,489
KANDIARO	115,410,613
KARACHI	209,107,138, 348
KARACHI CENTRAL	9,059,371,508
KARACHI EAST	34,092,500,901
KARACHI SOUTH	114,229,955,253
KARACHI WEST	28,891,487,111
KARAK	92,580,122
KARAM AGENCY	2,224,216
KAREZAT	7,847,837
KAROR LAL ESAN	60,779,303
KASHMORE	369,232,079
KASU R	1,412,182,570
KATH UA	425,392
KETI BUNDER	25,647
KHAIRPUR	754,222,632
KHAIRPUR NATHAN SHAH	34,623,207
KHAIRPUR TAMEWALI	18,825,418
KHALL	39,059,237
KHANEWAL	928,610,232
KHANGARH	5,663,971
KHANPUR(RAHIM YAR KHAN)	162,611,452
KHANPUR(SHIKARPUR)	29,073,803
KHAPLU	2,351,535
KHAR BAJAUR	8,535,452
KHARAN	6,139,158
KHARIAN	461,695,387
KHARMANG	367,511
KHIPRO	48,334,170
KHUSHAB	392,563,316
KHUZDAR	74,782,232
KHYBER AGENCY	431,292

KILLA ABDULLAH	8,894,433
KILLA SAIFULLAH	20,761,969
KINGRI	24,379,918
WHAT	1,640,625,913
KOHISTAN	11,635
KOH LU	18,974,421
KOT ADDU	480,924,129
KOT DIJI	41,923,451
KOT GHULAM MUHAMMAD	22,273,382
KOT MOMIN	192,830,348
KOT RADHA KISH EN	5,719,748
KOTLI	29,526,699
KOTLI SATTIAN	3,974,739
KOTRI	589,150,837
KULACHI	8,233,225
KU N RI	144,443,689
LACH I	7,508,106
LADHA	1,072,861
LAHORE	180,580,693,868
LAHORE CANTT	5,270,469,564
LAHORE CITY	14,866,272,462
LAKHARA	3,107,401
LAKH I	18,484,572
LAKKI MARWAT	158,499,352
LALQI LA	1,070,573
LANDI KOTAL	168,840,312
LARKANA	573,007,363
LASB E LLA	18,136, 275
LATI FABAD	1,029,672,482
LEHRI	688,266
LEIAH	398,553,198
LIAQUAT PUR	82,872,279
LODH RAN	247,948,323

LORALAI	1,793,711,098
LOWER	7,607,748
LOWER DIR	1,040,212
LOWER KURRAM	8,835,408
MACH	2,582,976
MAILSI	148,729,129
MAKIN	805,119
MALAKAN D	99,591,469
MALAKWAL	48,886,962
MAUR	29,374,153,827
MAMUND	4,433,450
MAN D	749,208
MANDI BAHAUDDIN	573,035,224
MANGOCHAR	1,233,974
MAN KERA	41,303,364
MANSEH RA	279,347,068
MARDAN	1,336,230,684
MARTOONG	5,477
MASHABBRUM	5,194,338
MASHKAI	5,115,313
MAS H KH E L	900
MASTUJ	13,896,520
MASTU NG	38,634,265
MATIARI	173,632,013
MATLI	109,544,040
MATTA	6,766,845
MEERO KHAN	1,729,000
M EHAR	62,340,225
MEHRAB PUR	21,621,615
MENDHAR	72,724
MIAN CHANNU	332,786,377
MIANWALI	998,080,870
MINCHINABAD	49,225,660

MIR ALI	6,375,898
MIRAN SHAH	8,661,955
MIRPUR AJK	87,035,493
MIRPUR BATHORO	12,195,774
MIRPUR KHAS	652,386,948
MIRPUR MATHELO	278,862,533
MIRPUR SAKRO	428,647,538
MITHI	60,810,699
MOHMAND	170,532
MORO	86,920,575
MULAGORI	155,232
MULTAN	125,199,519
MULTAN CITY	12,772,888,239
MULTAN SADDAR	4,081,737,579
M U N DA	6,445,998
MURIDKE	358,652,308
MURREE	135,086,511
MUSAKHEL	2,151,181
MUSLIM BAGH	20,328,827
MUZAFFARABAD	58,894,369
MUZAFFARGARH	613,825,576
NAAL	209,793
NAGAR	5,817,931
NAGAR PARKAR	743,552
NANKANA SAHIB	295,896,600
NARA	33,105, 867
NAROWAL	374,276,958
NASIR ABAD	27,572,629
NAUSHAHRO FEROZE	91,753,225
NAWAB SHAH	271,326,379
NAWAGAI	11,633,251
NEW SUKKUR	99,625,823
NOKKUNDI	177,919

NOORPUR	6,545,616
NORTH WAZIRISTAN AGENCY	1,119,980
NOWSHERA	1,114,469
NOWSHERA VIRKAN	41,772,923
NOWSHERA(NOWSHERA)	496,876,001
NUSHKI	16,842,074
OGHI	27,185,131
OKARA	1,081,818,348
O RAKZAI	1,188
ORMARA	1,341,038
OTHAL	2,593,088
PAHARPUR	193,931,264
PAKPATTAN	283,638,696
PALAS	118,249
PALLAN DARI	12,044,673
PANJG U R	20,070,303
PANO AQIL	128,894,572
PARACHINAR	2,134,797
PASN I	4,450,659
PASRUR	181,658,322
PATTAN (KOHISTAN)	11,606,495
PATTOKI	505,906,830
PESHAWAR	13,643,621,461
PHALIA	127,526,248
PH ELAWAG H	6,087,887
PIND DADAN KHAN	158,333,453
PINDI BHATTIAN	37,073,544
PINDI GHEB	116,428,216
PINDIALI	1,054,565
PI PLAN	120,607,526
PISHIN	97,565,193
PITHORO	1,777,327
PU N IAL	980,122

PU RAN	2,683,099
QASI MABAD	786,273,266
QAZI AHMED	2,236,237
QUBO SAEED KHAN	190,071
QUETTA	10,052,581,291
QUETTA CITY	77,908,273
QUETTA SADDAR	3,236,702
RAHIM YAR KHAN	1,991,664,768
RAJAN PU R	146,534,960
RAKHSHAN (BESIMA)	71,968
RAM BAN	225,578
RATO DERO	38,407,033
RAWALAKOT	23,956,402
RAWALPINDI	35,170,187,615
RAZMAK	44,099
RENALA KHURD	174,397,101
ROH RI	323,754,779
ROJ HAN	20,906,653
RONDU	218,573
SADIQABAD	1,357,576,348
SAFDARABAD	187,591,161
SAHIWAL	27,828,630
SAHIWAL (SAHIWAL)	1,770,291,678
SAHIWAL (SARGODHA)	16,960,321
SAKRAND	37,896,899
SALARZAI	3,468,982
SALEH PAT	19,601,327
SAM RANI ZAI	11,736,865
SAMAH N I	2,734,546
SAMARBAGH	1,267,920
SAMARO	7,998,170
SAMBRIAL	697,532,935
SANGHAR	335,460,686

