

TAX PAYERS ALLIANCE PAKISTAN
PROPOSALS FOR SUBMISSION TO TASK FORCE ON TAX AND FBR REFORMS

The Tax Payers Alliance Pakistan (TPAP) is an initiative of Policy Research Institute of Market Economy (PRIME), an Islamabad-based economic think tank. Established in 2020, TPAP has a strong and diversified membership base with people from all walks of life from all over Pakistan. TPAP welcomes and highly appreciates the establishment of a Task Force on Tax & FBR Reforms (the Task Force) and commends the Government's commitment to improving the landscape of tax system. TPAP firmly believes that well-designed tax reforms are essential for increasing revenue, broadening of tax base, and making the tax system more fair, efficient and transparent.

In order to discuss and deliberate on issues relating to tax- & FBR- reforms, TPAP arranged an in-house meeting of its members on 6th October 2023, and on the basis of this discussion, TPAP proposes some suggestions/actions to be considered by the Task Force for further course of action at their end.

Creation of a separate Tax Policy Unit (TPU)

Since Government of Pakistan is highly ambitious of separating revenue collection and tax policy, TPAP proposes to implement this plan by establishing/creating an independent Tax Policy Unit (TPU) within the Ministry of Finance/Finance Division. The TPU would be responsible for developing and implementing tax policy and conducting research & analysis on the tax system and its impact on the economy. Hence, ensuring a comprehensive and well-thought-out approach to evidence-based taxation.

We believe that the creation of a separate TPU would improve tax policy formulation in Pakistan. The TPU would be able to focus on tax policy development without being distracted by the operational responsibilities of the Federal Board of Revenue (FBR).

Simplification of Tax Laws, Tax Returns, and Implementation of a Single Tax Rate

TPAP proposes that the tax laws should be so much simplified that a common man can also easily understand these laws without any trouble. Further, tax return forms also need to be revisited to bring about simplicity to such extent that a common man can fill-in this return without any difficulty for its timely submission to FBR. The current tax system is complex and difficult to understand, due to which compliance is not yet up to the desired level. Simplifying the tax system would make it easier for all segments & sectors of the society to comply with their tax obligations, which would lead to increased revenue.

We also propose that the Government should implement a single tax rate for businesses. A single tax rate would simplify the tax system and reduce the compliance burden on businesses. It would also make Pakistan more attractive to foreign investors.

PRIME has already published a book titled “Towards Flat, Low-Rate, Broad and Predictable Taxes” which is available on its official website <https://primeinstitute.org/wp-content/uploads/2022/09/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf>. The book is also annexed to these proposals.

Withholding Tax Regime

Revenue Division Year Books clearly show that dependence of Government's revenue stream mainly depends on withholding taxes; however existing withholding tax regime is so much complex. Further, compliance costs associated with withholding taxes are too much high.

PRIME has already published two reports addressing the issues of WHT regime which are available on its official website <https://primeinstitute.org/withholding-tax-regime-history-consequences-for-business-and-implications-for-policy-2/> and <https://primeinstitute.org/withholding-tax-regime-doing-business-perspective/>. These reports are also annexed to these proposals.

Section 7E of the Income Tax Ordinance, 2001 to be omitted

Imposing a tax by Federation on immovable property, by whatever name called, is unconstitutional. This tax is not a tax on income, but rather a tax on the value of immovable property, which is beyond the legislative competence of the Federal Government and the imposition of such a tax on property undermines the taxing powers of the federating units.

It also gives rise to double taxation because tax on the capital value of immovable property is already being levied by the provinces through their own taxation authorities. Further, due to this measure taken by the Government, economic activity has also affected which otherwise could result in enhanced revenue.

TPAP proposed to omit section 7E on immediate basis in the bigger national interest.

Enterprise Risk Management (ERM)

Concept of Compliance Risk Management was introduced in the Income Tax Ordinance, 2001 vide Finance Act, 2021. However, TPAP proposes to widen the scope of risk management by replacing it with globally recognized concept of Enterprise Risk Management (ERM), aligning it with international best practices.

Reduction in Tax Expenditure

Tax expenditure is a significant drain on government revenue, and it often benefits the wealthy at the expense of the general public. Therefore, TPAP proposes to rationalize the tax expenditure and advocates for its reduction, wherever possible.

We believe that the government should reduce tax expenditure by eliminating unnecessary exemptions and deductions. The government should also target tax benefits to those who need them most, such as the poor and the middle class.

Transparency and Fairness of IMF Monitoring System

The monitoring of IMF programs should be strengthened to ensure transparency and fairness in the distribution of benefits to the general public. This includes a close examination of the IMF's monitoring system.

TPAP proposes that the IMF monitoring system should be fair and should not impose undue burdens on the Pakistani nation as a whole. The IMF should be flexible in its approach and should take into account the specific circumstances of Pakistan. In the spirit of promoting fairness, the principle "no tax without representation" should be upheld, emphasizing that taxation policies should be developed with the participation and consent of the represented population. This approach would contribute to a more transparent, fair, and people-centered implementation of IMF programs in Pakistan.

CONCLUSION

The Tax Payers Alliance Pakistan (TPAP) emphasizes the importance of these proposals in driving meaningful tax reforms. By implementing these measures, the government can enhance revenue generation, broaden the tax base, simplify tax laws, promote fairness, and align taxation with international best practices. It is crucial to ensure that the benefits of these reforms reach the general public and contribute to the overall welfare of the country. We urge the Task Force to give serious consideration to these proposals.

PRIME and TPAP also presented detailed proposals earlier this year to the Government at the time of budget making for Financial Year 2023-24, which are available on its official website <https://primeinstitute.org/income-tax-proposal-for-budget-2023-24/> and <https://primeinstitute.org/prime-sales-tax-proposal-for-federal-budget-2023-24/>.