SANGLA HILL	65,522,315
SAN N I	74,394
SARAI ALAMGIR	63,272,018
SARAROGHA	5,436,245
SARGODHA	2,210,683,221
SAWABI	454,777
SEHNSA	1,061,312
SEHWAN SHARIF	37,193,917
SERWEKAI	1,106,812
SHAH BUNDER	2,669,525
SHAH KOT	34,226,986
SHAH DAD KOT	39,881,039
SHAH DADPUR	314,861,166
SHAHEED BENAZIR ABAD	89,406
SHAH PUR	46,363,396
SHAKARGARH	55,345,402
SHANGLA	110,997
SHARAK PUR	41,991,610
SHARDA	100,628
SHAWAL	5,831,715
SHEIKHUPURA	2,611,985,052
SHERANI	36,846
SHIGAR	569,623
SHIKAR PUR	194,766,662
SHORKOT	169,150,837
SHUJABAD	242,131,190
SIALKOT	4,499,262,113
SIBBI	34,863,913
SIJAWAL JUNEJO	325,853
SILLANWALI	87,838,295
SINJAWI	2,453,365
SINJHORO	18,469,879
SKARDU	15,147,087

SOBHO DERO	38,344,490
SOHAWA	44,765,334
SOH BATPU R	4,425,720
SON MAINI	920,503
SOUTH WAZIRISTAN AGENCY	112,002
SPEEN WAM	417,885
SUDHNAOTI	32,322
Sul	142,590,249
SUJAWAL	127,506,396
SUKKUR	3,574,079,338
SUMMUNDRI	94,338,090
SURAB	2,531,832
SWABI	435,068,152
SWAT	305,469,835
SWAT RANI ZAI	32,485,863
TAFTAN	4,798,732
TAKHAT NASRATI	18,879,609
TAKHT BHAI	97,123,327
TALA GANG	121,496,352
TALHAR	32,797,522
TAM BOO	198,261
TANGLIAN WALA	58,019,056
TANDO ADAM	266,147,924
TANDO ALLAHYAR	133,383,699
TANDO BAGO	9,252,591
TANDO JAM	6,213,506
TANDO MUHAMMAD KHAN	270,782,084
TANGI	21,767,310
TANGWANI	325,223
TANK	85,534,832
TASSA	83,560
TAU NSA	145,231,300
TAXI LA	1,251,185,013

TEMERGARA	16,316,344
THANO BULA KHAN	11,456,952
THARI MEER WAH	14,961,801
THARPARKAR	69,600
THARUSHA	532,966
THATTA	1,014,821,378
TH U L	18,540,074
TIARZA	3,730,855
TOBA TEK SINGH	567,869,809
TOI KHULLA	1,141,226
TU M P	5,285,572
TURBAT	58,759,539
U BAU RO	40,524,456
UMER KOT	26,425,444
UPPER	1,025,898
UPPER DIR	496,848
UPPER KURRAM	11,922,964
UPPER MOHMAND	1,242,624
UPPER ZHOB	5,234,565
USTA MOHAMMAD	28,569,277
UTMAN KHEL	2,510,661
VEHARI	459,315,286
WADH	556,648
WAH CANTT	373,075,129
WANA	17,972,093
WARAH	4,537,628
WARI	3,641,484
WASH U K	151,051
WAZI RABAD	487,791,827
YAKE GHUND	783,750
YAS I N	43,400
YAZMAN	138,427,001
ZEHRI	8,245,892
ZHOB	595,684,703
ZIARAT	13,711,654

Table F-9: Major Markets – Filers & Tax Collection *		
Market	# of Filers	Tax Collected (Rs.)
AABPARA MARKET- ISLAMABAD	258	20,152,301
AABPARA MARKET - SAHIWAL	78	710,809
ABDULLAH HAROON ROAD BAZAR – KARACHI	856	765,867,011
AFGHAN MARKET - QUETTA	49	152,379
AGHA SUPER STORE - KARACHI	9	457,405
AHMAD COMMERCIAL CENTRE – MULTAN	17	227,353
AKBARI MANDI - LAHORE	698	199,505,904
ALAMGIR BAZAR - SIALKOT	34	235,602
ALFALAH MARKET - SAHIWAL	8	10,700
ALFALLAH MARKET- BAHAWALPUR	4	-
ALLAH WALI MARKET- BAHAWALPUR	6	11,917
ALLAMA IQBALCOMMERCIAL – LAHORE	329	75,131,663
ALLIANCE SHOPPING PARADISE – KARACHI	12	518,345
AMIN BAZAR - SARGODHA	100	3,399,745
AMINPUR BAZAR - FAISALABAD	464	32,179,561
AMIR PARK BAZAR - GUJRANWALA	11	1,796,367
ANARKALI BAZAR - BAHAWALPUR	214	2,624,083
ANARKALI BAZAR - LAHORE	3,390	301,651,709
ANARKALI BAZAR - SAHIWAL	46	306,928
ANARKALI BAZAR - SARGODHA	86	1,112,941
ANARKALI BAZAR - SUKKUR	4	16,400
ANARKALI MARKET- KARACHI	15	646,794
AQSA SHOPPING MALL – FAISALABAD	7	588,673
ARSHAD MARKET - FAISALABAD	143	1,179,211
ATRIUM MALL- KARACHI	4	44,568
AUQAF MARKET- BAHAWALPUR	25	221,558

AWAMI MARKAZ- KARACHI	109	70,295,791
AWAN PLAZA - FAISALABAD	9	98,871
AZAM CLOTH MARKET - LAHORE	2,120	84,224,996
AZAM MARKET - SARGODHA	90	1,126,399
BABAR MARKET- KARACHI	200	10,543,963
BABARKI BAZAR - SUKKUR	12	12,772,512
BAHADURABAD MARKET- KARACHI	2,461	1,088,162,015
BAHRIA COMMERCIAL- LAHORE	7	4,098,360
BAKAR MANDI - FAISALABAD	94	5,176,261
BAKAR MANDI - KARACHI	9	145,697
BAKAR MANDI - LAHORE	218	25,728,497
BAKAR MANDI - MULTAN	36	631,165
BAKAR MANDI - RAWALPINDI	151	6,311,459
BAKHSH MARKET- BAHAWALPUR	18	191,527
BAND ROAD - LAHORE	1,254	135,257,350
BANO BAZAR - RAWALPINDI	3	18,651
BANO BAZAR - SAHIWAL	14	154,717
BARA BAZAR - KARACHI	71	1,088,592
BARA BAZAR - LAHORE	191	124,699,060
BARA BAZAR - MULTAN	7	54,884
BARA BAZAR - PESHAWAR	103	14,232,101
BARA BAZAR - RAWALPINDI	420	45,583,698
BARA MARKET - ABBOTTABAD	9	338,666
BAZAR-A-FAISAL- KARACHI	39	1,772,645
BHATTI MARKET- BAHAWALPUR	9	17,449
BHATTI MARKET -SAHIWAL	13	63,832
BHAWANA BAZAR - FAISALABAD	295	8,833,507
BHAYANI SHOPPING CENTER – KARACHI	183	25,278,168
BHUTTA MARKET - SUKKUR	44	2,499,260
BILAL GANJ - LAHORE	326	17,079,920
BILAL MARKET - ABBOTTABAD	14	12,546,121
BLUE AREA - ISLAMABAD	5,854	39,935,580,162

BOHRI BAZAR - KARACHI	188	9,040,474
BOLTAN MARKET- KARACHI	278	61,138,724
BOMBAY BAZAR - KARACHI	280	32,511,868
BOULEVARD SHOPPING MALL – FAISALABAD	13	729,746
BRANDRETH ROAD - LAHORE	1,770	993,946,744
BUDHI BAZAR - SIALKOT	41	86,604
BUKHARI BAZAR - BAHAWALPUR	4	14,711
BURNS ROAD - KARACHI	807	111,374,539
CASH AND CARRY - FAISALABAD	9	6,813,098
CASH AND CARRY - KARACHI	8	173,464
CAVALRY GROUND - LAHORE	2,575	830,940,520
CENTER POINT PLAZA – FAISALABAD	43	9,306,433
CHABUTRA BAZAR - BAHAWALPUR	8	33,709
CHAKLALA SCHEME 3 – RAWALPINDI	864	170,961,819
CHAMAN BAZAR - BAHAWALPUR	207	2,155,066
CHANAB BAZAR - SARGODHA	51	1,003,287
CHAND MARKET - SAHIWAL	1	-
CHEN ONE - FAISALABAD	69	5,224,671
CHENONE TOWER - MULTAN	37	439,874
CHINIOT BAZAR - FAISALABAD	869	62,960,654
CHORI BAZAR - MULTAN	5	32,200
CHORI SARAI BAZAR - MULTAN	9	6,830
CHOWK BAZAR - BAHAWALPUR	220	14,085,018
CHOWK BAZAR - MULTAN	199	3,598,107
CHOWK YADGAR BAZAR – PESHAWAR	553	72,426,603
CHURI BAZAR - SUKKUR	23	206,360
CIRCULAR ROAD - GUJRANWALA	584	15,933,199
CLIFTON MARKET- KARACHI	4	175
CLOCK TOWER - SUKKUR	129	7,497,113
CLOTH MARKET - HYDERABAD	753	11,474,898

COCHINWALA MARKET- KARACHI	116	42,417,689
COLLAGE ROAD- RAWALPINDI	91	6,312,659
COMMERCIAL- FAISALABAD	768	45,897,556
COMMERCIAL MARKET- RAWALPINDI	664	79,411,700
COMMITTE BAZAR - SARGODHA	159	1,536,531
COMPUTER CITY PLAZA – FAISALABAD	16	252,179
COOPERATIVE MARKET- KARACHI	164	19,807,000
D GROUND - FAISALABAD	392	64,159,284
DABGARI BAZAR - PESHAWAR	602	46,342,364
DAMAN SHAH BAZAR – BAHAWALPUR	18	470,218
DEGANWALA BAZAR – GUJRANWALA	86	291,578
DEPALPUR BAZAR - SAHIWAL	141	6,075,992
DO BURJ SHOPPING CENTER – FAISALABAD	14	4,221,841
DOLMEN MALL- KARACHI	41	48,906,084
DUBAI MALL- KARACHI	10	72,282
DUBAI PLAZA- FAISALABAD	5	126,295
DUBAI PLAZA- RAWALPINDI	117	48,499,963
EIDGAH MARKET- KARACHI	14	528,762
ELECTRONIC CENTER - KARACHI	5	2,177,302
EMERALD TOWER - KARACHI	9	10,892,688
EMPORIUM MALL- LAHORE	19	16,406,621
EMPRESS MARKET- KARACHI	154	196,573,879
ERUM SHOPPING MALL- KARACHI	118	4,392,434
FAISAL BAZAR - BAHAWALPUR	245	7,081,758
FAISAL BAZAR - SARGODHA	86	721,520
FAISAL TOWN - LAHORE	6,058	1,246,330,089
FATEH KHAN BAZAR – BAHAWALPUR	105	1,214,368
FATIMA MARKET- KARACHI	44	3,585,069

FEROZEPUR ROAD - LAHORE	5,286	4,029,888,298
FISH MARKET - SUKKUR	106	4,813,933
FOOD STREET - LAHORE	22	17,714,266
FORT ROAD - LAHORE	193	43,211,737
FORTRESS - LAHORE	255	176,845,731
FORUM MALL- KARACHI	18	13,174,100
FRUIT MANDI - HYDERABAD	185	3,854,863
FRUIT MANDI - QUETTA	82	375,929
FRUIT MANDI - SARGODHA	41	542,268
FURNITURE BAZAR - SAHIWAL	58	1,068,017
G-9 MARKAZ, KARACHI CO- ISLAMABAD	1,002	309,154,175
GADDAFI STADIUM - LAHORE	62	140,494,244
GAHRI KHATA- HYDERABAD	741	54,099,317
GANJ BAZAR - PESHAWAR	18	212,155
GARDEN TOWN CIVIC CENTER – LAHORE	163	62,779,732
GARDEZI MARKET- MULTAN	8	306,941
GAWAL MANDI - LAHORE	526	54,667,354
GAWALMANDI - QUETTA	110	6,652,747
GHALLA MANDI - BAHAWALPUR	5,480	852,180,393
GHALLA MANDI - FAISALABAD	2,249	289,668,102
GHALLA MANDI - GUJRANWALA	2,747	189,921,921
GHALLA MANDI - HYDERABAD	388	18,427,242
GHALLA MANDI - ISLAMABAD	79	1,502,398
GHALLA MANDI - KARACHI	209	28,735,031
GHALLA MANDI - LAHORE	3,118	182,771,102
GHALLA MANDI - MULTAN	2,056	112,545,310
GHALLA MANDI - PESHAWAR	264	67,998,578
GHALLA MANDI - QUETTA	49	1,826,750
GHALLA MANDI - RAWALPINDI	300	6,442,558
GHALLA MANDI - SAHIWAL	4,616	313,654,419
GHALLA MANDI - SARGODHA	1,216	99,747,350

GHALLA MANDI - SIALKOT	849	38,559,333
GHALLA MANDI - SUKKUR	1,701	77,316,599
GHANI MARKET- BAHAWALPUR	6	57,307
GHARIBABAD BAZAR - SUKKUR	32	493,389
GHOSIA BAZAR - SAHIWAL	15	192,882
GIRI GANJ BAZAR - BAHAWALPUR	23	375,894
GLAMOUR ONE MALL- KARACHI	8	491,289
GOAL BAZAR - GUJRANWALA	37	140,396
GOLE BAZAR - FAISALABAD	453	57,119,725
GOLE MARKET- KARACHI	182	24,185,948
GORA BAZAR - PESHAWAR	38	335,939
GORDHANDAS MARKET- KARACHI	21	1,180,484
GRASS MARKET - HYDERABAD	62	7,295,018
GRASS MARKET - SAHIWAL	84	1,436,731
GREEN TOWN - LAHORE	2,477	164,501,548
GUL PLAZA SADAR - KARACHI	654	322,653,974
GULGASHT MARKET - MULTAN	2,704	308,103,179
GULSHAN MARKET- MULTAN	268	9,775,344
GUMTI BAZAR - LAHORE	130	49,556,233
GUR BAZAR - SUKKUR	26	129,904
H BLOCK DEFENCE - LAHORE	32	74,234,041
HADI MARKET- KARACHI	94	17,965,092
HAFEEZ CENTER GULBERG – LAHORE	1,048	500,424,152
HAJI PURA - GUJRANWALA	664	15,022,726
HAJI PURA - SIALKOT	1,290	97,372,751
HALL ROAD - LAHORE	2,390	426,315,849
HAROON SHOPPING EMPORIUM – KARACHI	96	6,775,921
HASHTNAGRI BAZAR - PESHAWAR	523	85,517,828
HASSAN ARCADE - MULTAN	55	17,077,906
HASSAN SHOPPING MALL- FAISALABAD	23	4,501,652
HUSSAIN AGAHI BAZAR - MULTAN	26	571,658

HYDERI - KARACHI	887	181,560,983
ICHRA MARKET- LAHORE	3,021	392,311,452
IMAM SAHAB BAZAR - SIALKOT	2	954
INDUSTRIAL ESTATE KOT LAKHPAT- LAHORE	543	1,014,873,200
IQBAL BAZAR - SARGODHA	44	4,738,587
IQBAL SHOPPING COMPLEX – ABBOTTABAD	10	8,293,694
IRON MARKET - SUKKUR	14	513,719
JACKSON MARKET KEAMARI – KARACHI	23	6,421,336
JAFARIA BAZAR - MULTAN	39	1,393,020
JAMA CLOTH MARKET - KARACHI	178	18,437,993
JAN DAR BAZAR - SIALKOT	61	987,703
JEWELLERS MARKET LIAQATABAD – KARACHI	2	59,400
JHANG BAZAR - FAISALABAD	856	26,344,100
JODIA BAZAR - KARACHI	2,384	3,059,924,445
JUBILEE MARKET- KARACHI	30	78,248,368
KABARI BAZAR - ABBOTTABAD	5	12,210
KABARI BAZAR - FAISALABAD	112	10,974,580
KABARI BAZAR - GUJRANWALA	17	1,894,308
KABARI BAZAR - HYDERABAD	8	25,950
KABARI BAZAR - ISLAMABAD	9	158,576
KABARI BAZAR - LAHORE	98	8,297,029
KABARI BAZAR - MULTAN	4	15,870
KABARI BAZAR - PESHAWAR	64	1,108,434
KABARI BAZAR - QUETTA	23	11,210,753
KABARI BAZAR - RAWALPINDI	23	7,464,451
KABARI BAZAR - SARGODHA	109	29,389,792
KABARI BAZAR - SIALKOT	19	1,837,147
KABARI BAZAR - SUKKUR	8	94,528
KABARI MARKET SHERSHAH – KARACHI	89	26,828,363

KALABARI BAZAR - PESHAWAR	8	190,854
KALI MARKET- KARACHI	16	1,664,312
KAMAL PURA - SIALKOT	64	1,263,883
KAREEM PURA BAZAR - PESHAWAR	68	4,606,129
KARIM MARKET- KARACHI	53	6,544,691
KARKHANA BAZAR - FAISALABAD	1,233	103,393,602
KARKHANA BAZAR - SARGODHA	92	1,310,161
KARKHANO MARKET - PESHAWAR	10,417	5,274,998,666
KARYANA BAZAR - SAHIWAL	8	40,003
KASERA BAZAR - LAHORE	45	212,218
KASHMIRI BAZAR - LAHORE	169	2,774,678
KASHMIRI BAZAR - RAWALPINDI	143	39,118,560
KATCHERY BAZAR - FAISALABAD	1,097	94,774,362
KATCHERY BAZAR - SARGODHA	153	15,548,279
KATTI BAZAR - SU K K U R	88	7,806,079
KDA MARKET- KARACHI	79	4,618,013
KHADIJA MARKET- KARACHI	26	326,578
KHAN PLAZA - FAISALABAD	43	3,493,489
KHAN TRADE CENTER - MULTAN	32	3,231,469
KHANOZAI BAZAR - QUETTA	105	19,795,643
KHARADAN BAZAR - GUJRANWALA	169	4,601,737
KHOKHA BAZAR - SAHIWAL	91	985,060
KHOKHA MARKET- BAHAWALPUR	39	145,409
KHYBER BAZAR - PESHAWAR	629	81,854,246
KHYBER MARKET- KARACHI	23	428,726
KIRYANA BAZAR - SUKKUR	36	555,696
KMC MARKET- KARACHI	255	20,431,157
KOH-I-NOOR MALL - FAISALABAD	9	68,333,436
KUCHLAK BAZAR - QUETTA	325	36,359,905
KURI ROAD - RAWALPINDI	389	18,303,660
LAHAI BAZAR - SIALKOT	63	1,248,069
LAKSHMI - LAHORE	113	13,958,412
LANDA BAZAR - ABBOTTABAD	42	189,638

LANDA BAZAR - BAHAWALPUR	27	190,582
LANDA BAZAR - FAISALABAD	55	3,614,335
LANDA BAZAR - GUJRANWALA	10	43,316
LANDA BAZAR - ISLAMABAD	14	14,777,943
LANDA BAZAR - KARACHI	27	3,086,852
LANDA BAZAR - LAHORE	1,189	228,669,926
LANDA BAZAR - MULTAN	7	15,278
LANDA BAZAR - PESHAWAR	34	400,596
LANDA BAZAR - RAWALPINDI	143	6,916,084
LANDA BAZAR - SAHIWAL	12	287,872
LANDA BAZAR - SARGODHA	25	194,368
LANDA BAZAR - SIALKOT	16	14,780
LARA IKI BAZAR - SUKKUR	38	718,156
LEE MARKET- KARACHI	250	23,454,596
LEGACY TOWER - FAISALABAD	17	145,686,601
LIAQAT BAZAR - PESHAWAR	55	678,268
LIAQAT BAZAR - SUKKUR	4	9,310
LIAQAT MARKET - SARGODHA	99	4,112,981
LIAQATABAD - KARACHI	10,803	993,516,001
LIBERTY MARKET- BAHAWALPUR	6	199,295
LIBERTY MARKET- HYDERABAD	70	6,834,449
LIBERTY MARKET- LAHORE	925	194,117,236
LIGHT HOUSE - KARACHI	214	52,406,035
LINK ROAD MODEL TOWN - LAHORE	1,313	296,667,255
LOHA MARKET- MULTAN	150	6,642,972
LOHAWALA BAZAR - GUJRANWALA	71	1,609,723
LUCKY ONE MALL - KARACHI	18	2,481,815
MACH LI BAZAR - BAHAWALPUR	209	4,990,828
MACHLI BAZAR - SAHIWAL	92	890,375
MADENA MARKET - ABBOTTABAD	37	24,520,573
MADINA BAZAR - SAHIWAL	26	182,393
MADINA MARKET- QUETTA	67	1,268,035
MADNI TRADE CENTRE - MULTAN	26	217,931

MAIN BAZAR - ABBOTTABAD	699	26,095,136
MAIN BAZAR - GUJRANWALA	146	3,043,766
MAIN BAZAR BHALWAL – SARGODHA	225	6,382,794
MAIN BAZAR BHERA - SARGODHA	68	743,921
MAIN BOULEVARD GULBERG – LAHORE	3,232	2,972,517,818
MAKKAH CENTRE - FAISALABAD	100	1,358,605
MAKKI FURNITURE MARKET- KARACHI	12	20,958
MALIK MARKET - SAHIWAL	23	433,630
MALL OF LYALLPUR - FAISALABAD	21	429,006
MALL PLAZA - MULTAN	121	14,613,483
MALL ROAD - ABBOTTABAD	150	32,999,946
MALL ROAD - LAHORE	1,339	1,488,604,008
MALL ROAD - QUETTA	849	85,363,753
MANARA MARKET - SUKKUR	21	433,199
MARBLE AND TILE BAZAR – RAWALPINDI	9	186,557
MARICH BAZAR - SUKKUR	68	2,349,269
MARIUM PURSE MARKET- KARACHI	66	22,242,860
MARKET ESTATE AVENUE – KARACHI	774	6,191,036,104
MASHAALLAH MARKET- BAHAWALPUR	29	414,538
MASHRIQ SHOPPING CENTER – KARACHI	11	2,817,548
MASJID BAZAR - ABBOTTABAD	83	2,044,526
MATEEN CENTER - KARACHI	47	7,429,508
MEAT MARKET- HYDERABAD	8	21,281
MEHBOOB CENTER - KARACHI	70	19,568,126
MEHRAN MARKAZ - SUKKUR	70	4,774,114
MELODY MARKET- ISLAMABAD	93	20,072,659
MENA BAZAR - KARACHI	159	17,844,491
MENA BAZAR - LAHORE	7	703,260

MENA BAZAR - PESHAWAR	78	22,802,293
MENA BAZAR - RAWALPINDI	118	1,580,930
MERCHANT MARKET- SUKKUR	4	57,779
METRO PLAZA - MULTAN	47	840,319
MILLAT MARKET- HYDERABAD	13	378,003
MILLENIUM MALL- KARACHI	132	30,376,930
MINI MARKET GULBERG - LAHORE	83	16,141,135
MISAQ UL MALL - FAISALABAD	8	952,233
MM ALAM ROAD - LAHORE	237	157,303,428
MOCH I BAZAR - SUKKUR	76	3,203,108
MONTGOMERY BAZAR – FAISALABAD	1,010	157,942,566
MOON MARKET - FAISALABAD	13	165,178
MOON MARKET - LAHORE	679	80,490,443
MORE WALA CHOWK - SAHIWAL	54	614,153
MOTAN DAS MARKET- KARACHI	201	102,708,989
MOTI BAZAR - LAHORE	606	14,202,387
MOTI BAZAR - RAWALPINDI	479	7,346,401
MUBARIK PURA - SIALKOT	485	33,575,129
MUHAMMAD PURA - SIALKOT	559	27,016,671
MUHAMMADI BAZAR - SARGODHA	45	2,187,061
MUHAMMADI MARKET- KARACHI	81	4,129,558
MULTAN ROAD - LAHORE	17,800	10,912,783,552
MURREE ROAD - ABBOTTABAD	230	19,759,810
MUSLIM BAZAR - SARGODHA	402	8,203,204
MUSLIM BAZAR - SIALKOT	409	5,717,674
NAIKA PURA - SIALKOT	94	1,640,874
NAIRANG SHOPPING CENTER – KARACHI	6	20,300
NAMAK MANDI - PESHAWAR	1,370	93,549,812
NAMAK MANDI - RAWALPINDI	50	4,630,253
NATIONAL MARKET - GUJRANWALA	40	5,144,239
NAULAKHA BAZAR - LAHORE	64	14,296,182

NOOR PU RA - SIALKOT	502	16,957,875
NOOR UD DIN BAZAR – ABBOTTABAD	54	3,154,314
NUSRAT BAZAR - HYDERABAD	22	109,540
OCEAN MALL- KARACHI	6	7,118,077
PACE SHOPPING MALL- LAHORE	120	184,531,709
PAKPATTAN BAZAR - SAHIWAL	163	1,672,200
PAN GALI - HYDERABAD	23	293,964
PAN GALI BAZAR - LAHORE	11	7,309,561
PAN MANDI - SUKKUR	32	3,763,624
PANORAMA CENTER - KARACHI	111	26,797,145
PANSARIAN BAZAR - SIALKOT	34	209,368
PARADISE SHOPPING CENTER – KARACHI	9	714,327
PARADISE TOWER - FAISALABAD	34	1,182,800
PARK TOWER - KARACHI	132	621,815,516
PEPAL MANDI BAZAR - PESHAWAR	81	2,021,937
POLICE SHOPPING CENTER – SUKKUR	64	6,462,739
PRESS MARKET- BAHAWALPUR	48	3,731,286
PRINCE MARKET- KARACHI	32	6,527,691
PUL BAZAR - SAHIWAL	126	7,795,273
QANDHARI BAZAR - QUETTA	376	56,953,319
QAZAFI MARKET- BAHAWALPUR	11	38,556
QAZAFI MARKET - QUETTA	18	158,942
QISSA KHAWANI - PESHAWAR	329	31,898,459
R A BAZAR - LAHORE	23	2,170,054
R A BAZAR - PESHAWAR	6	156,139
R A BAZAR - RAWALPINDI	29	1,050,778
RABI CENTER - KARACHI	85	4,248,616
RAEES KHAN BAZAR - ABBOTTABAD	14	243,451
RAHEEM CENTRE - FAISALABAD	55	778,094
RAHEEM CENTRE - MULTAN	17	144,485
RAHIM MARKET-SUKKUR	25	426,875

RAIL BAZAR - FAISALABAD	1,881	123,242,440
RAIL BAZAR - GUJRANWALA	685	226,605,105
RAIL BAZAR - LAHORE	360	6,247,195
RAIL BAZAR - SAHIWAL	356	9,067,974
RAIL BAZAR - SARGODHA	127	4,227,322
RAILWAY MALL GODOWN – FAISALABAD	19	52,602
RAILWAY MARKET - SUKKUR	7	889,592
RAINBOW CENTER MARKET- KARACHI	188	20,865,559
RAITI BAZAR - PESHAWAR	119	20,878,132
RAIWIND BAZAR - LAHORE	6,096	4,175,140,322
RAJA BAZAR - RAWALPINDI	910	67,960,508
RAJA BAZAR - SIALKOT	142	3,591,346
RAM CHAND BAZAR - QUETTA	106	18,367,545
RAMDAS BAZAR - PESHAWAR	169	23,846,486
RANG PURA BAZAR - SIALKOT	1,281	56,361,227
RANGEELA BAZAR - BAHAWALPUR	35	176,898
RAZI MARKET- KARACHI	34	26,834,347
RCG MALL - FAISALABAD	26	3,812,500
REGENCY PLAZA - FAISALABAD	200	56,221,991
REGENT MALL- FAISALABAD	30	2,713,071
REHMAN HEIGHTS - FAISALABAD	7	641,774
REHMAN MARKET- BAHAWALPUR	48	2,309,412
RESHAM BAZAR - HYDERABAD	489	6,993,179
REX CENTER - KARACHI	27	3,059,629
REX CITY - FAISALABAD	246	28,875,840
RING ROAD - PESHAWAR	1,076	334,815,193
RIPPLE PLAZA - FAISALABAD	3	5,232,551
SABZI AND FRUIT MANDI - SUKKUR	360	18,212,474
SABZI FRUIT MANDI - ABBOTTABAD	268	4,907,895
SABZI FRUIT MANDI – BAHAWALPUR	629	7,310,200
SABZI MANDI - FAISALABAD	745	21,117,477

SABZI MANDI - GUJRANWALA	707	46,364,855
SABZI MANDI - HYDERABAD	315	50,125,283
SABZI MANDI - ISLAMABAD	246	30,866,974
SABZI MANDI - KARACHI	921	215,241,635
SABZI MANDI - LAHORE	890	93,813,030
SABZI MANDI - MULTAN	1,299	48,031,286
SABZI MANDI - PESHAWAR	535	104,658,230
SABZI MANDI - QUETTA	452	95,942,091
SABZI MANDI - RAWALPINDI	505	12,291,038
SABZI MANDI - SAHIWAL	1,061	24,615,528
SABZI MANDI - SARGODHA	326	7,381,548
SADAR - ABBOTTABAD	577	68,910,569
SADAR - BAHAWALPUR	2,490	181,590,827
SADAR - FAISALABAD	5,048	709,224,316
SADAR - GUJRANWALA	2,459	272,817,584
SADAR - HYDERABAD	2,809	605,110,299
SADAR - KARACHI	72,339	77,177,558,945
SADAR - LAHORE	19,521	5,313,636,148
SADAR - MULTAN	38,236	6,006,876,592
SADAR - PESHAWAR	6,249	3,303,823,276
SADAR - RAWALPINDI	13,488	2,265,171,694
SADAR - SAHIWAL	1,299	83,325,217
SADAR - SARGODHA	953	89,357,284
SADAR - SIALKOT	4,276	703,564,259
SADAR - SUKKUR	778	661,436,652
SADIQ MARKET - BAHAWALPUR	73	769,858
SAEED BAZAR - SARGODHA	33	515,181
SAIDNAGRI BAZAR - GUJRANWALA	13	40,730
SALEEM MARKET - HYDERABAD	17	194,620
SAMAMA CENTER - KARACHI	20	302,170
SAM IJABAD MARKET- MULTAN	231	18,073,593
SANATAN BAZAR - QUETTA	169	20,273,386
SARAFI BAZAR - ABBOTTABAD	74	1,036,969

SARAFI BAZAR - BAHAWALPUR	132	3,587,553
SARAFI BAZAR - FAISALABAD	117	1,004,597
SARAFI BAZAR - GUJRANWALA	247	2,114,644
SARAFI BAZAR - HYDERABAD	201	7,586,103
SARAFI BAZAR - ISLAMABAD	43	1,386,447
SARAFI BAZAR - KARACHI	484	17,180,828
SARAFI BAZAR - LAHORE	174	2,354,963
SARAFI BAZAR - MULTAN	440	32,781,263
SARAFI BAZAR - PESHAWAR	262	15,061,862
SARAFI BAZAR - QUETTA	66	7,829,792
SARAFI BAZAR - RAWALPINDI	901	31,967,978
SARAFI BAZAR - SAHIWAL	132	1,846,261
SARAFI BAZAR - SIALKOT	200	2,824,818
SARAFI BAZAR - SUKKUR	374	6,929,705
SATYANA ROAD - FAISALABAD	806	133,005,469
SB TOWER - FAISALABAD	19	321,818
SEA BREEZE CENTER - KARACHI	42	2,171,900
SHADMAN CENTER - KARACHI	1,148	74,191,296
SHAHALAM MARKET- LAHORE	2,400	778,246,589
SHAH EED GANJ - SUKKUR	34	1,711,743
SHAHEEN BAZAR - PESHAWAR	345	7,960,547
SHAHEEN MARKET - ABBOTTABAD	8	499,070
SHAHI BAZAR - SUKKUR	2,506	78,315,182
SHAHI BAZAR - BAHAWALPUR	294	13,360,890
SHAHI BAZAR - HYDERABAD	2,371	79,642,837
SHAHZAD MARKET- BAHAWALPUR	19	4,036,279
SHAMA SHOPPING CENTER - KARACHI	51	2,415,340
SHAR BAT BAZAR - SAHIWAL	11	36,111
SHEIKH MARKET- BAHAWALPUR	12	135,833
SHERANI MARKET -QUETTA	2	39,300
SHOBA BAZAR - PESHAWAR	851	133,851,699
SIDDIQUE TRADE CENTER -	33	4,805,777

MULTAN		
SINDH SMALL INDUSTRIES – SUKKUR	87	7,800,168
SIRKI BAZAR - SAHIWAL	8	1,202,548
SITARA MALL - FAISALABAD	14	4,413,591
SITARA MARKET - ABBOTTABAD	14	1,087,443
SMALL INDUSTRIAL ESTATE – ABBOTTABAD	83	6,154,102
SMALL INDUSTRIAL ESTATE – BAHAWALPUR	87	49,114,484
SMALL INDUSTRIAL ESTATE – SARGODHA	46	9,796,555
SMALL INDUSTRIES ESTATE – SIALKOT	721	290,022,850
SNALL INDUSTRIAL ESTATE – GUJRANWALA	418	500,192,560
SOLDIER BAZAR - HYDERABAD	15	605,552
SOLDIER BAZAR - KARACHI	2,348	321,767,028
STADIUM MARKET- BAHAWALPUR	7	256,259
SUNEHRI MARKET - QUETTA	14	14,355,674
SUPER MARKET - ABBOTTABAD	12	959,526
SUPER MARKET- ISLAMABAD	552	224,404,015
SUPER MARKET- KARACHI	390	62,932,777
SUPPLY BAZAR - ABBOTTABAD	111	10,141,896
SURAJ GANJ BAZAR - QUETTA	131	23,771,396
SURAJ MIANI BAZAR - MULTAN	720	78,038,133
SUSAN ROAD - FAISALABAD	654	182,756,057
TARIQ ROAD – KARACHI	3,028	958,497,593
TEHSIL BAZAR - SIALKOT	226	7,304,850
THE FORUM – KARACHI	202	3,314,055,039
THE ONE PLAZA - FAISALABAD	71	3,298,478
TIBET CENTER - KARACHI	85	150,925,712
TILES AND MARBLE MARKET – KARACHI	15	3,727,639
TIMBER MARKET - ABBOTTABAD	9	645,323

TIMBER MARKET - KARACHI	209	233,147,433
TIMBER MARKET - LAHORE	846	169,819,618
TOBACCO BAZAR - SUKKUR	34	399,432
TOWNSHIP – LAHORE	7,635	1,113,140,251
TRUNK BAZAR - SIALKOT	102	2,303,978
UNI CENTER – KARACHI	220	598,662,439
UNITED MALL – MULTAN	26	526,384
UNIVERSITY ROAD - PESHAWAR	1,685	629,207,256
UNIVERSITY TOWN BAZAR – PESHAWAR	1,129	243,610,276
URDU BAZAR - BAHAWALPUR	33	868,475
URDU BAZAR - GUJRANWALA	206	6,319,262
URDU BAZAR - HYDERABAD	41	1,198,226
URDU BAZAR – KARACHI	540	264,407,421
URDU BAZAR – LAHORE	1,920	338,751,853
URDU BAZAR – SAHIWAL	17	110,686
URDU BAZAR - SARGODHA	104	13,646,744
URDU BAZAR – SUKKUR	11	163,298
USMANIA MARKET- KARACHI	13	930,829
UZMA SHOPPING CENTER – KARACHI	20	1,503,879
VICTORIA MARKET - SUKKUR	28	896,190
VOGUE TOWERS - LAHORE	5	1,233,071
WAPDA TOWN – LAHORE	10,967	1,632,244,367
Y BLOCK – LAHORE	297	248,050,758
Y BLOCK DEFENCE - LAHORE	39	5,270,490
ZAHOOOR MARKET- BAHAWALPUR	5	272,528
ZAIBUNNISA STREET - KARACHI	102	22,168,851
ZAINAB MARKET - KARACHI	179	3,014,966
ZAMZAMA STREET - KARACHI	288	196,539,219
ZANANA BAZAR - QUETTA	99	48,779

* This data has been compiled on the basis of registered addresses of filers. Retail Outlets have been reported as per registered address of head office”

Epilogue

In Pakistan, taxpayers' money is not spent for the purpose it is collected. It is wasted and/or abused mercilessly. A big chunk of taxes collected is spent on debt servicing, defence and for giving tax-free extraordinary perks and perquisites, and/or concessional plots and unthinkable luxuries enjoyed by the privileged classes. In democratic countries, people receive many amenities in lieu of taxes paid by them. They get good facilities of health, education, justice, transport, housing and pension benefits, just to mention a few. In Pakistan, taxpayers are harassed, condemned and citizens are denied fundamental needs (universal entitlements). Therefore they find it worthless, rather irritating, to pay to the government, though Pakistanis are still among the leading philanthropists of the world.

The donors and lenders, International Monetary Fund (IMF), Asia Development Bank (ADB), World Bank (WB) and Department for International Development (DFID) etc hardly mention the oppressive side of our tax system and non-availability of public services. They are very fond of discussing 'low-tax-to-GDP ratio' in isolation. Initiatives like Research and Advocacy for the Advancement of Allied Reforms (Raftaar), funded by DFID, have been continuously emphasising the need for more revenues, without pointing out where the taxpayers' money goes. Not a single report/study of these agencies/bodies mentions that the ruling elites—real beneficiaries of tax money—also thrive on funding/aids/grants/loans extended by them. On the contrary, they support the parasitic elites and give them more money for further luxuries, personal gains and/or wastage but burden the poor Pakistanis with more regressive and oppressive taxes. For detailed discussion, see Chapter 14 titled **World Bank and tax reforms**.

When the IMF, ADB, WB, DFID abuse Pakistanis for not paying taxes, they conveniently ignore that about 95 million unique mobile users [total number of subscribers were 166 million as on May 31, 2020—see details in Preface] are paying 12.5% advance, adjustable income tax! Majority of these have incomes below taxable limits! Taxpayers and people of Pakistan are justified to pose a question: Can you please first identify the real beneficiary of taxpayers' money and cost to national exchequer in providing free perks to militro-judicial-civil-complex and public office holders in the form of palatial residences, army of servants, expensive cars, golf courses, rest houses, foreign tours, banquets, etc? The concerned citizens rightly argue that the government should first stop the colossal wastage of funds and then debate the issue of tax-to-GDP ratio.¹

¹ **Incorrigible elites**, *Business Recorder*, September 12, 2014

Billions were collected as super tax, imposed under section 4B of the Income Tax Ordinance, 2001, for rehabilitation of Internally-displaced Persons (IDPs), in the wake of *Zarb-e-Azb*. People ask, where did this money actually go? They critically question the Government to explain the reasons for perpetual plight of IDPs despite super tax imposed initially as a one-time levy in 2015 but then extended till 2020 on an income of Rs 500 million or above of individuals, association of persons and companies, and on banking companies, irrespective of the quantum of income. Super tax was levied in 2015 at the rate of 4 percent for banking companies and 3 percent for persons other than banking companies. Later, rates were reduced till 2020 through Finance Act 2018. In budget documents for fiscal years 2015-16 to 2018-19, there is no mention where the collection under section 4B was kept (in a separate account for IDPs?) and whether it was expended exclusively for the purpose for which it was collected. It is a test case for Oxfam Pakistan and Human Rights Commission of Pakistan (HRCP) and other like bodies to probe how public money has been squandered by the rulers whereas people entitled to receive it are suffering untold miseries.

The representatives of HRCP and others engaged in fighting for human rights should visit camps of IDPs in North Waziristan¹ and elsewhere to find out their plight and investigate the reasons for abuse of tax, exclusively collected in their name. The FATA Research Centre in a report² observed:

“Facing utmost despondency, the IDPs have been forced into a life of suffering and despair, while trying to survive under the most dismal of conditions deemed possible. Even more distressing is the fact that these poor people are almost ignored in the media, given very little coverage and acknowledgement, and where outsiders are failing to realise just how deeply harrowing their - the IDPs - situation is. These are people who have been forced to leave their homes - their comfortable dwellings - in order to make a living in sordid camps, just to survive a war that has unjustly swept the region, and taken over their lives, causing nothing but misery and chaos.”

The plight of IDPs, levy of super tax and abuse of funds collected under this head serves as a test case for the government of Imran Khan and DFID’s funded initiatives for tax reforms (sic) and others. These agencies happily give money to FBR for reforms (sic) conveniently ignoring the vital question of abuse of taxes by the ruling elites. They never talk about

1 <https://www.youtube.com/watch?v=Kb5nKTV-nRM>

2 **The Plight of NW IDPs: No Identity-No Relief**

the miseries and unbearable burden of oppressive taxes borne by the poor in contrast to the life of luxury enjoyed by politicians and bureaucrats funded by taxpayers' money and grants/aids/loans!

Raftaar in its 2015 Paper¹ warned that *“because of low tax collection, Pakistan’s debt burden has reached crisis levels.”* However, it failed to mention that low tax collection was due to imprudent policies and appeasement of tax evaders and looters of national wealth. Raftaar did not bother to search for answers to vital question: Why have donors and lenders been giving money to rulers when they persistently failed to collect taxes from the rich and mighty? The IMF, ADB, WB and DFID know that a fair tax system can easily fetch Rs. 8000 billion at federal level alone. But this requires fundamental reforms as suggested in a paper², published by PRIME Institute in 2016 and revised edition published in 2018. It is obvious that the donors/lenders and their cronies in Pakistan will not support any such reforms, knowing that it will make Pakistan a self-reliant country and end their control as that of elites they support.

The so-called reforms agenda of donors/lenders and our ruling elites, including the present government, will never include actions such as monetization of all perks and benefits available to militro-judicial-civil complex and commercial utilisation of expensive properties occupied by them that can bring enormous funds to the government to retire debts as well as future savings of billions and regular income as explained in detail by Dr. Nadeem Ul Haque in his latest book³.

Raftaar in **‘Pakistan Public Expenditure: Insights and Reflections’** rightly pointed out that *“more than 53% of federal government’s expenditure is incurred on interest payments, defence, and the wage bills”*. But then why it wanted to support an incorrigible FBR, the dismal performance of which is brilliantly exposed by Shahbaz Rana in a newspaper op-ed as under:

“Despite levying Rs 360 billion additional taxes and blocking over Rs 220 billion taxpayers’ refunds, the FBR missed last fiscal year’s tax target by a wide margin. It ended the fiscal year by collecting only Rs 2.581 trillion, falling short of the goal by Rs 229 billion. The business as usual in the FBR will not yield any results in the new fiscal year until drastic steps are taken to correct the things, said sources. They added increasing the tax rates or levying new taxes would be counterproductive until few inefficient people are replaced, currently serving both at the headquarters and in field formations”.

1 **Pakistan Public Expenditure: Insights and Reflections**

2 **Towards Flat, Low-rate, Broad and Predictable Taxes**

3 **Looking Back: How Pakistan Became an Asian Tiger by 2050**, KITAB, 2017

Paying taxes, people say, is meaningless and unjustified when the State is indifferent towards public welfare and elites blatantly show apathy towards their fundamental needs. Our rulers live lavishly while Pakistan ranks at 150 out of 189 countries in the 2017 Human Development Index (HDI¹). Not less than 25 million children are out of school in Pakistan in gross violation of Article 25A of the Constitution—see detailed judgement of Supreme Court 2014 SCMR 396 re Petition regarding miserable conditions of schools.

The World Bank report, ‘World Development Indicators (WDI²) 2017’, shows that “one-third of Pakistan’s population continues to live in poverty, corresponding to some 50 million poor individuals. Children and women (out-of-school/working), disabled, and potentially the elderly, are the most vulnerable groups of poor.” Out of these, not less than 15% live below \$1.90 per day, which is categorised as extreme poverty. Millions suffering from hunger, malnutrition and diseases, are deprived of basic facilities of life. In the face of these grim realities, daily expenses of the Prime Minister Secretariat were Rs 2.5 million in 2017. In fiscal year 2008-09, these were only Rs 600,000 per day—there was an increase of over 250% in five years when the country was under democratic rule! What makes the situation more painful is the fact that overwhelming majority of members of national and provincial assemblies and senators pay laughable amounts as income tax when compared with their lavish style of living (Tax Directories of Parliamentarians for 2013 to 2016 testify to it).

Organisations like Taxpayers Alliance, Human Rights Commission of Pakistan (HRCP), Oxfam Pakistan, ‘Raftaar’, ‘Make Tax Fair’, ‘Pakistan Tax Justice Network’, ‘Tax Justice Coalition’ and others must campaign for a just tax system for all. The paper, **Towards Flat, Low-rate, Broad and Predictable Taxes** (PRIME, 2016, revised edition in December 2020), suggests that every individual having taxable income must pay 10% flat income tax subject to alternate minimum tax of 2.5% of net wealth. Corporate and other entities must pay 20% tax. Harmonised Sales Tax (HST) should be imposed at 10% across the board. There should be single agency to collect all taxes and national tax court, having registries in all major cities to decide tax disputes within six months. If all these measures are implemented, there will be collection of over Rs. 8 trillion at federal level alone, making Pakistan a welfare state that is prosperous and self-reliant.

1 http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PAK.pdf

2 <https://openknowledge.worldbank.org/handle/10986/26447>

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